

# FY 2016

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the year ended June 30, 2016



### Our Mission

To efficiently collect, treat and beneficially reuse wastewater and solids in an environmentally and fiscally responsible manner

# BBARWA



Steven C. Schindler, General Manager

Big Bear Area Regional Wastewater Agency  
121 Palomino Drive  
Big Bear City, California

*“Protecting Big Bear’s Future  
through Responsible Planning”*

Big Bear Area  
Regional Wastewater Agency  
Big Bear City, California

FY 2016  
Comprehensive Annual  
Financial Report  
For the year ended June 30, 2016



Prepared by  
Jennifer D. McCullar,  
Finance Manager

Big Bear Area Regional Wastewater Agency  
 Comprehensive Annual Financial Report  
 Fiscal Year Ended June 30, 2016

**Contents**

**INTRODUCTION**

Letter of Transmittal .....	i
Certificate of Achievement for Excellence in Financial Reporting .....	vi
Governing Board of Directors.....	vii
Organization Chart.....	viii

**FINANCIAL SECTION**

Independent Auditor's Report .....	1
Management's Discussion and Analysis.....	4
Basic Financial Statements	
Statement of Net Position.....	14
Statement of Revenues, Expenses and Changes in Net Position .....	15
Statement of Cash Flows .....	17
Notes to the Basic Financial Statements.....	19
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 .....	41
Schedule of Plan Contributions .....	42
Schedule of Funding Progress - Other Postemployment Benefits Plan .....	43
Supplementary Information	
Schedule of Revenues, Expenses and Changes in Net Position – Budget vs. Actual .....	44
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	46

**STATISTICAL SECTION**

Overview .....	48
Financial Trends .....	48
Net Position by Component - 10 Fiscal Years .....	48
Change in Net Position - 10 Fiscal Years.....	49
Operating Revenues and Expenses - 10 Fiscal Years .....	50
Operating Income, Income Before Capital Contributions, and Change in Net Position - 10 Fiscal Years .....	50
Operating Expense Detail - 10 Fiscal Years .....	51

Nonoperating Revenue and Expense, Capital Contributions (Connection Fee Revenue) - 10 Fiscal Years .....	51
Revenue Capacity .....	52
Operating Revenue by Category - 10 Fiscal Years .....	52
Operating Revenue by Component - 10 Fiscal Years .....	52
Annual Charges by Member Agency - 10 Fiscal Years .....	52
Annual Charges by Member Agency - 10 Fiscal Years .....	53
Annual Charges by Member Agency Percentage of Total .....	53
Equivalent Dwelling Units by Member Agency - 10 Fiscal Years .....	54
Influent Flow by Member Agency Served (Millions of Gallons) - 10 Fiscal Years .....	54
Annual Sewer User Fee Rate Charged per EDU - 10 Fiscal Years .....	55
Debt Capacity .....	55
Debt Ratios - 10 Fiscal Years .....	55
Debt Service Coverage - 10 Fiscal Years .....	56
Demographic and Economic Information .....	56
Population Estimates .....	56
Unemployment Estimates .....	57
Household Income .....	57
% of Employed Population by Industry .....	58
% of Employed Population by Occupation .....	58
Big Bear Area Comparison to State of California .....	59
Operating Information .....	60
Influent Flow (gallons) - 10 Fiscal Years .....	60
Equivalent Dwelling Units - 10 Fiscal Years .....	60
Agency Staffing by Department .....	61
Staffing Levels .....	61
Capital Assets (Net Book Value) .....	62
Key Assets .....	62
Capacity Utilization by Structure .....	62

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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

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October 17, 2016

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, 2016 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. 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 unqualified opinion on the Agency's financial statements for the fiscal year ended June 30, 2016. The independent auditor's report is located at the beginning of the Financial Section of the CAFR on page 1.

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

**The Comprehensive Annual Financial Report**

This report is presented in three sections:

- I. **Introduction**, which includes this letter of transmittal, principal officials and organization chart.
- II. **Financial**, which includes the independent auditor's report on the financial statements, Management's Discussion and Analysis, the basic financial statements, and the required supplementary information.
- III. **Statistical**, which includes information related to financial trends, revenue capacity, debt capacity, demographic and economic conditions, and multi-year operational data.

## **Profile of the Big Bear Area Regional Wastewater Agency**

### ***Legal and Organizational Structure***

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

### ***Governing Body***

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

### ***Services***

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

### ***Mission***

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

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

### ***Budget Process***

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

The budget process involves long-range planning, which is essential to financial management and maximizing ratepayer value. The Agency completes a five-year financial forecast each year. The first year of the forecast, is the Agency's annual budget. The budget provides a solid picture of the Agency's expectations for the next twelve months and is an accountability tool for management and reflects its commitment to performance. The forecast is the Agency's best estimate of performance beyond the next twelve months. It is based on historical trend analysis, economic conditions, inflationary expectations, and other relevant information that may impact future performance. Each year, the Agency reviews and updates its 20-year capital plan which includes 1) the scheduled maintenance and replacement of all 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 taken steps in recent years to cut operating costs and improve operating efficiencies. This combined with a multi-year rate increase beginning in FY 2012, has put the Agency in a solid operating and financial position. 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 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 approximately 1% a year over the long-term, or approximately 200 annual connections. The local economy, especially the construction industry, was negatively impacted by the Great Recession, and during the last two years has shown signs of improvement.

New connections to the wastewater system have been at an unprecedented low, averaging 50 connections per year for the last five years, and negatively impacting income by approximately \$600,000 per year. The Agency has not projected a full recovery during the next five years through fiscal year 2021 and has structured its rates, and thus revenue, to offset this. 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 operations and to maintain stable rates. Annual rate adjustments through FY 2021 are projected to be 1% on average. The Agency is expected to keep rates relatively flat over the next few years due to average annual rate changes during the last five years of 3%, at a time when operating costs were flat.

The Agency has focused on managing costs to inflationary levels which has resulted in relatively stable rates for our customers. A low-cost environment for capital and construction, adequate depreciation funding, cost management, and a history of effective financial management, has 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 2021 total \$6.2 million (\$1.2 million annual average) and through FY 2036, total \$19.1 million (approximately \$950,000 annual average). Over the long term, approximately 78% of the Agency's capital investment is for maintenance with the remaining 22% for non-maintenance improvements. Over the next five years, the Agency's major capital projects include \$4.1 million in treatment plant improvements (primarily the construction of a new wastewater treatment and storage structure, rehabilitation of existing structures, and the purchase of new treatment equipment); \$1.0 million for interceptor improvements (the Main Trunk and North Shore Interceptor Slip Lining projects); approximately \$420,000 to rebuild the Agency's power generating equipment; approximately \$240,000 for the replacement of security, communications and electrical equipment; approximately \$240,000 for the replacement of transportation equipment; approximately \$100,000 for the replacement and repair of asphalt and paving; and approximately \$90,000 for the replacement of flow measuring devices.

## ***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 2017 Major Initiatives***

- **Studies and Engineering** - In FY 2016, the Agency, along with three other agencies, initiated a comprehensive study to assess the feasibility of **water recycling facilities** in Big Bear. This study is expected to be completed in FY 2017. Also in FY 2017, the Agency plans to complete studies and engineering related to **solids dewatering, the rehabilitation and reconstruction of its storage ponds**, and the preliminary engineering associated with the new **Load Equalization Basin**.

## **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, 2015. This is the 4th consecutive year BBARWA has received the award. In order 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.

The Agency received the **Distinguished Budget Presentation Award** from the Government Finance Officers Association (GFOA) for its budget document beginning July 1, 2015. This is the 9<sup>th</sup> consecutive year BBARWA has received the award. The award recognizes governments that have succeeded in preparing a high quality budget document that is proficient as a policy document, a financial plan, an operations guide and a communications device.

**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.



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Steven C. Schindler  
General Manager



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Jennifer D. McCullar  
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, 2015**

Executive Director/CEO

**Governing Board of Directors**  
*As of June 30, 2016*



John Green, Chair  
Big Bear City CSD



David Caretto, Vice Chair  
City of Big Bear Lake



Liz Harris Ed. D., Secretary  
County Service Area 53 B



Rick Herrick, Director  
City of Big Bear Lake



Paul Terry, Director  
Big Bear City CSD

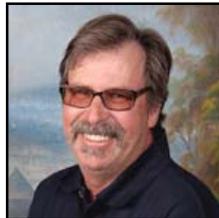
**General Manager and Staff**



Steven Schindler  
General Manager



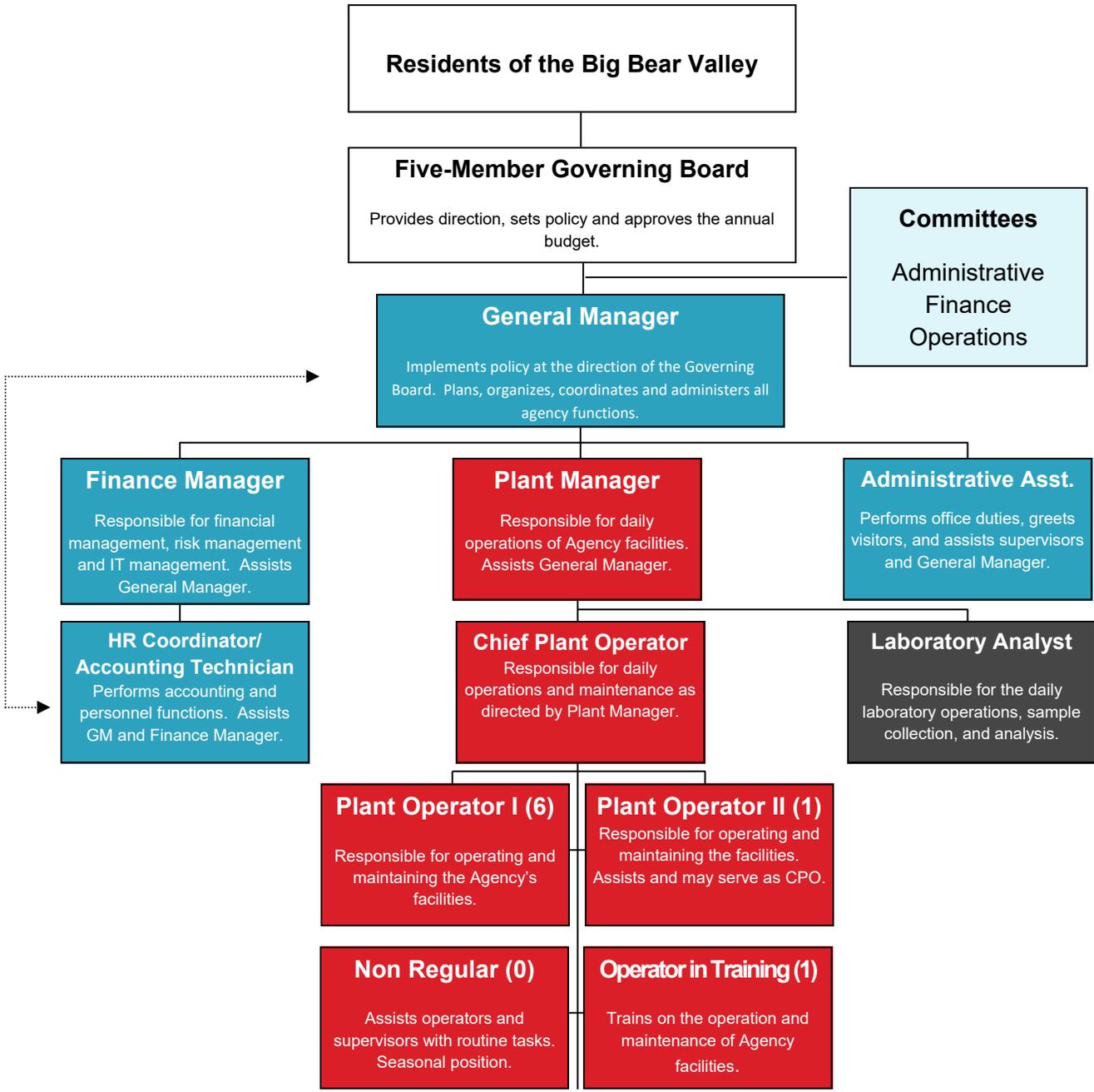
Jennifer McCullar  
Finance Manager



Fred Uhler  
Plant Manager

Steven Schindler	General Manager	909-584-4018
Jennifer McCullar	Finance Manager	909-584-4522
Fred Uhler	Plant Manager	909-584-4520

# Organization Chart



Administration
  Operations
  Laboratory

## **FINANCIAL SECTION**

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

735 E. Carnegie Dr. Suite 100  
San Bernardino, CA 92408  
909 889 0871 T  
909 889 5361 F  
ramscpa.net

## INDEPENDENT AUDITOR'S REPORT

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

### PARTNERS

Brenda L. Odle, CPA, MST  
Terry P. Shea, CPA  
Kirk A. Franks, CPA  
Scott W. Manno, CPA, CGMA  
Leena Shanbhag, CPA, MST, CGMA  
Bradferd A. Welebir, CPA, MBA, CGMA  
Jay H. Zercher, CPA (Partner Emeritus)  
Phillip H. Waller, CPA (Partner Emeritus)

### MANAGERS / STAFF

Jenny Liu, CPA, MST  
Seong-Hyea Lee, CPA, MBA  
Charles De Simoni, CPA  
Nathan Statham, CPA, MBA  
Gardenya Duran, CPA  
Ivan Gonzales, CPA, MSA  
Brianna Schultz, CPA  
Daniel Hernandez, CPA, MBA  
Lisa Dongxue Guo, CPA, MSA

### Report on financial statements

We have audited the accompanying financial statements of Big Bear Area Regional Wastewater Agency (the Agency), as of and for the year ended June 30, 2016, 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*

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, 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 basic financial statements are free of 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 Agency'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.

### MEMBERS

American Institute of  
Certified Public Accountants

*PCPS The AICPA Alliance  
for CPA Firms*

*Governmental Audit  
Quality Center*

California Society of  
Certified Public Accountants

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Bear Area Regional Wastewater Agency as of June 30, 2016, and the changes in its financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

## ***Report on summarized comparative information***

We have previously audited the Agency's 2015 financial statements, and our report dated October 23, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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, and the schedule of funding progress, as listed in the table of contents, 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 financial statements. The introductory, statistical section and the supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relate 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 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 them.

**Other information required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2016, 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, 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 the 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 17, 2016

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BIG BEAR AREA REGIONAL WASTEWATER AGENCY  
Management's Discussion and Analysis  
Year ended June 30, 2016

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, 2016 (FY 2016). 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 operating performance declined in FY 2016 compared to the prior period. The decline was expected and was the result of keeping rates unchanged during a period of rising costs. The Agency reported a positive change in net position of \$887,265, down \$307,446 or 26% from the prior period. The decrease over the prior period was primarily due to flat operating revenues, an increase in operating expenses of \$290,449, and a decrease in connection fee revenues of \$55,050.

The Agency's operating revenues decreased slightly by \$5,624 or 0% compared to the prior period. The decrease was primarily a result of a 0% change in the Agency's sewer user fees and thus, relatively flat growth in annual charges and declining other revenue associated with lower, state-mandated reimbursements in the current period. Flat revenues combined with increased operating expenses, resulted in lower operating income. Operating income declined \$296,073 or 28% compared to the year-ago period.

The Agency's nonoperating revenues improved \$10,459 or 84% over the prior period due to higher interest income. Nonoperating expenses were lower by \$33,218 or 19% due to lower losses on asset disposal and lower interest expense. Overall, net nonoperating revenues (expenses) had a positive variance of \$43,677 compared to the year-ago period.

Capital contributions (connection fee revenue) decreased by \$55,050 or 18% during the period due to a decrease of 15 connections. Current period connections were 69 compared to 84 in the prior period. The connection fee (the rate charged per connection) remained unchanged during the period at \$3,670 per connection.

The Agency produced \$790,691 in positive net cash flow for the period. The Agency generated approximately \$1.95 million in cash from operations, connection fee revenue, and interest income. These sources of cash were offset by capital expenditures of \$580,730 and debt service payments of \$576,084.

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

**BIG BEAR AREA REGIONAL WASTEWATER AGENCY**  
**Management's Discussion and Analysis**  
**Year ended June 30, 2016**

**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,		2016 vs 2015	
	2016	2015	Increase (Decrease)	% Change
<b>ASSETS</b>				
Current and other assets	\$ 6,775,680	\$ 5,987,276	\$ 788,404	13%
Capital assets, net	16,560,446	16,857,722	(297,276)	-2%
Total assets	<u>23,336,126</u>	<u>22,844,998</u>	<u>491,128</u>	<u>2%</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>756,166</u>	<u>1,059,508</u>	<u>(303,342)</u>	<u>-29%</u>
<b>LIABILITIES</b>				
Current liabilities	888,568	747,570	140,998	19%
Noncurrent liabilities	4,344,129	5,240,681	(896,552)	-17%
Total liabilities	<u>5,232,697</u>	<u>5,988,251</u>	<u>(755,554)</u>	<u>-13%</u>
DEFERRED INFLOWS OF RESOURCES	<u>569,756</u>	<u>513,681</u>	<u>56,075</u>	<u>11%</u>
<b>NET POSITION</b>				
Net Investment in capital assets	12,947,480	12,812,871	134,609	1%
Unrestricted net position	5,342,359	4,589,703	752,656	16%
Total net position	<u>\$ 18,289,839</u>	<u>\$ 17,402,574</u>	<u>\$ 887,265</u>	<u>5%</u>

**Summary**

The Agency's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$18.3 million at fiscal year end, an increase of \$887,265 or 5% from the prior year. The increase in net position was driven by an \$896,552 decrease in noncurrent liabilities, a \$491,128 increase in total assets, and a \$303,342 decline in the deferred outflows of resources.

**Assets and Deferred Outflows of Resources**

Total assets increased \$491,128 or 2% over the prior period. A \$788,404 increase in current and other assets was offset by a \$297,276 reduction in capital assets, net. The increase in current and other assets was primarily due to an increase in cash for the period of \$790,691. The net decrease in capital assets was primarily due to annual capital investment below depreciation expense. The Agency's capital expenditures for the period were \$580,730 compared to annual depreciation expense of \$875,328. Deferred outflows of resources decreased \$303,342 and was driven by lower pension contributions during the period when compared to the prior period. The Agency made a one-time pension contribution of \$800,000 in the prior period.

Management's Discussion and Analysis  
 BIG BEAR AREA REGIONAL WASTEWATER AGENCY  
 Year ended June 30, 2016

**Liabilities and Deferred Inflows of Resources**

Total liabilities decreased \$755,554 or 13% over the prior period. An \$896,552 decrease in noncurrent liabilities was partially offset by a \$140,998 increase in current liabilities. The large decrease in noncurrent liabilities is primarily due to a reduction in the Agency's net pension liability and primarily reflects the one-time pension contribution of \$800,000 made in fiscal year 2015. Under GASB 68, pension contributions are reflected in the net pension liability in the subsequent year from when the pension contribution was made. Current liabilities were higher due to higher accounts payable and higher long-term liabilities due within the year. Deferred inflows of resources increased \$56,075 and reflects the net change from pension-related adjustments associated with the change in the Agency's proportionate share of the aggregate plan, changes in plan assumptions, differences in plan projected and actual earnings, and differences in allocated pensions contributions and actual pension contributions (the Agency is part of a cost-sharing, multiple-employer pension plan).

**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 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 the Agency has to contribute toward current and future capital (both investment and debt service) and reserve funding, and is an indication of the adequacy of its rates.

**CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

	As of June 30,		2016 vs 2015	
	2016	2015	Increase (Decrease)	% Change
Operating revenues	\$ 5,157,621	\$ 5,163,245	\$ (5,624)	0%
Operating expenses	4,401,428	4,110,979	290,449	7%
Operating Income	756,193	1,052,266	(296,073)	-28%
Nonoperating revenues	22,889	12,430	10,459	84%
Nonoperating expenses	145,047	178,265	(33,218)	-19%
Income before capital contributions	634,035	886,431	(252,396)	-28%
Capital contributions	253,230	308,280	(55,050)	-18%
Change in net position	887,265	1,194,711	(307,446)	-26%
Net position at beginning of year	17,402,574	16,207,863	1,194,711	7%
Net position at end of year	<u>\$ 18,289,839</u>	<u>\$ 17,402,574</u>	<u>\$ 887,265</u>	<u>5%</u>

Management's Discussion and Analysis  
 BIG BEAR AREA REGIONAL WASTEWATER AGENCY  
 Year ended June 30, 2016

**Summary**

The Agency's operating revenues remained relatively unchanged, increasing 0% and operating expenses increased \$290,449 or 7% resulting in a decrease in operating income of \$296,073 or 28%. Change in net position decreased \$307,446 or 26% compared to the year-ago period. The decrease was largely due to the decrease in operating income noted above and to a lesser extent, a decrease in capital contributions. Capital contributions declined \$55,050 due to a decrease of 15 connections during the period, bringing total connections to 69 compared to 84 in the prior period.

**Operating Revenues**

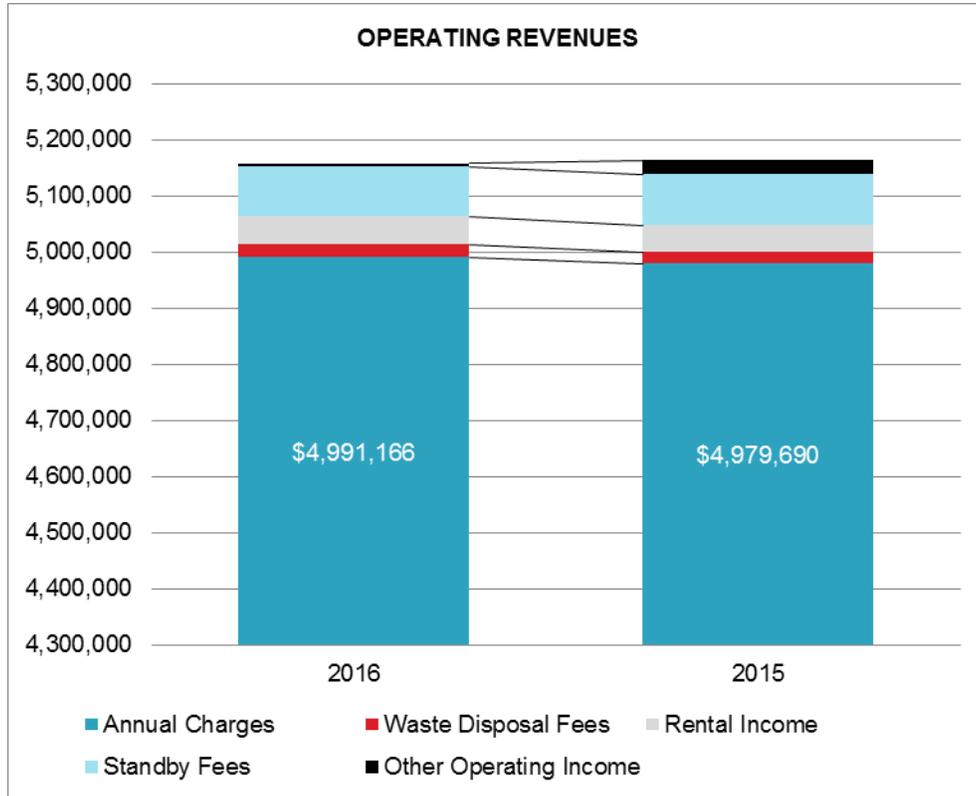
Operating revenues were essentially flat for the period declining \$5,624 or 0%. Changes in operating revenues are largely driven by changes in annual charges which make up 97% of total operating revenues. Sewer user fees were unchanged for the period. This combined with low connection levels kept annual charges flat. Annual charges reflect the sewer user fees billed to the Member Agencies and are based on the established sewer user fee set by the Governing Board, the number of equivalent dwelling units, and the volume of wastewater flow.<sup>1</sup> The decline in other revenues primarily reflects lower levels of reimbursement related to state mandated costs when compared to 2015.

**OPERATING REVENUES**

	As of June 30,		2016 vs 2015	
	<u>2016</u>	<u>2015</u>	Increase (Decrease)	% Change
Operating revenues:				
Annual charges	\$ 4,991,166	\$ 4,979,690	\$ 11,476	0%
Standby fees	89,250	90,860	(1,610)	-2%
Rental income	49,232	48,291	941	2%
Waste disposal fees	22,869	19,829	3,040	15%
Other revenue	<u>5,104</u>	<u>24,575</u>	<u>(19,471)</u>	<u>-79%</u>
Total operating revenues	<u>\$ 5,157,621</u>	<u>\$ 5,163,245</u>	<u>\$ (5,624)</u>	<u>0%</u>

<sup>1</sup> From time-to-time, the Agency may pass through higher costs associated with wet weather. These charges are included in annual charges and are based on actual costs incurred in the prior period.

**BIG BEAR AREA REGIONAL WASTEWATER AGENCY**  
**Management's Discussion and Analysis**  
**Year ended June 30, 2016**



**Operating Expenses**

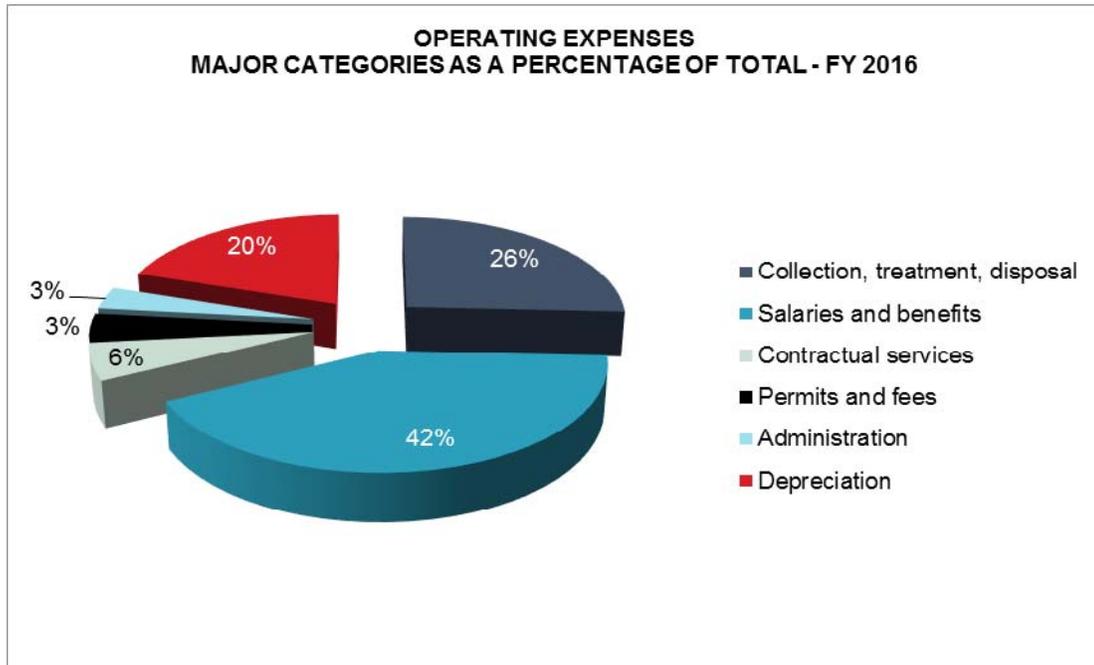
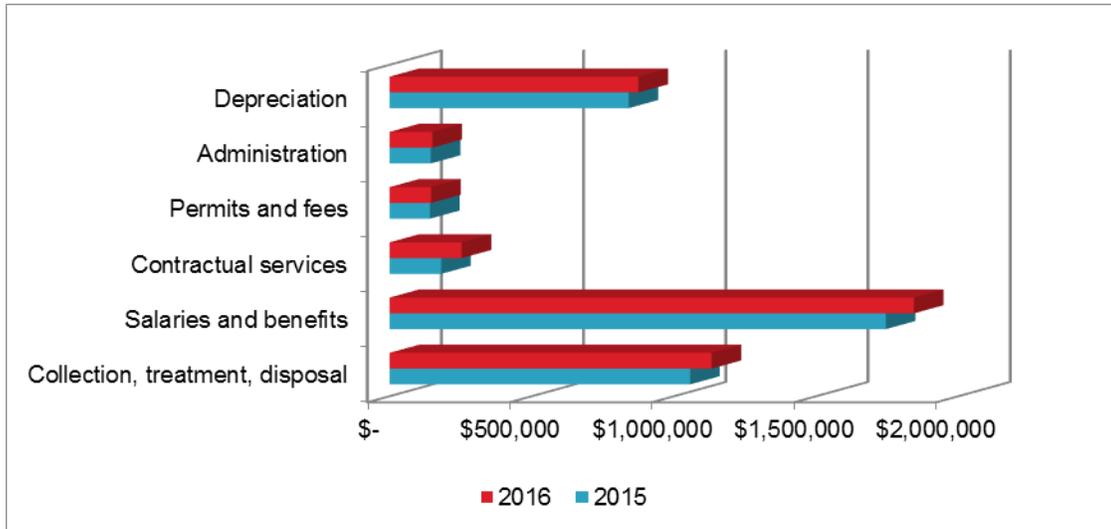
The Agency experienced an increase of \$290,449 or 7% in its operating expenses compared to the year-ago period. The increase was driven by higher costs associated with 1) collection, treatment and disposal, 2) salaries and benefits, and 3) contractual services.

**OPERATING EXPENSES**

	As of June 30,		2016 vs 2015	
	2016	2015	Increase (Decrease)	% Change
<b>Operating expenses:</b>				
Collection, treatment, disposal	\$ 1,132,666	\$ 1,057,024	\$ 75,642	7%
Salaries and benefits	1,843,685	1,745,042	98,643	6%
Contractual services	253,527	181,424	72,103	40%
Permits and fees	145,866	142,310	3,556	2%
Administration	150,356	144,950	5,406	4%
Depreciation	875,328	840,229	35,099	4%
<b>Total operating expenses</b>	<b>\$ 4,401,428</b>	<b>\$ 4,110,979</b>	<b>\$ 290,449</b>	<b>7%</b>

**BIG BEAR AREA REGIONAL WASTEWATER AGENCY**  
**Management's Discussion and Analysis**  
**Year ended June 30, 2016**

**OPERATING EXPENSES BY MAJOR CATEGORY**



**Collection, Treatment and Disposal Expense**

Collection, treatment and disposal costs were up \$75,642 or 7% over the prior period. The increase was driven by higher sludge removal expense (higher by \$63,363) and higher power expense (higher by \$33,970). These increases were offset somewhat by lower expenses for repairs and replacements (lower by \$11,061), materials and supplies (lower by \$10,892), utilities (lower by \$4,289) and equipment rental (lower by \$3,494).

BIG BEAR AREA REGIONAL WASTEWATER AGENCY  
Management's Discussion and Analysis  
Year ended June 30, 2016

- **Sludge removal expense** was higher by \$63,363, or 39% due to an increase in sludge tons removed from the plant. The Agency removed approximately 3,100 tons of sludge in FY 2016 compared to approximately 2,200 tons in the prior period. The increase was the result of the Agency's effort to reduce plant solids inventory, improve operational efficiency, and prepare for a potential high-flow period (el nino).
- **Power expense** was higher by \$33,970, or 7% when compared to the prior year. The increase was primarily due to an increase in electric rates by Bear Valley Electric (BVE), higher electricity usage, and higher natural gas usage. BVE increased rates during the last half of the year in FY 2015, with FY 2016 being the first, full year of the rate increase. The Agency incurred higher BVE standby fees as a result of the rate increase, and higher usage fees associated with electricity use at the stations. During the year, the Agency also used electricity at its administration offices while a generator was offline for repairs. During normal operations, power needs at the administration offices are met by the plant's power generation. Higher natural gas usage was the result of temporarily running multiple generators to meet power demands and provide heat to the covered drying bed.
- **Repairs and replacements expense** was lower by \$11,061, or 7% primarily due to higher repairs and replacement costs in the prior period related to heavy equipment, conveyor equipment and vehicles.

#### Salaries and Benefits Expense

Salaries and benefits expense was up \$98,643 or 6% over the prior period. The increase was driven by higher salaries and wages (higher by \$49,840) and higher benefits expense (higher by \$48,708). Salaries and wages were up \$49,840 or 4% due to annual increases related to a 1.3% COLA, merit adjustments and longevity pay. The Agency had expected a larger increase in salaries and wages over the prior period due to an increase in full-time operations staff; however, during the period the Agency had an employee continue on disability and incurred lower salaries and wages as a result. Benefits expense increased \$48,708 or 9%. The increase was driven largely by higher health benefits expense due mostly to higher staffing levels and to a lesser extent premium increases.

#### Contractual Services

Contractual services expense increased \$72,103 or 40% over the prior period primarily due to higher professional services (higher by \$51,609) related to special projects including a strategic plan, a water sustainability study, and IT consulting. The Agency also experienced higher general contractual services costs (higher by \$20,494) related to testing; landscaping; heating, venting and air conditioning; and increased services for plant electrical and motor work.

#### Permits and Fees

Permits and fees expense remained relatively flat, up \$3,556, or 2%. The majority of the Agency's permits and fees remained flat year over year. The increase was related to a new permit required for the carbon scrubber at Lake Pump Station.

#### Administration

Administration expense was up \$5,406 or 4% from the prior period. The Agency incurred higher expenses related to workman's compensation insurance (higher by \$5,248) and public notice requirements (higher by \$6,364) offset by lower education and training expense (lower by \$5,025), general liability insurance (lower by \$1,403) and directors' fees (lower by \$1,200). Higher workman's compensation insurance expense is due to a slightly higher experience modification factor. Increased costs associated with public notice

**BIG BEAR AREA REGIONAL WASTEWATER AGENCY**  
**Management's Discussion and Analysis**  
**Year ended June 30, 2016**

requirements were related to the Agency's recruitment efforts for an IT consultant as well as staffing. Lower education and training expense was related to planned training that did not occur.

**Depreciation**

Depreciation expense was up \$35,099 or 4% from the prior period. While the Agency's investment level was below its annual depreciation levels, the Agency had a relatively high level of capital investment in the current year with relatively short asset lives, causing an increase in depreciation compared to the prior period. These investments include the generator rebuild and asphalt and pavement improvements.

**Nonoperating Revenues (Expenses)**

Nonoperating revenues (expenses) had a positive variance of \$43,677 during the period primarily due to higher interest income, lower net loss on asset disposal and lower interest expense.

**NONOPERATING REVENUES (EXPENSES)**

	As of June 30,		2016 vs 2015	
	2016	2015	Increase (Decrease)	% Change <sup>1</sup>
<b>Nonoperating revenues:</b>				
Investment income	\$ 22,889	\$ 12,430	\$ 10,459	84%
Other miscellaneous revenue	-	-	-	0%
Total non-operating revenues	22,889	12,430	10,459	84%
<b>Nonoperating expenses:</b>				
Net loss on asset disposal	\$ 2,678	\$ 21,553	\$ (18,875)	-88%
Amortization of bond cost	11,700	11,700	-	0%
Interest expense	130,669	145,012	(14,343)	-10%
Total nonoperating expenses	145,047	178,265	(33,218)	-19%
<b>Total nonoperating revenues (expenses)</b>	<b>\$ (122,158)</b>	<b>\$ (165,835)</b>	<b>\$ 43,677</b>	<b>+</b>

<sup>1</sup> 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, "-" is given.

**Capital Contributions (Connection Fee Revenue)**

Connection fee revenue decreased \$55,050 or 18% over the prior year due to decreased connections. Connections decreased by 15, bringing total connections to 69 compared to 84 in the prior period. The decrease was driven by a reduction in connections associated with multi-unit developments which declined by 25 during the period. The Agency's connection fee remained unchanged at \$3,670 per connection.

**CAPITAL CONTRIBUTIONS (CONNECTION FEE REVENUE)**

	As of June 30,		2016 vs 2015	
	2016	2015	Increase (Decrease)	% Change
Capital Contributions	\$ 253,230	\$ 308,280	\$ (55,050)	-18%

**BIG BEAR AREA REGIONAL WASTEWATER AGENCY**  
**Management's Discussion and Analysis**  
**Year ended June 30, 2016**

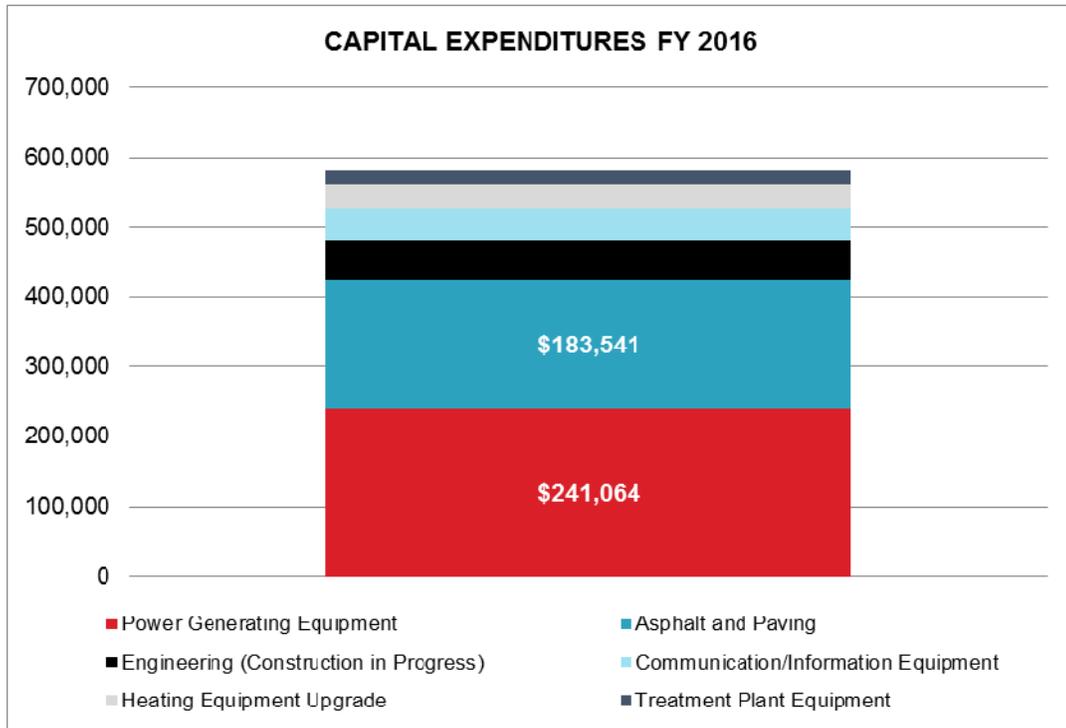
**Capital Asset Activity**

The Agency's net capital assets decreased by \$297,276 or 2% during the period. The net decrease in capital assets was primarily due to capital investment below annual depreciation expense. The Agency's capital expenditures for the period were \$580,730 compared to annual depreciation expense of \$875,328.

**CAPITAL ASSETS, NET**

	As of June 30,		2016 vs 2015	
	2016	2015	Increase (Decrease)	% Change
Capital assets, net	\$ 16,560,446	\$ 16,857,722	\$ (297,276)	-2%

Fiscal year 2016 was a below-average investment period with \$580,730 in capital investment during the period. The Agency's largest investment was the rebuild of a power generator (\$241,064), followed by asphalt and paving improvements (\$183,541).



For additional information, see note 4 in the accompanying financial statements.

BIG BEAR AREA REGIONAL WASTEWATER AGENCY  
 Management's Discussion and Analysis  
 Year ended June 30, 2016

**Long-Term Debt and Net Pension Liability Activity**

The Agency reduced its long-term debt during the period by \$443,585 or 11% which reflects regularly scheduled amortization of debt during the period. The Agency's net pension liability decreased by \$345,744 or 24% and is the net change during the period in pension plan assets (increase of \$479,931) and pension plan liabilities (an increase of \$134,187).

**OUTSTANDING DEBT, NET**

	As of June 30,		2016 vs 2015	
	2016	2015	Increase (Decrease)	%
	2016	2015	(Decrease)	Change
Outstanding Debt, Net	\$ 3,681,512	\$ 4,125,097	\$ (443,585)	-11%
Net Pension Liability	1,089,410	1,435,154	(345,744)	-24%

For additional information, see note 5 and note 7 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.

## **Basic Financial Statements**

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**Big Bear Area Regional Wastewater Agency**

**Statement of Net Position**

**June 30, 2016**

**(With comparative data for prior year)**

<b>Assets</b>	<b>2016</b>	<b>2015</b>
Current assets:		
Cash and investments (note 3)	\$ 6,617,084	\$ 5,826,393
Accounts receivable	37,882	12,210
Due from member agencies	7,340	55,050
Interest receivable	7,923	3,804
Inventory	27,662	9,864
Prepaid expenses	-	2,166
Total current assets	<u>6,697,891</u>	<u>5,909,487</u>
Noncurrent assets:		
Net OPEB asset	77,789	77,789
Capital assets, not being depreciated (note 4)	956,220	841,403
Capital assets, net of depreciation (note 4)	15,604,226	16,016,319
Total noncurrent assets	<u>16,638,235</u>	<u>16,935,511</u>
Total assets	<u>23,336,126</u>	<u>22,844,998</u>
<b>Deferred Outflows of Resources</b>		
Deferred charges on refunding	68,546	80,246
Pension related (note 7)	687,620	979,262
Total deferred outflows of resources	<u>756,166</u>	<u>1,059,508</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses	199,823	105,628
Accrued salaries and benefits	50,992	44,866
Accrued interest	15,186	17,016
Deposits	130	65
Long-term liabilities, due within one year	622,437	579,995
Total current liabilities	<u>888,568</u>	<u>747,570</u>
Noncurrent liabilities (note 5):		
Due beyond one year	4,344,129	5,240,681
Total noncurrent liabilities	<u>4,344,129</u>	<u>5,240,681</u>
Total liabilities	<u>5,232,697</u>	<u>5,988,251</u>
<b>Deferred Inflows of Resources</b>		
Pension related (note 7)	569,756	513,681
Total deferred inflows of resources	<u>569,756</u>	<u>513,681</u>
<b>Net position:</b>		
Net investment in capital assets	12,947,480	12,812,871
Unrestricted	5,342,359	4,589,703
Total net position	<u>\$ 18,289,839</u>	<u>\$ 17,402,574</u>

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

**Big Bear Area Regional Wastewater Agency**

**Statement of Revenues, Expenses and Changes in Net Position**  
**For the year ended June 30, 2016**  
**(With comparative data for prior year)**

	<u>2016</u>	<u>2015</u>
<b>Operating revenues</b>		
Member agency fees	\$ 4,991,166	\$ 4,979,690
Standby charges	89,250	90,860
Rental income	49,232	48,291
Waste disposal fees	22,869	19,829
Other revenues	5,104	24,575
	<u>5,157,621</u>	<u>5,163,245</u>
<b>Operating expenses</b>		
Salaries and benefits	1,843,685	1,745,042
Power	520,431	486,461
Sludge removal	225,990	162,627
Chemicals	48,561	45,636
Materials and supplies	136,372	147,264
Repairs and replacements	150,764	161,825
Equipment rental	165	3,659
Utilities expense	11,773	16,062
Communications expense	38,610	33,490
Contractual services - other	102,120	81,626
Contractual services - professional	151,407	99,798
Permits and fees	145,866	142,310
Property tax expense	3,476	3,426
Insurance expense	87,406	83,561
Other operating expense	59,474	57,963
Depreciation	875,328	840,229
	<u>4,401,428</u>	<u>4,110,979</u>
Total operating expenses		
	<u>4,401,428</u>	<u>4,110,979</u>
Operating income	<u>756,193</u>	<u>1,052,266</u>

(continued on next page)

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

**Big Bear Area Regional Wastewater Agency**

**Statement of Revenues, Expenses and Changes in Net Position (continued)**  
**For the year ended June 30, 2016**  
**(With comparative data for prior year)**

	<u>2016</u>	<u>2015</u>
<b>Nonoperating revenues</b>		
Investment income	\$ 22,889	\$ 12,430
Total nonoperating revenues	<u>22,889</u>	<u>12,430</u>
<b>Nonoperating expenses</b>		
Interest expense	142,369	156,712
Net loss on capital asset disposals	<u>2,678</u>	<u>21,553</u>
Total nonoperating expenses	<u>145,047</u>	<u>178,265</u>
Income before contributions	634,035	886,431
Capital contributions - connection charges	<u>253,230</u>	<u>308,280</u>
Change in net position	887,265	1,194,711
Net position, beginning of year	<u>17,402,574</u>	<u>16,207,863</u>
Net position, end of year	<u>\$ 18,289,839</u>	<u>\$ 17,402,574</u>

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

**Big Bear Area Regional Wastewater Agency**

**Statement of Cash Flows**

**For the year ended June 30, 2016**

**(With comparative data for prior year)**

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers and other sources	\$ 5,132,014	\$ 5,162,326
Cash payments to suppliers for goods and services	(1,603,852)	(1,475,420)
Cash payments for employees and benefits	(1,900,367)	(2,703,266)
	<u>1,627,795</u>	<u>983,640</u>
<b>Cash flows from capital and related financing activities:</b>		
Purchases and construction of capital assets	(580,730)	(306,538)
Proceeds from sale of capital assets	-	11,602
Proceeds from capital contributions	300,940	256,900
Principal payments on long-term debt	(443,585)	(429,301)
Interest paid on long-term debt	(132,499)	(146,783)
	<u>(855,874)</u>	<u>(614,120)</u>
<b>Cash flows from investing activities:</b>		
Investment income received	18,770	11,228
	<u>18,770</u>	<u>11,228</u>
Net change in cash and investments	790,691	380,748
Cash and investments, beginning of year	<u>5,826,393</u>	<u>5,445,645</u>
Cash and investments, end of year	<u>\$ 6,617,084</u>	<u>\$ 5,826,393</u>

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

**Big Bear Area Regional Wastewater Agency**

**Statement of Cash Flows (continued)**

**For the year ended June 30, 2016**

**(With comparative data for prior year)**

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Reconciliation of operating income to net cash

provided by operating activities:

Operating income	\$ 756,193	\$ 1,052,266
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Adjustments to reconcile operating income  
to net cash provided by operating activities:

Depreciation	875,328	840,229
Pension contributions subsequent to measurement date	(157,379)	(979,262)
Actuarial pension expense	159,352	153,231
(Increase) decrease in assets:		
Accounts receivable	(25,672)	(844)
Inventory	(17,798)	-
Prepaid expenses	2,166	(1,817)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	94,195	(101,126)
Accrued salaries and benefits	6,126	5,656
Deposits	65	(75)
Compensated absences	(64,781)	15,382

Net cash provided by operating activities	<u>\$ 1,627,795</u>	<u>\$ 983,640</u>
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**Schedule of non-cash operating, noncapital and capital related  
financing and investing activities**

None	None
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*The accompanying notes are an integral part of these financial statements.*

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## **Big Bear Area Regional Wastewater Agency**

### **Notes to the Basic Financial Statements June 30, 2016**

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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.

**Big Bear Area Regional Wastewater Agency**

**Notes to the Basic Financial Statements  
June 30, 2016**

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**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.

(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. Contributed capital assets are recorded at fair market value at the time received. 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:

	<u>Estimated Useful Life Range (in years)</u>
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.

## **Big Bear Area Regional Wastewater Agency**

### **Notes to the Basic Financial Statements June 30, 2016**

---

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

*(h) Employee leave benefits, (continued)*

In accordance with GASB Statement No. 16, 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 GASB Statement No. 16, 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 under Forms and Publications.

**Big Bear Area Regional Wastewater Agency**

**Notes to the Basic Financial Statements  
June 30, 2016**

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

*(k) Pension plan, (continued)*

GASB 68 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, 2014
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	July 1, 2014 to June 30, 2015

*(l) Inventory*

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

*(m) Implementation of new accounting principle*

Governmental Accounting Standards Board has issued Statement No. 72, *Fair Value Measurement and Application*. This statement provides guidance for determining fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The Agency adopted the pronouncement during the current year.

**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.

**Big Bear Area Regional Wastewater Agency**

**Notes to the Basic Financial Statements  
June 30, 2016**

**NOTE 3: Cash and investments**

Cash and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments	\$ 6,617,084
Total cash and investments	<u>\$ 6,617,084</u>
Cash and investments as of June 30, 2016 consist of the following:	
Cash on hand	\$ 600
Deposits with financial institutions	581,286
Investments	<u>6,035,198</u>
Total cash and investments	<u>\$ 6,617,084</u>

*Investments authorized by debt agreements*

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

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

*Fair value measurements*

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

The Agency has the following recurring fair value measurements as of June 30, 2016:

- Local Agency Investment Fund of \$6,035,198 valued using Level 2 inputs by the Local Agency Advisory Board.

**Big Bear Area Regional Wastewater Agency**

**Notes to the Basic Financial Statements  
June 30, 2016**

**NOTE 3: Cash and investments, (continued)**

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

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

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

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

**Big Bear Area Regional Wastewater Agency**

**Notes to the Basic Financial Statements  
June 30, 2016**

**NOTE 3: Cash and investments, (continued)**

*Interest rate risk*

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

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

Investment type	Total	Remaining maturing (in months)			
		12 or less	13 to 24	25 to 60	More than 60
State investment pool	<u>\$ 6,035,198</u>	<u>\$ 6,035,198</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*Credit risk*

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

Investment type	Total	Minimum legal rating	Exempt from disclosure	Rating as of year end		
				AAA	Aa	Not rated
State investment pool	<u>\$ 6,035,198</u>	N/A	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,035,198</u>

*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 represent 5% or more of total Agency investments.

## **Big Bear Area Regional Wastewater Agency**

### **Notes to the Basic Financial Statements June 30, 2016**

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#### **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, 2016, the Agency's deposits with financial institutions are non-interest bearing, and have a limited insurance coverage with the federal deposit insurance corporation up to \$250,000. As of June 30, 2016, the Agency deposits with financial institutions exceeded the federal depository insurance limits by \$310,132 and were fully collateralized.

##### *Investment in State investment pool*

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

LAIF is a special fund of the California State Treasury through which local governments may pool investments. The Agency may invest up to \$65,000,000 in the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. Investments with LAIF are secured by the full faith and credit of the State of California. The average annual yield of LAIF during the years ended June 30, 2016 and 2015 was 0.434% and 0.269%, respectively. The carrying value and estimated market value of the LAIF Pool at June 30, 2016 and 2015 was \$75,368,904,611 and \$75,442,558,513 and \$69,606,487,716 and \$69,641,162,418, respectively. The Agency's share of the Pool at June 30, 2016 and 2015 was approximately 0.008% and 0.008%, respectively. Included in LAIF's investment portfolio at June 30, 2016 and 2015 are structured notes and asset-backed securities totaling \$400,000,000 and \$1,718,918,000 and \$0 and \$1,447,948,000, respectively. LAIF's and the Agency's exposure to risk (credit, market or legal) is not currently available. The LAIF has oversight by the Local Investment Advisory Board. The LAIF Board consists of five members as designated by statute.

**Big Bear Area Regional Wastewater Agency**

**Notes to the Basic Financial Statements  
June 30, 2016**

**NOTE 4: Capital assets**

A summary of changes in capital assets of the Agency for the year ending June 30, 2016 is as follows:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets, not being depreciated				
Land	\$ 816,823	\$ -	\$ -	\$ 816,823
Construction in Progress	24,580	114,817	-	139,397
Total capital assets, not being depreciated	841,403	114,817	-	956,220
Capital assets, being depreciated:				
Administration Building	1,977,655	-	-	1,977,655
Treatment Plant	15,860,894	-	-	15,860,894
Interceptor System	3,620,245	-	-	3,620,245
Effluent Disposal Assets	4,713,259	-	-	4,713,259
Power Generation Equipment	1,617,668	241,064	-	1,858,732
Flow Measuring Devices	105,074	-	-	105,074
Other Equipment	1,733,936	41,308	(7,534)	1,767,710
Transportation Equipment	577,795	-	-	577,795
Other Tangible Plant	547,429	183,541	-	730,970
Studies and Maps	106,425	-	-	106,425
Total capital assets, being depreciated	30,860,380	465,913	(7,534)	31,318,759
Less accumulated depreciation for:				
Administration Building	(609,179)	(53,988)	-	(663,167)
Treatment Plant	(6,609,454)	(415,625)	-	(7,025,079)
Interceptor System	(1,839,543)	(90,543)	-	(1,930,086)
Effluent Disposal Assets	(3,659,297)	(84,546)	-	(3,743,843)
Power Generation Equipment	(575,794)	(86,351)	-	(662,145)
Flow Measuring Devices	(80,839)	(4,700)	-	(85,539)
Other Equipment	(1,015,973)	(66,027)	4,856	(1,077,144)
Transportation Equipment	(210,028)	(34,485)	-	(244,513)
Other Tangible Plant	(163,345)	(36,885)	-	(200,230)
Studies and Maps	(80,609)	(2,178)	-	(82,787)
Total accumulated depreciation	(14,844,061)	(875,328)	4,856	(15,714,533)
Total capital assets being depreciated, net	16,016,319	(409,415)	(2,678)	15,604,226
Total capital assets, net	\$ 16,857,722	\$ (294,598)	\$ (2,678)	\$ 16,560,446

## Big Bear Area Regional Wastewater Agency

### Notes to the Basic Financial Statements June 30, 2016

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#### NOTE 5: Long-term liabilities

A summary of long-term liabilities of the Agency at June 30, 2016 is as follows:

	Beginning balance	Additions	Deletions	Ending balance	Due within one year	Due beyond one year
2011 Refunding Agreement	\$ 4,125,097	\$ -	\$ (443,585)	\$ 3,681,512	\$ 458,344	\$ 3,223,168
Net Pension Liability	1,435,154	633,518	(979,262)	1,089,410	-	1,089,410
Compensated absences	260,425	153,646	(218,427)	195,644	164,093	31,551
Total	<u>\$ 5,820,676</u>	<u>\$ 787,164</u>	<u>\$ (1,641,274)</u>	<u>\$ 4,966,566</u>	<u>\$ 622,437</u>	<u>\$ 4,344,129</u>

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

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

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).

## Big Bear Area Regional Wastewater Agency

### Notes to the Basic Financial Statements June 30, 2016

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#### NOTE 5: Long-term liabilities, (continued)

##### *2011 Refunding 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, 2016 the Agency's net revenues were 329% 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.

##### *Debt service requirements to maturity*

Fiscal year	2011 Refunding Loan Agreement		
	Principal	Interest	Total
2016-2017	\$ 458,344	\$ 117,740	\$ 576,084
2017-2018	473,594	102,489	576,083
2018-2019	380,864	86,732	467,596
2019-2020	283,258	75,850	359,108
2020-2021	292,683	66,425	359,108
2021-2022	302,421	56,687	359,108
2022-2023	312,483	46,625	359,108
2023-2024	322,880	36,228	359,108
2024-2025	333,623	25,485	359,108
2025-2026	344,723	14,384	359,107
2026-2027	176,639	2,915	179,554
Total	<u>\$ 3,681,512</u>	<u>\$ 631,560</u>	<u>\$ 4,313,072</u>

#### 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.

## Big Bear Area Regional Wastewater Agency

### Notes to the Basic Financial Statements June 30, 2016

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#### NOTE 7: Pension plan

##### A. General information about the Pension plan

###### *Plan description*

The Plan is a cost-sharing, multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions (for funding, but not account purposes), and membership information is listed in the June 30, 2014 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. The actuarial valuation report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications, at [www.calpers.ca.gov](http://www.calpers.ca.gov).

###### *Benefits provided*

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

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

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
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	8.00%	6.50%
Required employer contribution rates	20.195%	6.73%

**Big Bear Area Regional Wastewater Agency**

**Notes to the Basic Financial Statements  
June 30, 2016**

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**NOTE 7: Pension plan, (continued)**

**A. General information about the Pension plan, continued**

*Contributions*

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by Miscellaneous risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2015 (the measurement date), the average active employee contribution rate for the plan is 8.0 percent of annual pay, and the employer's contribution rate is 17.692 percent of annual payroll. Employer contribution rates may change if plan contracts are amended.

Employer Contributions for the measurement period ended June 30, 2015 are \$979,263. The actual employer payments of \$979,263 made to CalPERS by the Agency during the measurement period ended June 30, 2015 differed from the Agency's proportionate share of the employer's contributions of \$259,471 by \$719,792, which is being amortized over the expected average remaining service lifetime in the Public Agency Cost-Sharing Multiple Employer Plan.

## **Big Bear Area Regional Wastewater Agency**

### **Notes to the Basic Financial Statements June 30, 2016**

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#### **NOTE 7: Pension plan, (continued)**

##### **B. Net pension liability**

The Agency's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 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**

For the measurement period ended June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2014 and June 30, 2015 total pension liabilities were based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method:	Market Value of Assets
Discount Rate	7.65%
Inflation	2.75%
Salary Increase (1)	Varies by entry age and service
Investment Rate of Return (2)	7.65%
Mortality Rate Table (3)	Derived using CalPERS' membership data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

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

(2) Net of pension plan investment and administrative expenses; includes inflation

(3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on the table, please refer to the 2014 experience study report.

**Change in Assumptions:** The discount rate was changed from 7.5% (net of administrative expenses) to 7.65% to correct for an adjustment to exclude administrative expense.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

**Big Bear Area Regional Wastewater Agency**

**Notes to the Basic Financial Statements  
June 30, 2016**

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**NOTE 7: Pension plan, (continued)**

**B. Net pension liability, continued**

*Discount rate*

The discount rate used to measure the total pension liability was 7.65 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 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 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**Big Bear Area Regional Wastewater Agency**

**Notes to the Basic Financial Statements  
June 30, 2016**

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**NOTE 7: Pension plan, (continued)**

**B. Net pension liability, continued**

*Discount rate, continued*

The following table reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10<sup>1</sup></u>	<u>Real Return Year 11+<sup>2</sup></u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	(0.55%)	(1.05%)
Total	<u>100.0%</u>		

<sup>1</sup> An expected inflation of 2.5% used for this period

<sup>2</sup> An expected inflation of 3.0% used for this period

*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 under Forms and Publications, at [www.calpers.ca.gov](http://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 each 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.

**Big Bear Area Regional Wastewater Agency**

**Notes to the Basic Financial Statements  
June 30, 2016**

**NOTE 7: Pension plan, (continued)**

**C. Proportionate share of net pension liability**

The following table shows the Plan's proportion 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: 6/30/2014 (VD)	\$ 8,456,381	\$ 7,021,227	\$ 1,435,154
Balance at: 6/30/2015 (MD)	8,590,568	7,501,158	1,089,410
Net changes during 2014-15	134,187	479,931	(345,744)

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

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, 2015, 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, 2014 rolled forward to June 30, 2015 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 under Forms and Publications, at [www.calpers.ca.gov](http://www.calpers.ca.gov). The Agency's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

Proportion share of NPL - June 30, 2014	0.05807%
Proportion share of NPL - June 30, 2015	0.03971%
Change - Increase (Decrease)	(0.01836%)

*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 7.65 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 (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Miscellaneous Plan's Net Pension Liability	\$ 2,259,331	\$ 1,089,410	\$ 123,505

*Subsequent events*

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

**Big Bear Area Regional Wastewater Agency**

**Notes to the Basic Financial Statements  
June 30, 2016**

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**NOTE 7: Pension plan, (continued)**

**C. Proportionate share of net pension liability, continued**

*Recognition of gains and losses*

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

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

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

Difference between projected and actual earnings      5 year straight-line amortization

All other amounts      Straight-line amortization over the average expected remaining services lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

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

The EARSL for the Plan for the June 30, 2015 measurement period is 3.8 years, which was obtained by dividing the total service years of 467,023 (the sum of remaining service lifetimes of the active employees) by 122,410 (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 measure period (July 1, 2014), the net pension liability for the Plan is \$1,435,154 (the net pension liability of the aggregate Plan as of June 30, 2014 is \$2,471,487,278 and as of June 30, 2015 it is \$2,743,467,016).

For the measure period ending June 30, 2015 (the measurement date), the Agency incurred a pension expense of \$159,352 for the Plan (the pension expense for the aggregate Plan for the measurement period is \$169,012,983).

**Big Bear Area Regional Wastewater Agency**

**Notes to the Basic Financial Statements  
June 30, 2016**

**NOTE 7: Pension plan, (continued)**

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

As of June 30, 2016, the Agency deferred outflows and deferred inflows of resources related to pensions as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 11,489	\$ -
Changes in assumptions	-	(108,701)
Net difference between projected and actual earnings on pension plan investments	-	(54,493)
Change in employer's proportion	-	(406,562)
Difference in actual vs projected contributions	518,752	-
Pension Contributions Subsequent to Measurement Date	157,379	-
	<u>\$ 687,620</u>	<u>\$ (569,756)</u>

The amounts above are net of outflows and inflows recognized in the 2014-2015 measurement period expense. The \$157,379 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the measurement period ended June 30, 2016.

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

<u>Measurement Period Ended June 30:</u>	<u>Deferred Outflows/(Inflows) of</u>
2016	\$ (42,421)
2017	(40,179)
2018	(33,719)
2019	76,804
2020	-
Thereafter	-

**E. Payable to the pension plan**

At June 30, 2016, the Agency reported a payable of \$-0- for the outstanding amount of contributions to the pension plan required for year ended June 30, 2016.

## Big Bear Area Regional Wastewater Agency

### Notes to the Basic Financial Statements June 30, 2016

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#### NOTE 8: Other postemployment benefits plan

*Plan description:* The Agency administers a single-employer defined benefit plan which provides medical insurance benefits to eligible retirees and their eligible dependents. The Agency pays 100% of the medical insurance costs for eligible retirees and their eligible dependents. Eligibility is determined by the Agency's vesting schedule.

*Agency's funding policy:* The Agency's contribution requirements to cover the costs of its postemployment benefits plan are established and may be amended by the Agency's Governing Board. The Agency voluntarily prefunds its annual contribution requirement (i.e. to set aside funds in advance of when medical premiums become due). Amounts that are prefunded are deposited into a prefunding account with CalPERS' California Employer's Retiree Benefit Trust Program ("CERBT"), the prefunding plan under Government Code Section 22940 for prefunding health care coverage for annuitants). CERBT is a trust fund that is intended to perform an essential governmental function within the meaning of Section 115 of the Internal Revenue Code as an agent multiple-employer plan as defined in Governmental Accounting Standards Board (GASB) Statement No. 43 consisting of an aggregation of single-employer plans with pooled administrative and investment functions. Assets held in this trust are considered to be assets held in a fiduciary capacity on behalf of Agency employees, and these assets accordingly have been excluded from the Agency's reported assets. The CalPERS CERBT publishes GASB 43 compliant Financial Statements, Notes, and Required Supplementary Information which may be obtained from its executive office at 400 "Q" Street, Sacramento, California 95811.

*Annual OPEB cost and net OPEB obligation (asset):* The Agency's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Agency's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Agency's net OPEB obligation (asset) for these benefits:

Annual required contribution	<u>\$ 169,214</u>
Annual OPEB cost (expense)	\$ 169,214
Contributions made (including premiums paid)	<u>(169,214)</u>
Increase in net OPEB obligation (asset)	-
Net OPEB obligation (asset), beginning of year	<u>(77,789)</u>
Net OPEB obligation (asset), end of year	<u>\$ (77,789)</u>

The interest on the net OPEB obligation (asset) was \$5,844 with an ARC adjustment of \$5,249, a net change of \$595. The net change in the OPEB asset due to interest and the ARC adjustment were deemed immaterial by the Agency.

**Big Bear Area Regional Wastewater Agency**

**Notes to the Basic Financial Statements  
June 30, 2016**

**NOTE 8: Other postemployment benefits plan, (continued)**

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (asset) for 2014 and the two succeeding years were as follows:

Year ended	Annual OPEB cost	Percentage of OPEB cost contributed	Net OPEB obligation (asset)
6/30/2014	\$ 219,878	114.0%	\$ (77,789)
6/30/2015	162,858	100.0%	(77,789)
6/30/2016	169,214	100.0%	(77,789)

*Funded Status and Funding Progress.* The funded status of the plan as of July 1, 2015, the date of the most recent actuarial valuation, was as follows:

Actuarial Accrued liability (AAL)	\$ 2,583,615
Actuarial value of plan assets	<u>971,206</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,612,409</u>
Funded ratio (actuarial value of plan assets/AAL)	38%
Covered payroll (active plan members)	\$ 1,084,510
UAAL as a percentage of covered payroll	149%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

*Actuarial methods and assumptions:* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Cost, Level Percent of Pay Method. The assets valuation method is the market value of the assets. The actuarial assumptions included were as follows 1) a 7.28% investment rate of return, which is the assumed rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date, 2) an annual healthcare cost trend rate of 6% initially, reduced by decrements of 0.5% per year to an ultimate rate of 4.5% in the seventh year, 3) a 3.25% annual increase in salaries and 4) a 2.75% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll over an initial 30 years (on a closed basis) with 23 years remaining.

## ***Big Bear Area Regional Wastewater Agency***

### **Notes to the Basic Financial Statements June 30, 2016**

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#### **NOTE 9:       Deferred compensation**

The Agency has made available to its employees two deferred compensation 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, 2016, 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 plans for the current fiscal year is \$35,266.

#### **NOTE 10:       Risk management**

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

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

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

*Employee Dishonesty:* purchased from National Union Fire Insurance Company – coverage of \$400,000 per loss.

*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 \$500 per claim;

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

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

## **Required Supplementary Information**

**Big Bear Area Regional Wastewater Agency**

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

	Measurement date	
	6/30/2014	6/30/2015
Employer's proportion of the collective net pension liability <sup>1</sup>	0.02306%	0.03971%
Employer's proportionate share of the collective net pension liability	\$ 1,435,154	\$ 1,089,410
Employer's covered payroll <sup>2</sup>	\$ 1,082,228	\$ 1,100,884
Employer's proportionate share of the collective net pension liability percentage of the employer's covered payroll	132.61%	98.96%
Pension plan's fiduciary net position as a percentage of the total pension liability	83.03%	87.32%

<sup>1</sup> 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.

<sup>2</sup> Covered payroll is defined as the payroll on which contributions to pension plan are based in accordance with GASB 82.

\* = Only two years of data is available.

**Big Bear Area Regional Wastewater Agency**

**Schedule of Plan Contributions  
Last 10 Years\***

	<b>Measurement period</b>	
	<b>2013-2014</b>	<b>2014-2015</b>
Actuarially Determined Contribution	\$ 175,862	\$ 179,263
Contributions in Relation to the Actuarially Determined Contribution Deficiency (Excess)	(175,862)	(179,263)
	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll <sup>1</sup>	\$ 1,082,228	\$ 1,100,884
Contributions as a Percentage of Covered-Employee Payroll	16.25%	16.28%

<sup>1</sup> Covered payroll is defined as the payroll on which contributions to a pension plan are based, in accordance with GASB 82.

Only two years of data are available.

**Notes to Schedule:**

Change in Benefit Terms: None

Change in Assumptions: The discount rate was changed from 7.5% (net of administrative expenses) to 7.65% to correct for an adjustment to exclude administrative expense.

\* = Only two years of data is available.

**Big Bear Area Regional Wastewater Agency**

**Other Postemployment Benefits Plan  
Schedule of Funding Progress  
Fiscal year ended June 30, 2016**

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Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL)-entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
7/1/2010	\$ 238,712	\$ 1,992,007	\$ 1,753,295	12%	\$ 1,030,246	170%
7/1/2011	476,926	2,633,681	2,156,755	18%	1,022,386	211%
7/1/2013	828,635	2,218,839	1,390,204	37%	1,031,052	135%
7/1/2015	971,206	2,583,615	1,612,409	38%	1,084,510	149%

## **Supplementary Information**

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**Big Bear Area Regional Wastewater Agency**

**Schedule of Revenues, Expenses and Changes in Net Position – Budget vs. Actual  
For the year ended June 30, 2016**

	2016 Actual	2016 Budget (unaudited)	Variance with budget	2015 Actual
<b>Operating revenues</b>				
Member agency fees	\$ 4,991,166	\$ 4,994,548	\$ (3,382)	\$ 4,979,690
Standby charges	89,250	89,250	-	90,860
Rental income	49,232	48,929	303	48,291
Waste disposal fees	22,869	20,478	2,391	19,829
Other revenues	5,104	-	5,104	24,575
<b>Total operating revenues</b>	<b>5,157,621</b>	<b>5,153,205</b>	<b>4,416</b>	<b>5,163,245</b>
<b>Operating expenses</b>				
Salaries and benefits	1,843,685	1,954,560	(110,875)	1,745,042
Power	520,431	522,455	(2,024)	486,461
Sludge removal	225,990	140,625	85,365	162,627
Chemicals	48,561	69,956	(21,395)	45,636
Materials and supplies	136,372	142,321	(5,949)	147,264
Repairs and replacements	150,764	215,299	(64,535)	161,825
Equipment rental	165	-	165	3,659
Utilities expense	11,773	15,614	(3,841)	16,062
Communications expense	38,610	38,801	(191)	33,490
Contractual services - other	102,120	104,918	(2,798)	81,626
Contractual services - professional	151,407	185,583	(34,176)	99,798
Permits and fees	145,866	153,883	(8,017)	142,310
Property tax expense	3,476	3,441	35	3,426
Insurance expense	87,406	87,762	(356)	83,561
Other operating expense	59,474	66,069	(6,595)	57,963
Depreciation	875,328	815,012	60,316	840,229
<b>Total operating expenses</b>	<b>4,401,428</b>	<b>4,516,299</b>	<b>(114,871)</b>	<b>4,110,979</b>
<b>Operating income</b>	<b>756,193</b>	<b>636,906</b>	<b>119,287</b>	<b>1,052,266</b>

(continued on next page)

**Big Bear Area Regional Wastewater Agency****Schedule of Revenues, Expenses and Changes in Net Position – Budget vs. Actual  
(continued)  
For the year ended June 30, 2016**

	2016 Actual	2016 Budget (unaudited)	Variance with budget	2015 Actual
<b>Nonoperating revenues</b>				
Investment income	\$ 22,889	\$ 26,588	\$ (3,699)	\$ 12,430
Total nonoperating revenues	22,889	26,588	(3,699)	12,430
<b>Nonoperating expenses</b>				
Interest expense	142,369	144,199	(1,830)	156,712
Net loss on capital asset disposals	2,678	-	2,678	21,553
Total nonoperating expenses	145,047	144,199	848	178,265
Income before contributions	634,035	519,295	114,740	886,431
Capital contributions - connection charges	253,230	201,850	51,380	308,280
Change in net position	887,265	721,145	166,120	1,194,711
Net position, beginning of year	17,402,574	17,402,574	-	16,207,863
Net position, end of year	<u>\$ 18,289,839</u>	<u>\$ 18,123,719</u>	<u>\$ 166,120</u>	<u>\$ 17,402,574</u>



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

735 E. Carnegie Dr. Suite 100  
San Bernardino, CA 92408  
909 889 0871 T  
909 889 5361 F  
ramscpa.net

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

**PARTNERS**

Brenda L. Odle, CPA, MST  
Terry P. Shea, CPA  
Kirk A. Franks, CPA  
Scott W. Manno, CPA, CGMA  
Leena Shanbhag, CPA, MST, CGMA  
Bradferd A. Welebir, CPA, MBA, CGMA  
Jay H. Zercher, CPA (Partner Emeritus)  
Phillip H. Waller, CPA (Partner Emeritus)

**MANAGERS / STAFF**

Jenny Liu, CPA, MST  
Seong-Hyea Lee, CPA, MBA  
Charles De Simoni, CPA  
Nathan Statham, CPA, MBA  
Gardenya Duran, CPA  
Ivan Gonzales, CPA, MSA  
Brianna Schultz, CPA  
Daniel Hernandez, CPA, MBA  
Lisa Dongxue Guo, CPA, MSA

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

We have audited, in accordance with the 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, 2016, 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 17, 2016.

***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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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California Society of  
Certified Public Accountants

### ***Compliance and other matters***

As part of obtaining reasonable assurance about whether Agency's financial statements are free of 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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rogers, Anderson, Malody & Scott, LLP*

San Bernardino, California  
October 17, 2016

## **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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
NET POSITION <sup>1</sup> :										
Net investment										
in capital assets	\$11,626,593	\$11,773,510	\$11,882,132	\$11,584,347	\$11,360,139	\$11,630,775	\$11,190,103	\$12,962,116	\$12,812,871	\$12,947,480
Unrestricted net position	<u>4,490,004</u>	<u>5,018,800</u>	<u>4,595,903</u>	<u>4,663,556</u>	<u>5,092,119</u>	<u>5,239,278</u>	<u>6,089,805</u>	<u>5,041,351</u>	<u>4,589,703</u>	<u>5,342,359</u>
Total	<u>\$16,116,597</u>	<u>\$16,792,310</u>	<u>\$16,478,035</u>	<u>\$16,247,903</u>	<u>\$16,452,258</u>	<u>\$16,870,053</u>	<u>\$17,279,908</u>	<u>\$18,003,467</u>	<u>\$17,402,574</u>	<u>\$18,289,839</u>

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

## CHANGE IN NET POSITION - 10 FISCAL YEARS

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>OPERATING REVENUES:</b>										
Annual Charges	\$4,183,098	\$4,232,967	\$4,262,159	\$4,279,422	\$4,274,044	\$4,506,876	\$4,688,312	\$4,778,215	\$4,979,690	\$4,991,166
Standby Fees	110,440	102,320	100,160	96,323	95,240	93,890	92,430	91,400	90,860	89,250
Rent, Waste Disposal Fees	60,718	58,872	61,077	59,345	63,486	64,940	68,351	70,178	68,120	72,101
Other	<u>41,153</u>	<u>14,544</u>	<u>5,230</u>	<u>10,690</u>	<u>2,049</u>	<u>56</u>	<u>50</u>	<u>2,007</u>	<u>24,575</u>	<u>5,104</u>
Total	4,395,409	4,408,703	4,428,626	4,445,780	4,434,819	4,665,762	4,849,143	4,941,800	5,163,245	5,157,621
<b>OPERATING EXPENSES:</b>										
Salaries and Benefits	1,433,054	1,542,333	1,801,680	1,830,689	1,730,563	1,714,734	1,812,835	1,797,691	1,745,042	1,843,685
Power	458,090	524,030	410,294	434,850	472,130	470,256	424,266	399,239	486,461	520,431
Sludge Removal <sup>1</sup>	422,037	373,065	282,356	297,448	219,399	185,005	242,838	221,541	162,627	225,990
Materials and Supplies	241,623	259,785	219,268	272,643	234,516	222,324	225,624	190,830	192,900	184,933
Repairs and Replacements	165,368	256,841	237,423	209,257	188,725	170,603	159,819	186,806	161,825	150,764
Equipment rental <sup>2</sup>	0	0	4,045	2,029	4,245	148	0	0	3,659	165
Utilities expense <sup>3</sup>	0	0	17,929	18,426	16,259	25,727	22,509	19,757	16,062	11,773
Communications expense <sup>4</sup>	0	0	22,663	39,110	49,112	51,911	34,293	45,613	33,490	38,610
Contractual services - other	13,046	28,360	83,192	74,668	80,988	82,994	75,706	95,678	81,626	102,120
Contractual services, prof <sup>5</sup>	54,170	123,888	282,058	112,718	294,431	141,200	136,259	224,045	99,798	151,407
Permits and fees	67,289	76,380	96,566	101,255	87,655	108,055	124,708	131,361	142,310	145,866
Property tax expense	2,872	2,930	2,988	3,100	3,120	3,130	3,488	3,265	3,426	3,476
Insurance expense <sup>6</sup>	42,714	59,474	109,481	97,774	108,747	93,222	86,135	69,622	83,561	87,406
Other operating expense	57,910	47,089	51,732	60,139	70,590	58,197	65,638	58,032	57,963	59,474
Reclamation/Tertiary	0	16,518	0	0	0	0	0	0	0	0
Depreciation	<u>710,517</u>	<u>801,164</u>	<u>867,109</u>	<u>861,513</u>	<u>796,571</u>	<u>794,529</u>	<u>806,274</u>	<u>799,443</u>	<u>840,229</u>	<u>875,328</u>
Total	3,668,690	4,111,857	4,488,784	4,415,619	4,357,051	4,122,035	4,220,392	4,242,923	4,110,979	4,401,428
OPERATING INCOME	726,719	296,846	-60,158	30,161	77,768	543,727	628,751	698,877	1,052,266	756,193
<b>NONOPERATING REVENUES:</b>										
Net gain on asset disposal	0	0	0	0	0	10,050	0	0	0	0
Interest income	383,940	288,904	93,277	25,749	21,688	18,732	16,167	11,305	12,430	22,889
Other	<u>88,407</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>788,361</u>	<u>40</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total non-operating revenue	472,347	288,904	93,277	25,749	810,049	28,822	16,167	11,305	12,430	22,889
<b>NONOPERATING EXPENSES:</b>										
Net Loss on asset disposal	51,418	126,617	52,158	148,792	22,893	0	122,718	28,326	21,553	2,678
Interest expense	179,515	20,512	350,089	285,131	271,181	223,125	165,092	111,747	145,012	130,669
Amortization debt costs	19,547	20,647	28,020	7,501	7,501	12,369	11,700	11,700	11,700	11,700
Other	<u>0</u>	<u>100,000</u>	<u>0</u>							
Total non-operating expense	250,480	267,776	430,267	441,424	301,575	235,494	299,510	151,773	178,265	145,047
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>										
CONTRIBUTIONS	948,586	317,974	-397,148	-385,514	586,242	337,055	345,408	558,409	886,431	634,035
Capital contributions	<u>563,686</u>	<u>357,739</u>	<u>131,991</u>	<u>54,562</u>	<u>244,923</u>	<u>80,740</u>	<u>110,100</u>	<u>165,150</u>	<u>308,280</u>	<u>253,230</u>
CHANGE IN NET POSITION	1,512,272	675,713	-265,157	-330,952	831,165	417,795	455,508	723,559	1,194,711	887,265
<b>NET POSITION</b>										
Beginning of year	<u>14,604,325</u>	<u>16,116,597</u>	<u>16,792,310</u>	<u>16,527,153</u>	<u>15,621,093</u>	<u>16,452,258</u>	<u>16,824,400</u>	<u>17,279,908</u>	<u>16,207,863</u>	<u>17,402,574</u>
End of year	<u>\$16,116,597</u>	<u>\$16,792,310</u>	<u>\$16,527,153</u>	<u>\$16,196,201</u>	<u>\$16,452,258</u>	<u>\$16,870,053</u>	<u>\$17,279,908</u>	<u>\$18,003,467</u>	<u>\$17,402,574</u>	<u>\$18,289,839</u>

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

<sup>2</sup> Included in materials and supplies expense prior to fiscal year 2009.

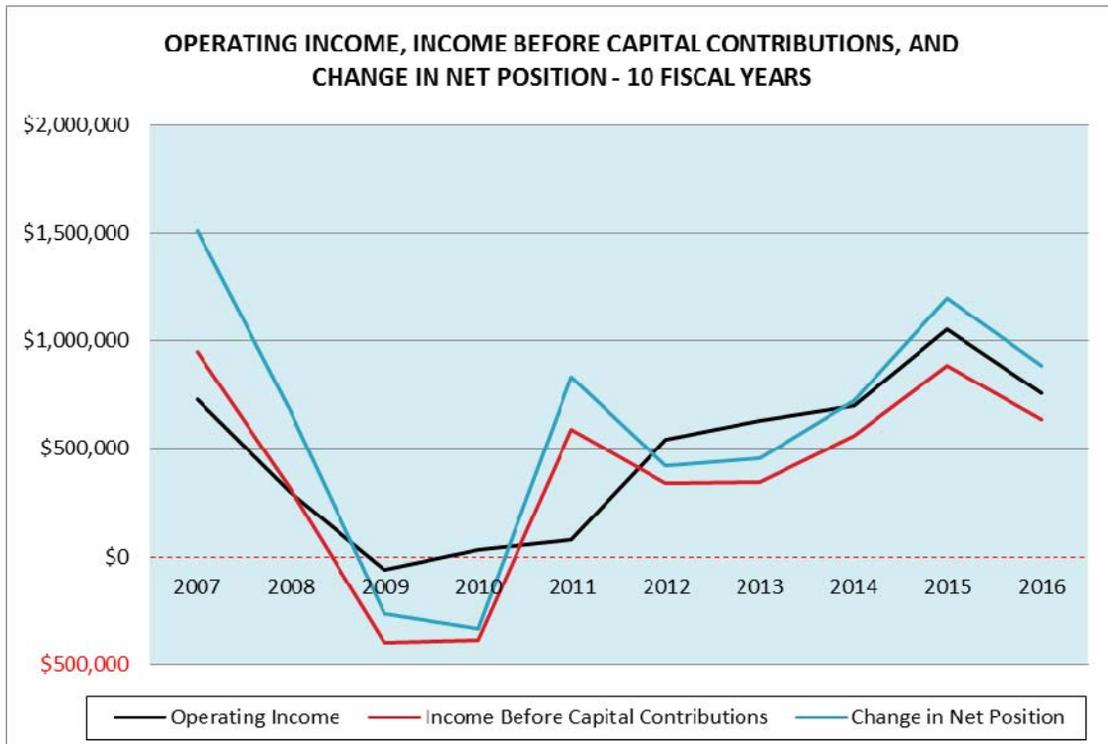
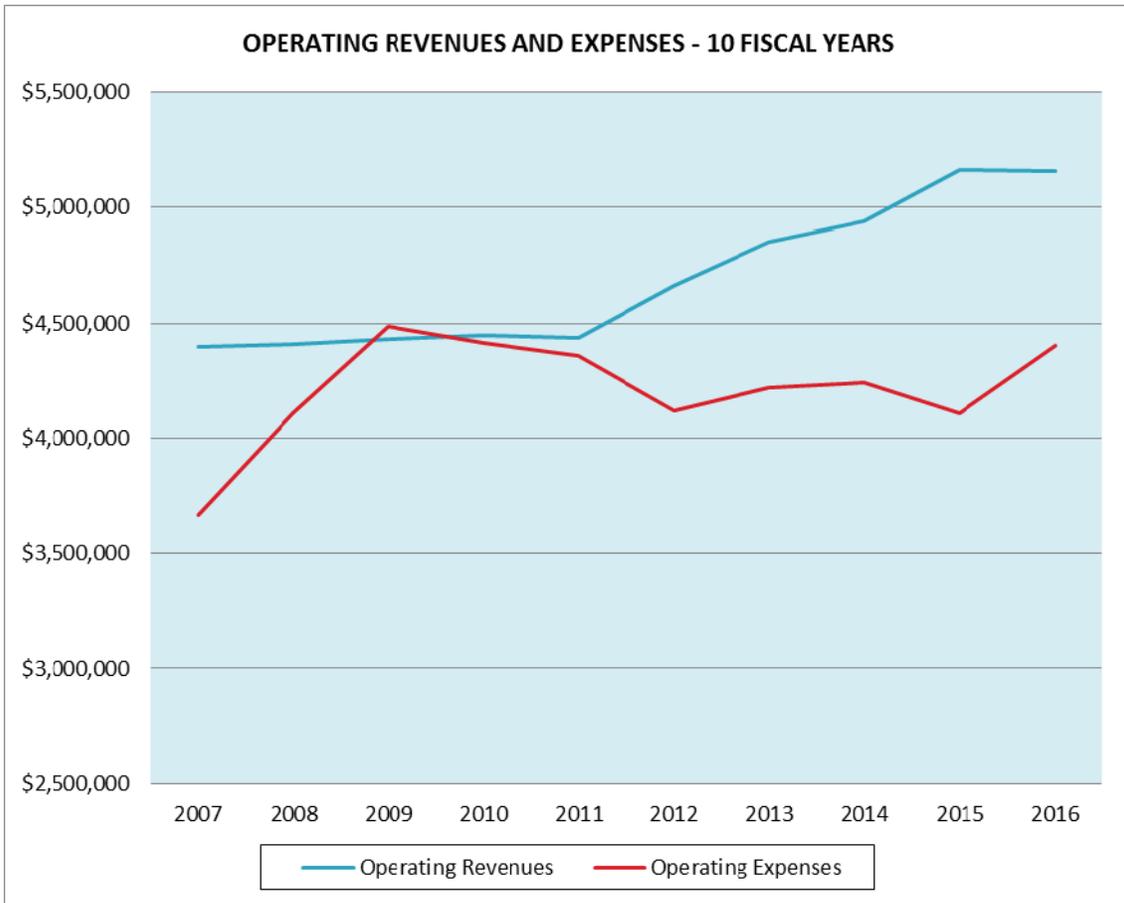
<sup>3</sup> Included in power expense prior to fiscal year 2009.

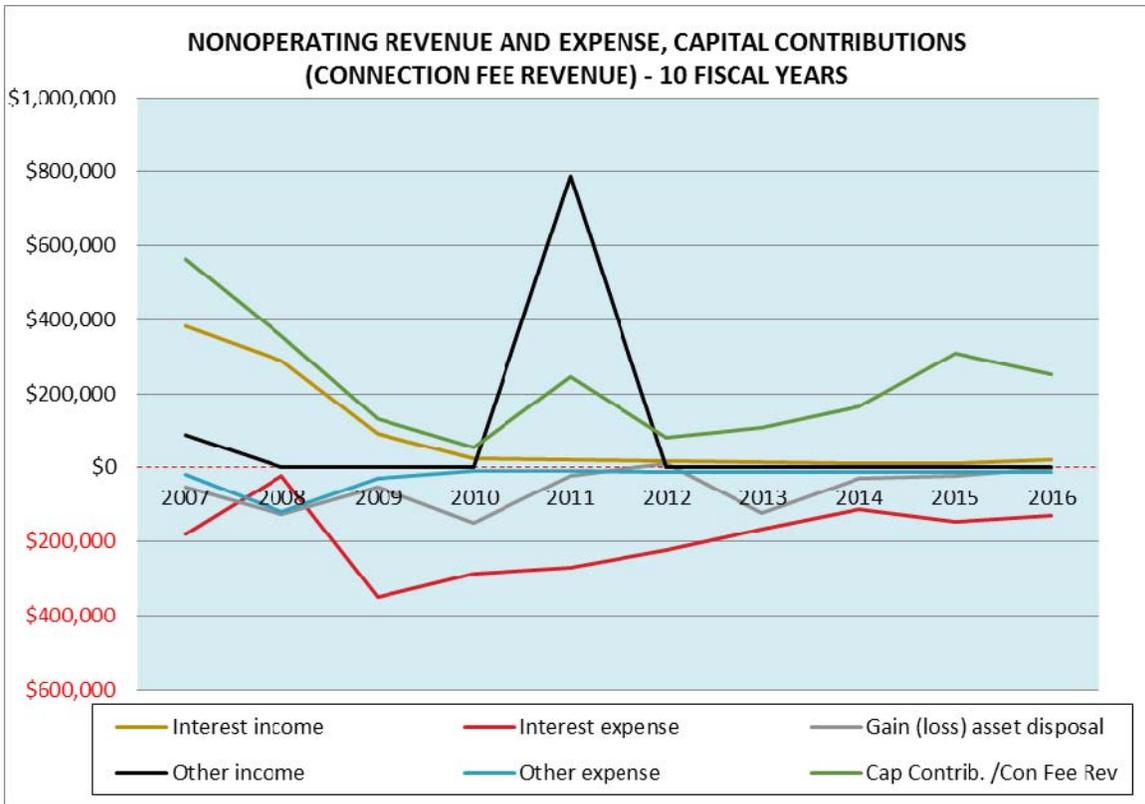
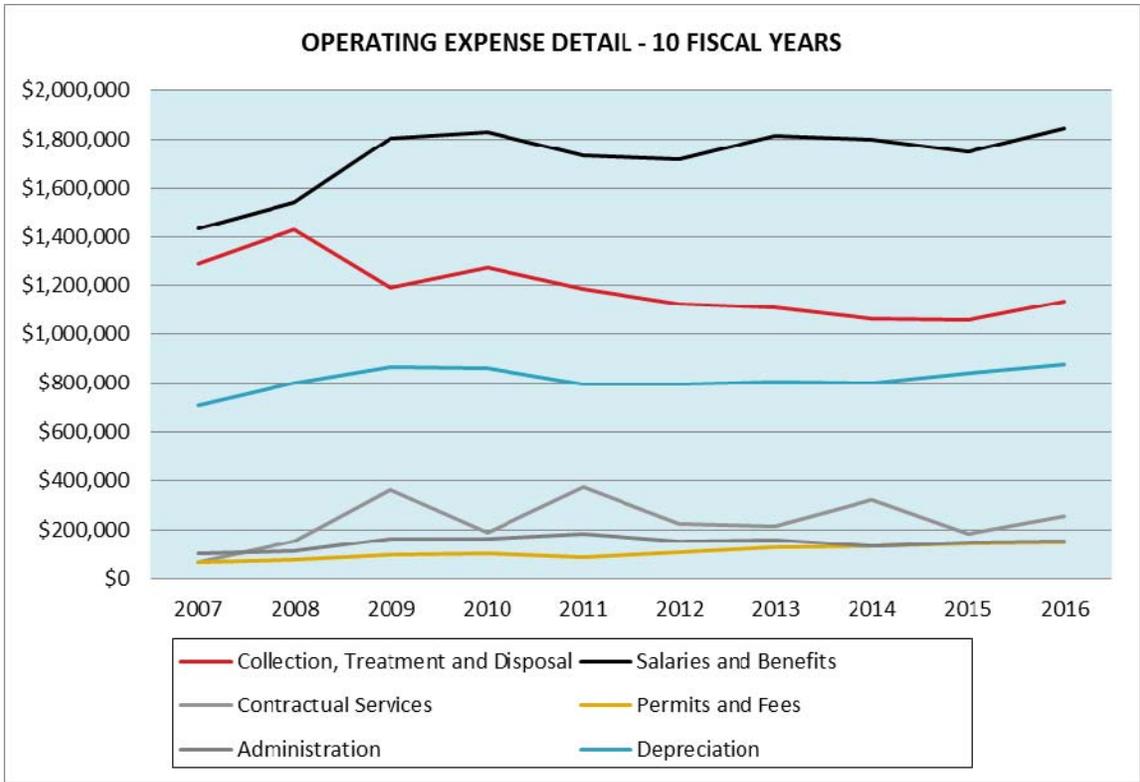
<sup>4</sup> Included in materials and supplies expense prior to fiscal year 2009.

<sup>5</sup> Amount in fiscal year 2009 includes a one-time, noncash adjustment of \$149,938.

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

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

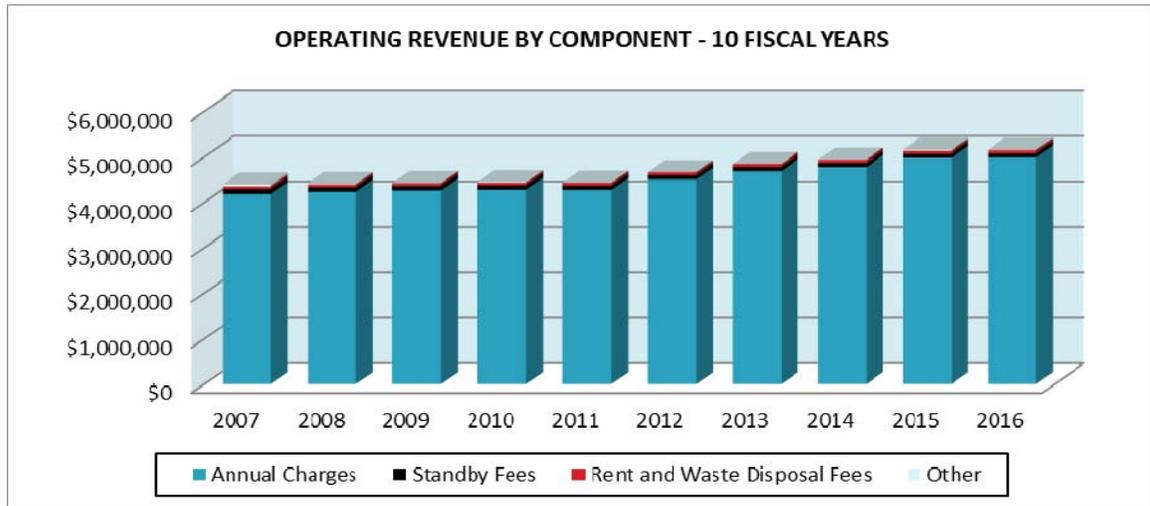




**Revenue Capacity**

**OPERATING REVENUE BY CATEGORY - 10 FISCAL YEARS**

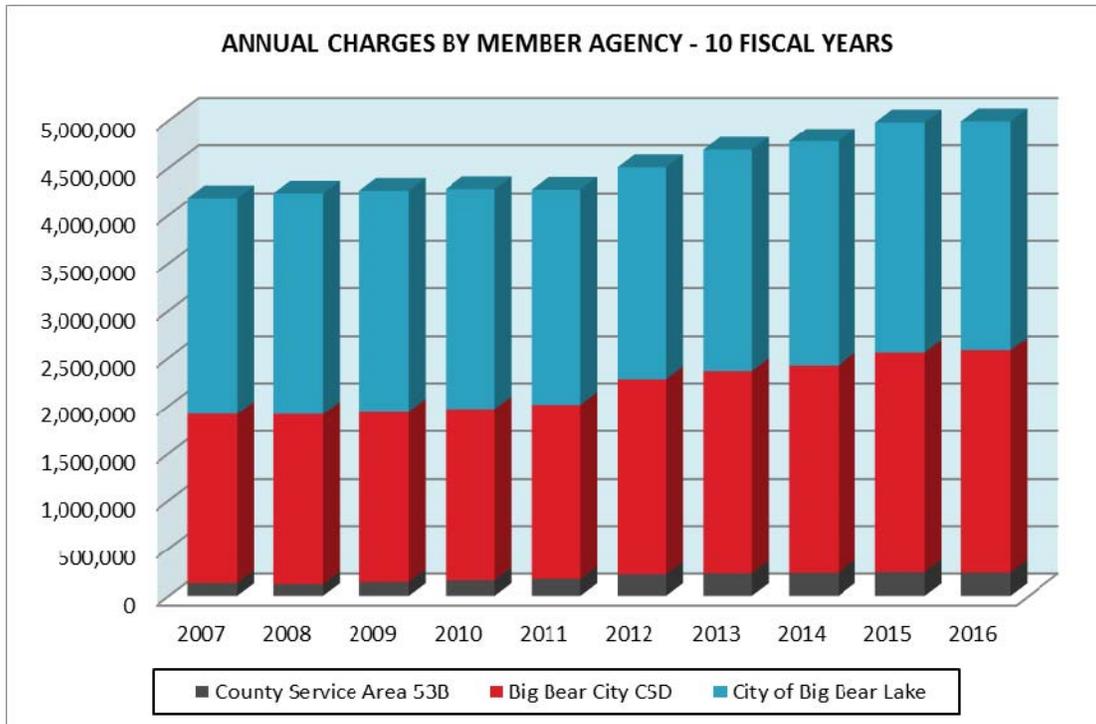
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
OPERATING REVENUES:										
Annual charges	\$4,183,098	\$4,232,967	\$4,262,159	\$4,279,422	\$4,274,044	\$4,506,876	\$4,688,312	\$4,778,215	\$4,979,690	\$4,991,166
Standby fees	110,440	102,320	100,160	96,323	95,240	93,890	92,430	91,400	90,860	89,250
Rent, waste disposal fees	60,718	58,872	61,077	59,345	63,486	64,940	68,351	70,178	68,120	72,101
Other	41,153	14,544	5,230	10,690	2,049	56	50	2,007	24,575	5,104
Total operating revenues	<u>\$4,395,409</u>	<u>\$4,408,703</u>	<u>\$4,428,626</u>	<u>\$4,445,780</u>	<u>\$4,434,819</u>	<u>\$4,665,762</u>	<u>\$4,849,143</u>	<u>\$4,941,800</u>	<u>\$5,163,245</u>	<u>\$5,157,621</u>



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**

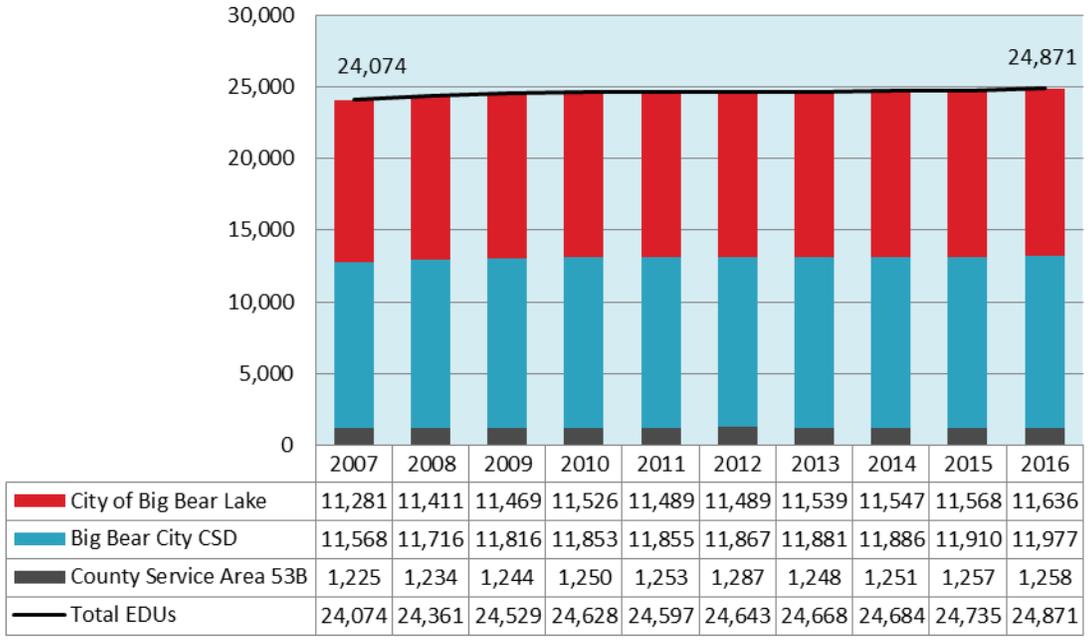
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
County Service Area 53B	\$133,859	\$122,756	\$144,912	\$162,501	\$177,212	\$224,361	\$233,120	\$239,091	\$247,473	\$241,822
Big Bear City CSD	1,777,817	1,786,312	1,794,369	1,801,908	1,832,198	2,051,609	2,127,109	2,179,871	2,306,127	2,335,900
City of Big Bear Lake	<u>2,271,423</u>	<u>2,323,899</u>	<u>2,322,877</u>	<u>2,315,013</u>	<u>2,264,634</u>	<u>2,230,906</u>	<u>2,328,083</u>	<u>2,359,253</u>	<u>2,426,090</u>	<u>2,413,444</u>
Total Annual Charges	<u>\$4,183,098</u>	<u>\$4,232,967</u>	<u>\$4,262,159</u>	<u>\$4,279,422</u>	<u>\$4,274,044</u>	<u>\$4,506,876</u>	<u>\$4,688,312</u>	<u>\$4,778,215</u>	<u>\$4,979,690</u>	<u>\$4,991,166</u>



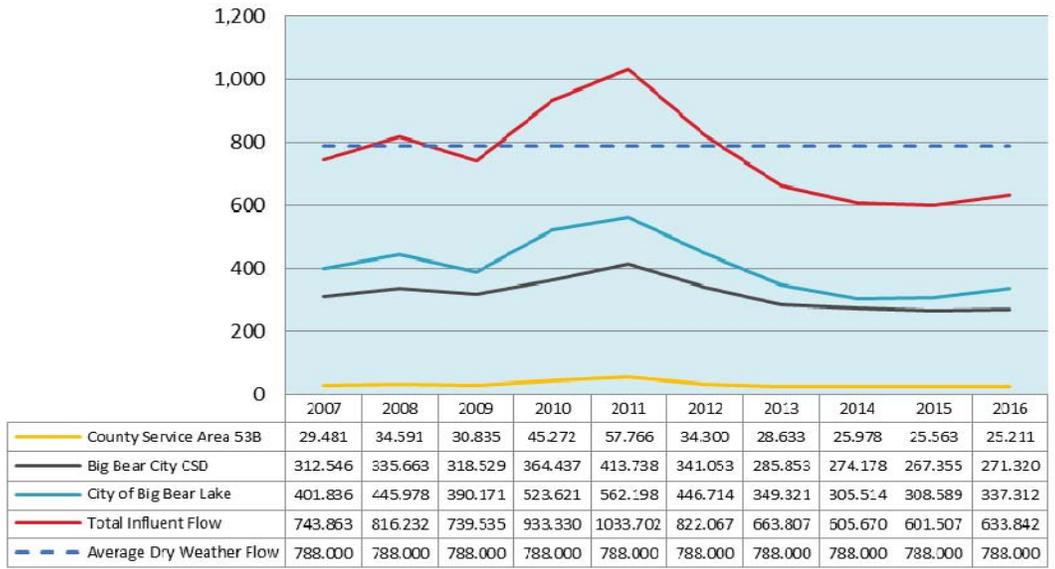
### ANNUAL CHARGES BY MEMBER AGENCY % OF TOTAL

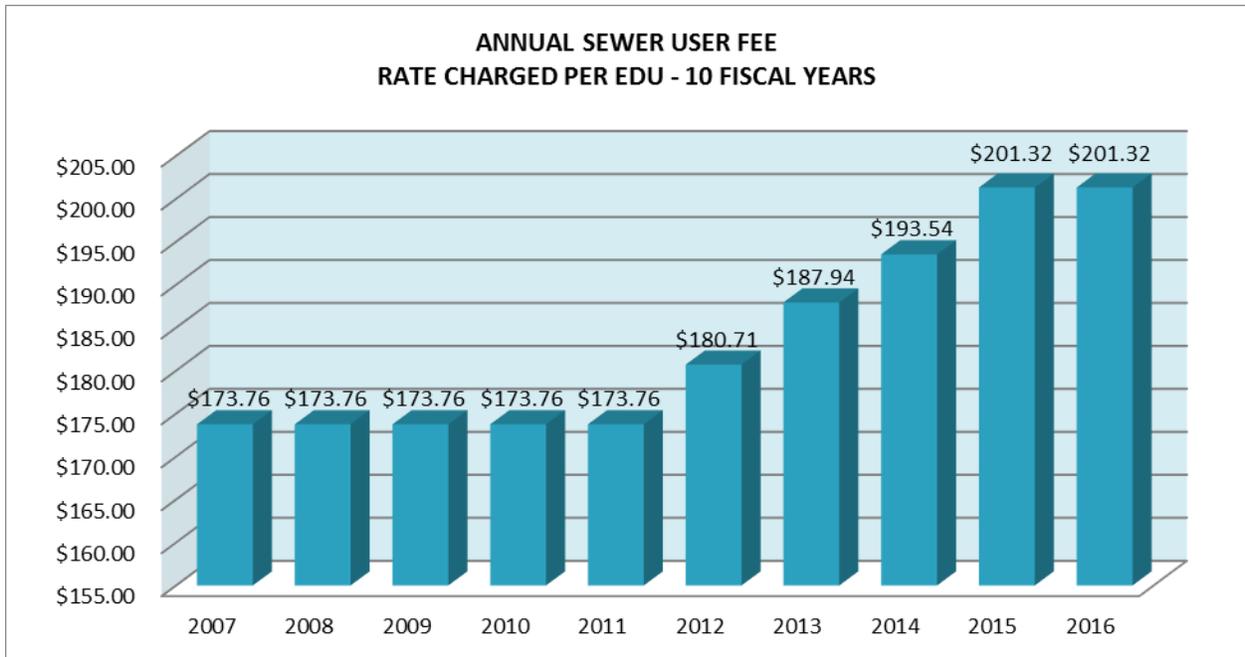
	<u>2005</u>	<u>2016</u>
County Service Area 53B	4%	5%
Big Bear City CSD	42%	47%
City of Big Bear Lake	<u>54%</u>	<u>48%</u>
	100%	100%

### EQUIVALENT DWELLING UNITS BY MEMBER AGENCY - 10 FISCAL YEARS



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





**Debt Capacity**

**DEBT RATIOS - 10 FISCAL YEARS**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Principal Outstanding <sup>1</sup>	\$8,283,483	\$7,576,002	\$6,053,093	\$6,053,093	\$5,721,972	\$5,371,975	\$4,969,876	\$4,554,398	\$4,125,097	\$3,681,512
EDUs	24,074	24,361	24,529	24,628	24,597	24,643	24,668	24,684	24,735	24,871
Debt Per EDU	\$344	\$311	\$247	\$246	\$233	\$218	\$201	\$185	\$167	\$148
Debt per Residential EDU	\$413	\$373	\$296	\$295	\$279	\$262	\$242	\$221	\$200	\$178
Debt as % of Household Income <sup>2</sup>	1.1%	1.0%	0.8%	0.8%	0.8%	0.7%	0.7%	0.6%	0.5%	0.5%
Rate of Debt to Gross Revenue	1.53	1.50	1.30	1.34	1.04	1.12	1.00	0.89	0.75	0.68

<sup>1</sup> Amounts exclude debt issuance or discount costs being amortized over the life of the debt issue, and amounts related to Net Pension Liabilities.

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

## DEBT SERVICE COVERAGE - 10 FISCAL YEARS

Fiscal Year	OUTSTANDING DEBT <sup>1</sup>			Total Outstanding Debt	Gross Revenues	Net Revenues <sup>2</sup>	Debt Service <sup>3</sup>	Debt Service Coverage
	Refunding Revenue Bonds	Water Revenue Bonds	Loan					
2007	1,325,000	1,900,000	5,058,483	8,283,483	5,431,442	2,473,269	894,666	2.76
2008	0	1,780,000	4,891,002	6,671,002	5,059,746	1,749,053	976,329	1.79
2009	0	1,655,000	4,715,985	6,370,985	4,653,894	983,101	605,874	1.62
2010	0	1,520,000	4,533,093	6,053,093	4,526,091	1,072,805	601,653	1.78
2011	0	1,380,000	4,341,972	5,721,972	5,489,791	1,929,311	602,751	3.20
2012	0	0	5,371,975	5,371,975	4,795,235	1,312,754	589,321	2.23
2013	0	0	4,969,876	4,969,876	4,975,410	1,561,293	579,284	2.70
2014	0	0	4,554,398	4,554,398	5,118,255	1,674,775	579,284	2.89
2015	0	0	4,125,097	4,125,097	5,483,955	2,213,205	579,284	3.82
2016	0	0	3,681,512	3,681,512	5,433,739	1,907,640	579,284	3.29

<sup>1</sup> 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.

<sup>2</sup> 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. Net Revenues include one-time, non-operating income of \$788,361 in fiscal year 2011.

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

### Demographic and Economic Information

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

### POPULATION ESTIMATES <sup>1</sup>

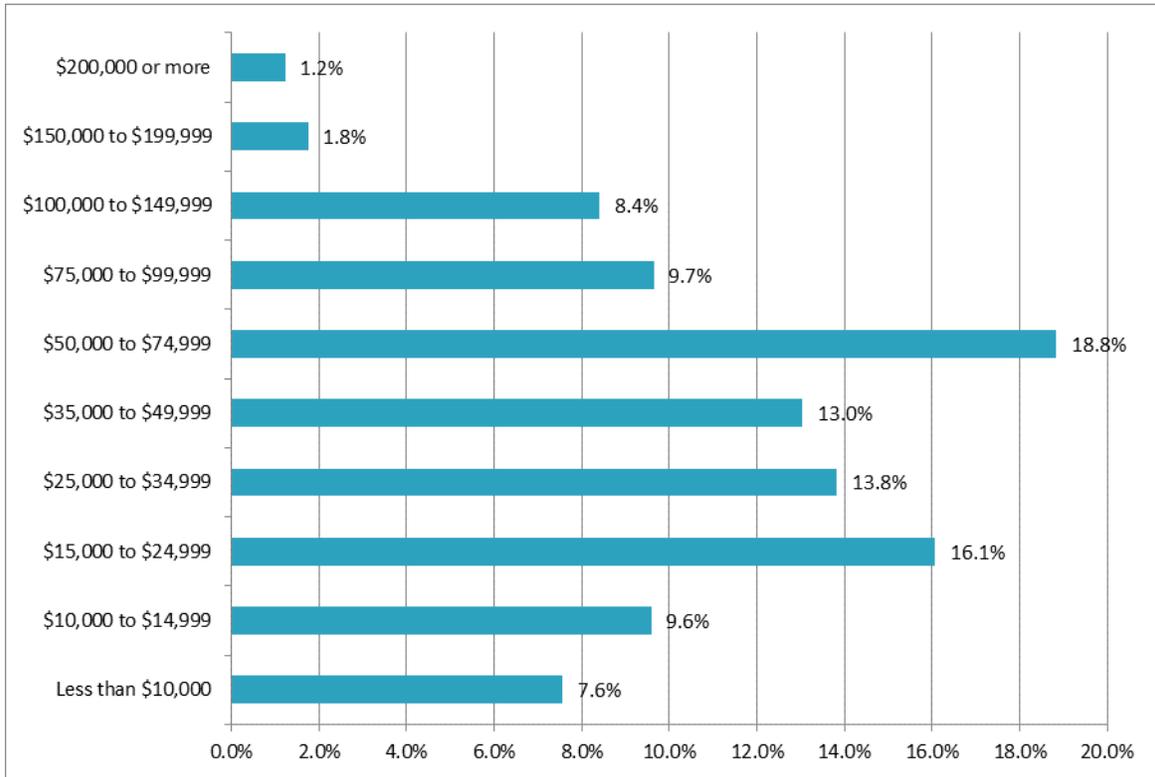
Year	City of Big Bear Lake	CSD	Total
2000	5,438	5,779	11,217
2010	5,018	12,304	17,322

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

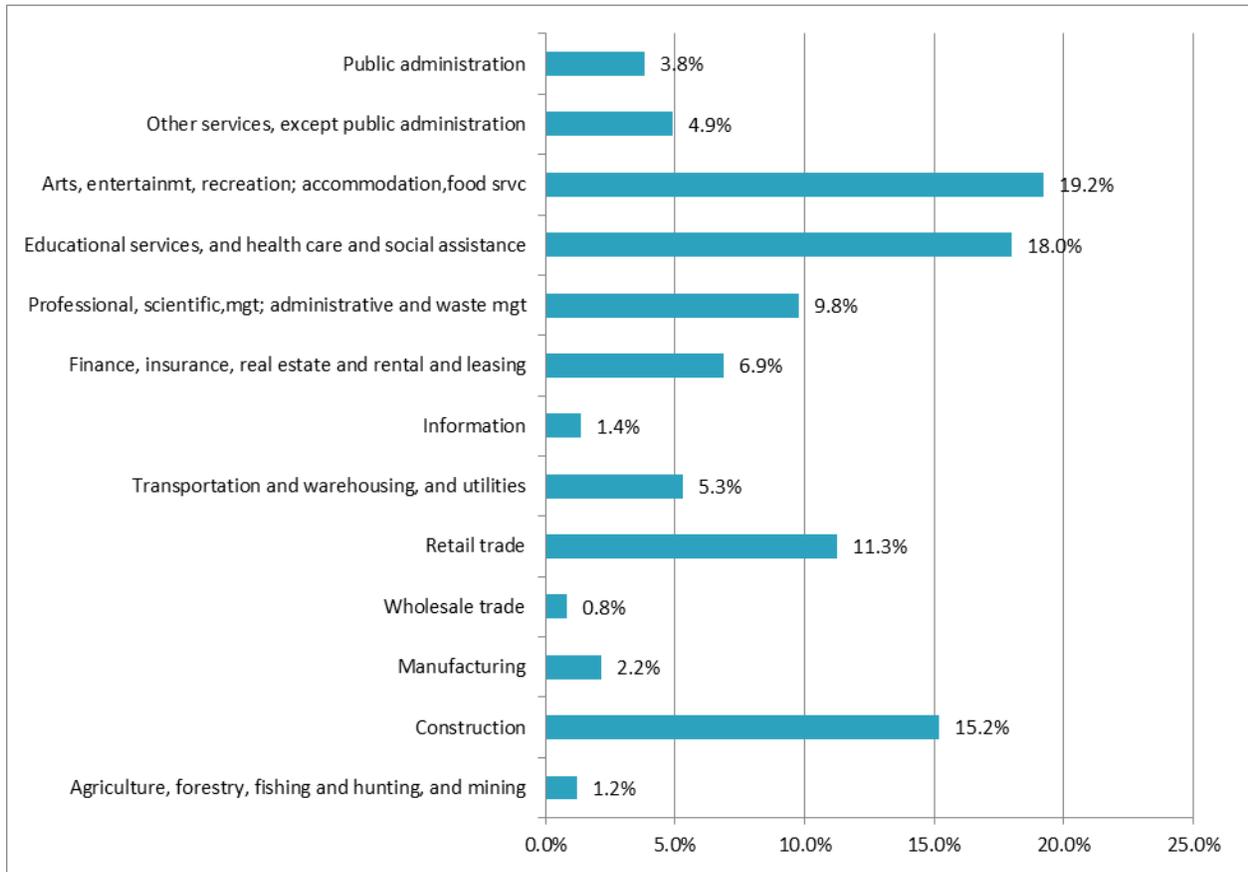
### UNEMPLOYMENT ESTIMATES

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

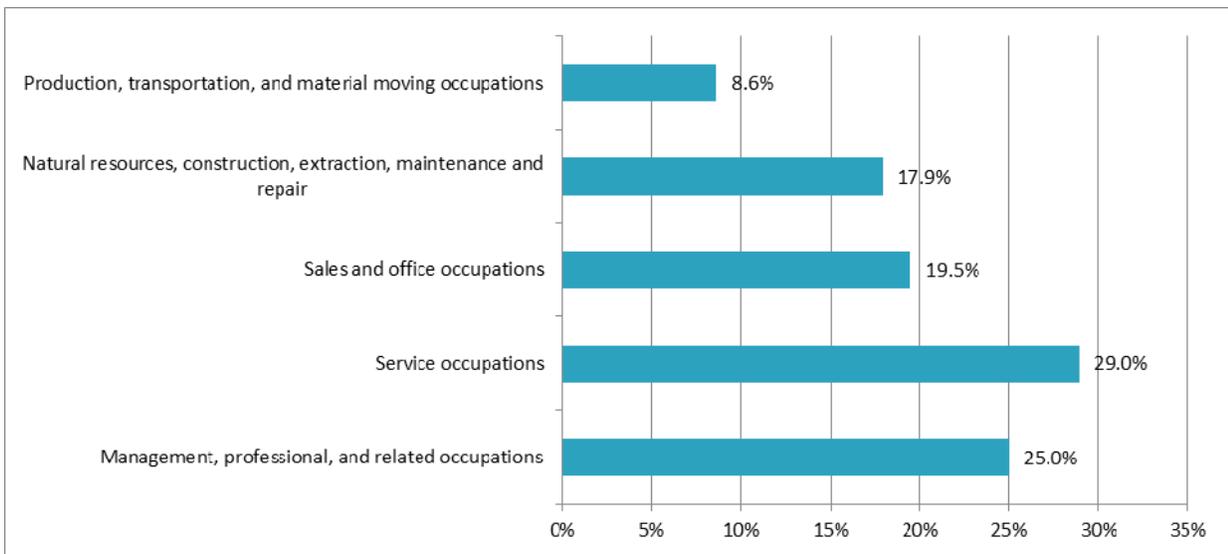
### HOUSEHOLD INCOME



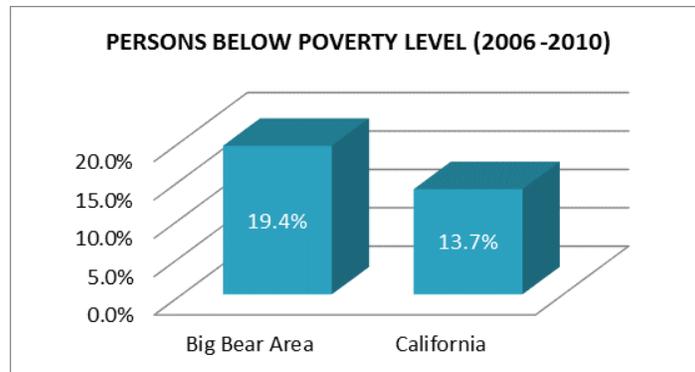
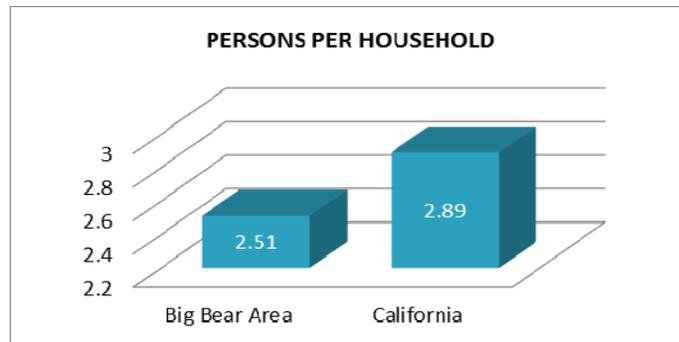
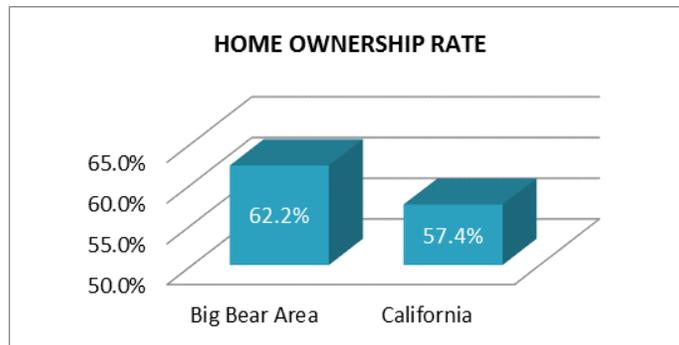
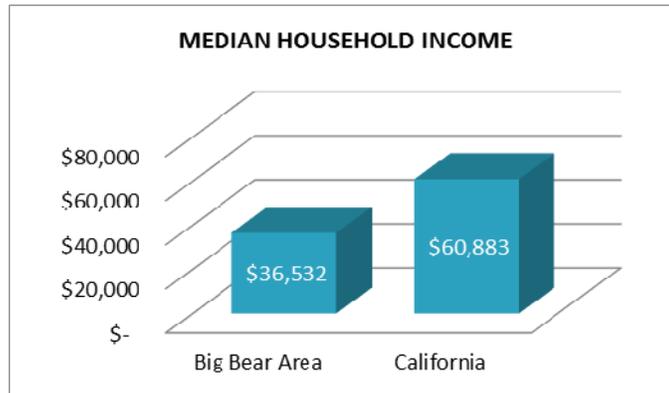
### % OF EMPLOYED POPULATION BY INDUSTRY



### % OF EMPLOYED POPULATION BY OCCUPATION



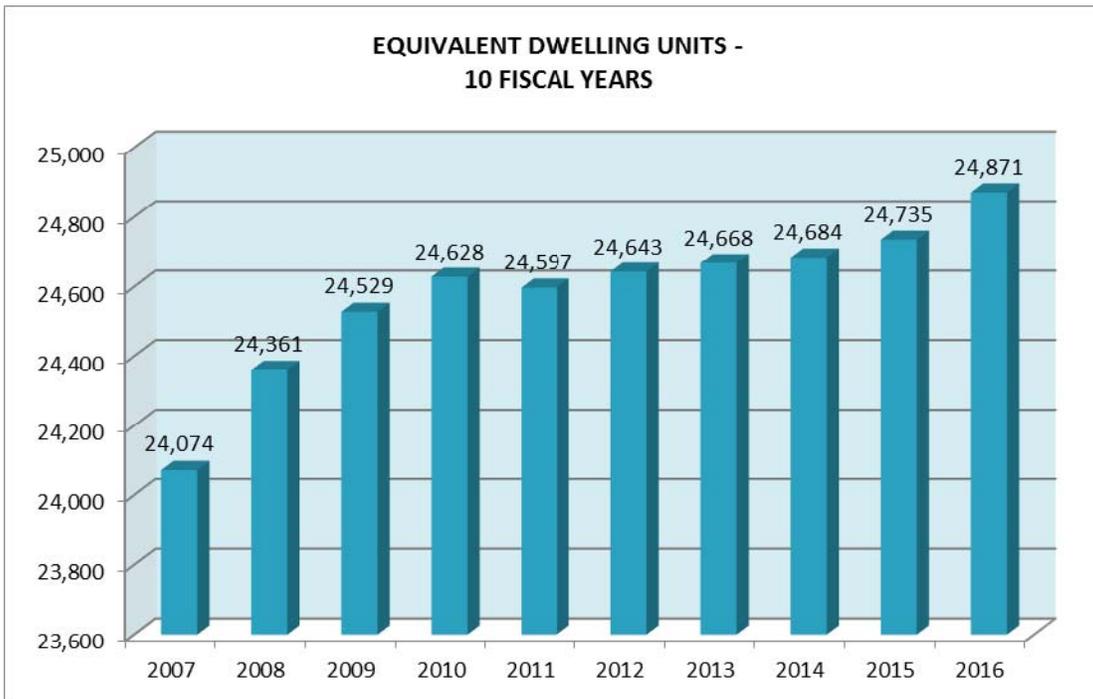
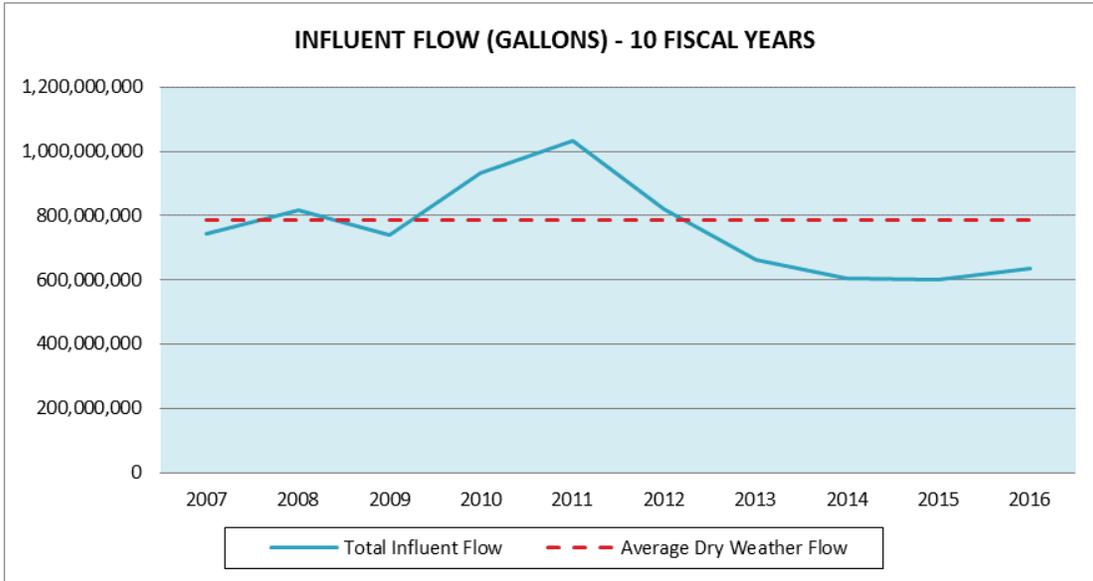
## BIG BEAR AREA COMPARISON TO STATE OF CALIFORNIA



## Operating Information

### System Demand (annual influent flow)

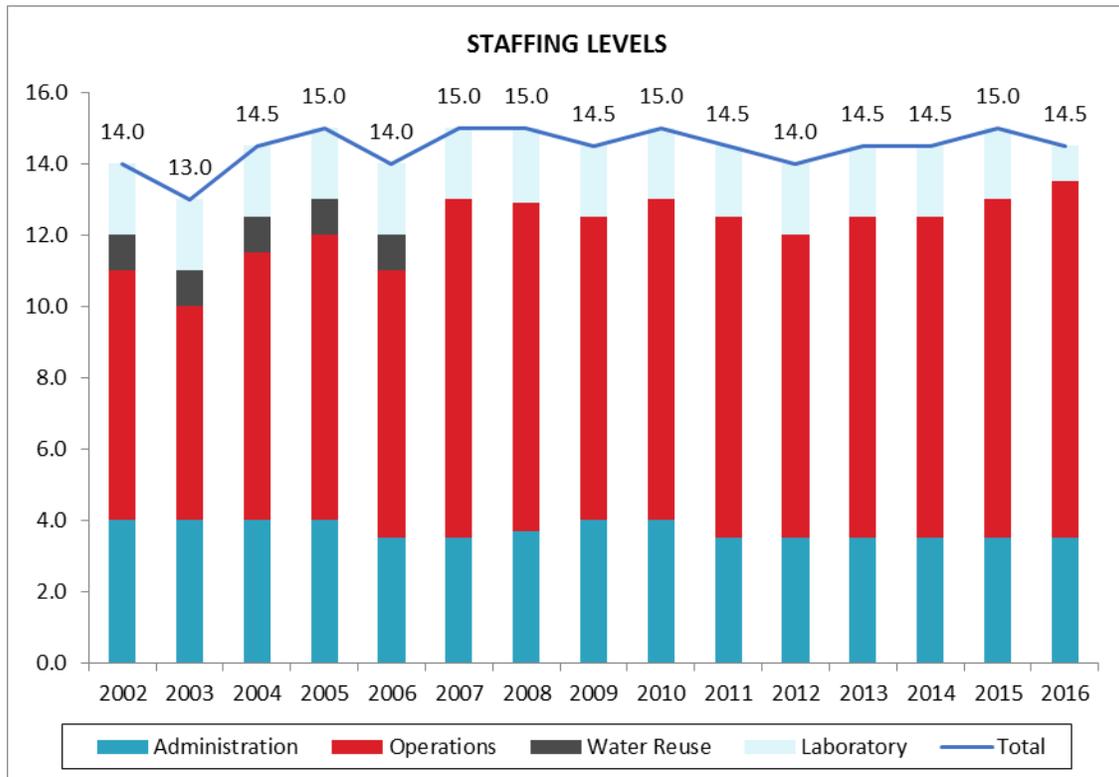
The Agency's wastewater flows are primarily impacted by 1) wet weather which creates infiltration and inflow into the system, and 2) peak tourist periods. Otherwise, the Agency's wastewater flows are fairly predictable due to the mature and stable commercial and residential housing markets in the area.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



### AGENCY STAFFING BY DEPARTMENT<sup>1</sup>

Year	Administration	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	10.0	0.0	1.0	14.5

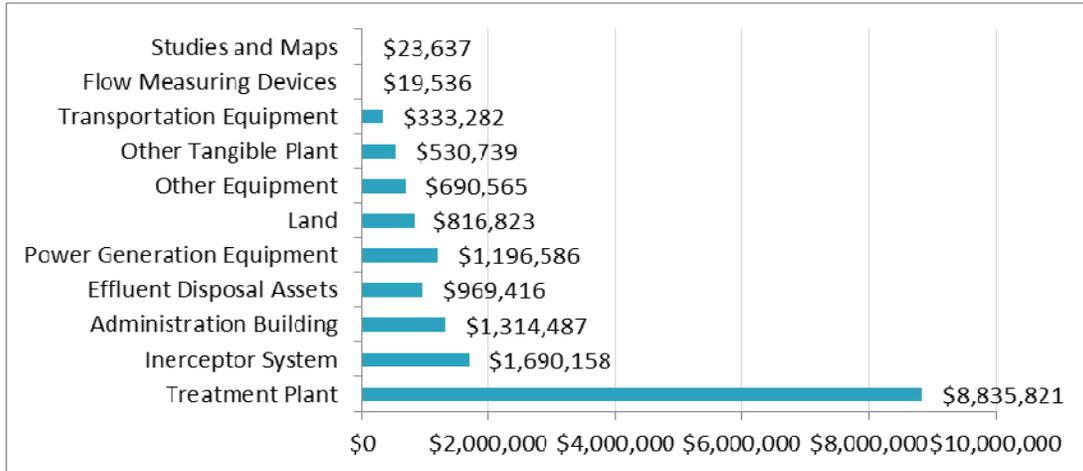
<sup>1</sup>Full-time regular employees are assigned a 1.0. Part-time (regular, not full-time) and Non-regular (seasonal, temporary) are assigned a 0.5, although hours worked and compensation are not equivalent, i.e. part-time employees may receive full benefits and non-regular employees may not receive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



**Nature of Capital Assets and Capacity Utilization**

The concentration of the Agency’s assets directly reflects its operations with the largest investments in the wastewater treatment plant (54%) and the interceptor system (10%).

**CAPITAL ASSETS (NET BOOK VALUE)**



**KEY ASSETS**

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

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 Utilization by Structure:	Capacity (MGD)	Utilization (MGD)	Utilization Rate
Effluent Pumping	5.6	2.4	43%
Interceptor System (N. Shore Sliplining)	2.0	0.5	25%
Lake Pump Station	8.0	4.6	58%
Load Equalization Basin	2.4	0.8	33%
Main Line (manholes)	7.2	3.2	44%
North Shore Pump Station 1	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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