

EXHIBIT I
BBARWA
FY 2012 BUDGET
INCOME STATEMENT
For the Period Ending June 30, 2012

	Budget 11/12 FY 2012
Operating Revenues:	
Annual Charges	4,453,246
Standby Charges	93,890
Rental Income	46,383
Waste Disposal	15,987
Other Revenue	<u>0</u>
Total Operating Revenue	4,609,507
Operating Expenses:	
Salaries and Benefits	1,899,500
Power	462,960
Sludge Removal	235,450
Chemicals	93,140
Materials and Supplies	168,560
Repairs and Replacements	197,280
Equipment Rental	1,500
Utilities Expense (other than power)	21,360
Communications Expense	53,480
Contractual Services - Other	88,902
Contractual Services - Professional	96,812
Permits and fees	101,865
Property Tax Expense	3,335
Insurance	110,000
Other Operating Expense	60,720
Depreciation Expense	<u>0</u>
Total Operating Expense	3,594,863
Operating Income	1,014,643
Nonoperating Income	
Gain (loss) on asset disposition	0
Interest Income	17,688
Other Nonoperating Income	<u>0</u>
Nonoperating income	17,688
Nonoperating Expense	
Other Expense	0
Interest Expense	<u>264,970</u>
Nonoperating expense	264,970
Income before Contributions	767,362
Connection Fees	<u>91,750</u>
Net Income, Change in Net Assets	859,112

EXHIBIT I, CONT.
 BBARWA
 FY 2012 BUDGET
 CASH FLOW STATEMENT
 For the Period Ending June 30, 2012

Budget
11/12
FY 2012

CASH FROM OPERATIONS:

Operating Income (Loss)	1,014,643
Depreciation expense	0
Other Miscellaneous Income (Exp)	0
Change in Working Capital	<u>-22,585</u>
Cash from Operations	<u>992,058</u>

CASH FROM INVESTMENTS:

Connection Fee (Capital Contrib)	91,750
Capital Expenditures	-1,056,290
Increase in other assets	0
Other Proceeds	0
Proceeds from the Sale of Investment	0
Proceeds from Asset Disposition	<u>0</u>
Cash from Investments	<u>-964,540</u>

CASH FROM FINANCING:

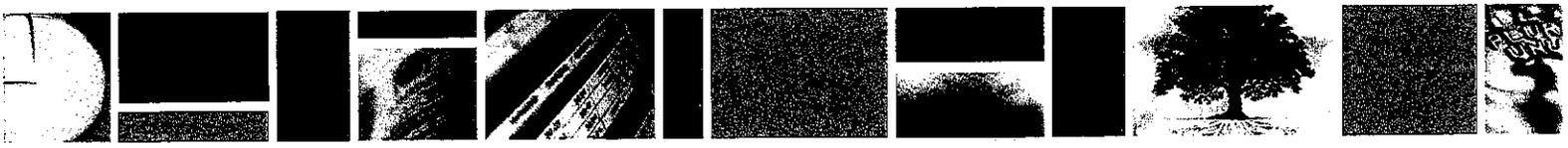
Interest Income	17,688
Debt Service:	
Interest Expense	-264,970
Principal Debt Amortization	<u>-363,472</u>
Total Debt Service	-628,441
Proceeds from Debt Issuance	<u>685,939</u>
Cash from Financing Activities	<u>75,186</u>

NET CHANGE IN CASH 102,704

Beginning Cash Balance	5,918,340
Ending Cash Balance	<u>6,021,044</u>
Change in Cash Balance	<u>102,704</u>

EXHIBIT I, CONT.
BBARWA
FY 2012 BUDGET
Capital Expenditures
For the Period Ending June 30, 2012

	Budget 11/12 FY 2012
Lake Pump Station Replacement Construction	957,980
TCM Loader Replacement	<u>78,310</u>
Total Capital Expenditures	1,036,290



BIG BEAR AREA REGIONAL
WASTEWATER AGENCY

Basic Financial Statements

Year ended June 30, 2010
(With Comparative Data for Prior Year)



Mayer
Hoffman
McCann P.C.
An Independent CPA Firm

BIG BEAR AREA REGIONAL
WASTEWATER AGENCY

Basic Financial Statements

Year ended June 30, 2010
(With Comparative Data for Prior Year)

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

Basic Financial Statements

Year ended June 30, 2010
(With Comparative Data for Prior Year)

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Board of Directors Big Bear Area Regional Wastewater Agency

We have audited the accompanying financial statement of net assets of the Big Bear Area Regional Wastewater Agency (the "Agency") as of and for the year ended June 30, 2010 and the related statement of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Agency for the year ended June 30, 2009 and, in our report dated August 26, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency, as of June 30, 2010, and the respective changes in financial position and cash flows of the Agency for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 19, 2010 on our consideration of the Agency's internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
August 19, 2010

Management's Discussion and Analysis

This section of the financial statements for the Big Bear Area Regional Wastewater Agency (the "Agency") discusses the Agency's financial performance during the fiscal year ended June 30, 2010. These comments should be read in conjunction with the financial statements identified in the accompanying table of contents.

Information Reported in the Accompanying Financial Statements

One of the most important questions asked about the Agency's finances is, "Is the Agency better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets report information about the Agency in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private-sector companies.

The Agency's financial statements report the Agency's net assets and changes in net assets. You can think of the Agency's net assets – the difference between assets and liabilities – as one way to measure the Agency's health, or *financial position*. Over time, *increases and decreases* in the Agency's net assets are an indicator of whether its *financial health* is improving or deteriorating.

Agency Financial Statements

The following should be noted with respect to the data presented in the Agency's financial statements. The *increases and decreases* discussed are based on a significant percentage change between the current and previous fiscal year, June 30, 2010 (FY 2010) and June 30, 2009 (FY 2009), respectively.

Financial Overview

The Agency's financial performance improved in FY 2010. While the Agency's operating revenues remained relatively flat as a result of few new connections and no change in rates, operating expenses declined over the prior period, resulting in improved operating income. Operating expenses declined for the period primarily due to significant declines in professional services as a result of a nonrecurring charge in FY 2009. Excluding the nonrecurring charge, operating expenses, on a comparable basis, would have declined \$73,165 or 1.6% over the prior year. Although operating income was improved for the period, it was insufficient to cover non-operating expenses, primarily interest expense. This, combined with continued low connection fee revenue as a result of the economic recession and record low connections, resulted in a decrease in net assets of \$230,132. Under the Agency's current rate and cost structure, and without significant increases in connection fee revenue, the decline in net assets is expected to continue. The Agency recognized this trend beginning in February 2009 and took steps to slow the growth in annual operating expenses and is currently in the process of re-evaluating its rate structure.

The Agency generated positive cash flow of \$49,165 for the period primarily due to sufficient cash from operations to fund capital expenditures and debt service. It should be noted that excluding a nonrecurring, warranty payment of \$100,820, cash flow would have been a negative \$51,655.

While net assets for the period declined slightly, assets exceeded liabilities at the end of the period by approximately \$16.3 million and unrestricted cash and investments increased by \$49,165 to approximately \$5.0 million.

Management's Discussion and Analysis
 BIG BEAR AREA REGIONAL WASTEWATER AGENCY
 Net Assets
 Fiscal Year Ending June 30

Assets	<u>2010</u>	<u>2009</u>	Variance Increase (Decrease)
Current assets:			
Cash and investments	\$ 4,950,105	\$ 4,900,940	\$ 49,165
Accounts receivable	128,393	125,937	\$ 2,456
Due from member agencies	15,156	17,207	\$ (2,051)
Interest receivable	5,481	15,489	\$ (10,008)
Prepaid expenses	<u>22,428</u>	<u>22,469</u>	<u>\$ (41)</u>
Total current assets	5,121,563	5,082,042	39,521
Noncurrent assets:			
Restricted cash and investments	633,559	633,808	(249)
Capital assets, undepreciated	816,823	816,823	-
Capital assets, net of depreciation	<u>16,094,752</u>	<u>16,701,318</u>	<u>(606,566)</u>
Total noncurrent assets	<u>17,545,134</u>	<u>18,151,949</u>	<u>(606,815)</u>
Total assets	<u>22,666,697</u>	<u>23,233,991</u>	<u>(567,294)</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	103,540	152,057	(48,518)
Accrued salaries and benefits	29,392	25,314	4,077
Accrued interest	26,391	28,334	(1,943)
Customer deposits	<u>100</u>	<u>100</u>	<u>-</u>
Total current liabilities	<u>159,423</u>	<u>205,806</u>	<u>(46,383)</u>
Noncurrent liabilities:			
Due within one year	482,558	451,866	30,692
Due beyond one year	<u>5,776,813</u>	<u>6,098,285</u>	<u>(321,472)</u>
Total noncurrent liabilities	<u>6,259,371</u>	<u>6,550,151</u>	<u>(290,780)</u>
Total liabilities	<u>6,418,794</u>	<u>6,755,956</u>	<u>(337,162)</u>
Net assets:			
Invested in capital assets, net of related debt	11,584,347	11,882,132	(297,785)
Unrestricted net assets	<u>4,663,556</u>	<u>4,595,903</u>	<u>67,653</u>
Total net assets	<u>\$ 16,247,903</u>	<u>\$ 16,478,035</u>	<u>(230,132)</u>

Assets

The Agency's assets exceeded its liabilities by \$16.3 million at fiscal year end, down \$230,132 from the prior year. The decline in net assets was primarily the result of insufficient operating income to cover non-operating expenses and low connection fee revenue.

Capital assets, net of depreciation declined by \$606,566. The decline was primarily due to annual depreciation in excess of capital expenditures for the period and the disposal of assets during the period of approximately \$150,000. The Agency's capital expenditures for the period were relatively low at \$405,331 due to timing, compared to annual depreciation expense of \$861,513.

Liabilities

Liabilities declined by \$337,162 primarily due to principal payments of approximately \$318,000 on long-term debt during the year.

For additional information, see notes 5, 6 and 7 in the accompanying financial statements.

Management's Discussion and Analy
BIG BEAR AREA REGIONAL WASTEWATER AGENCY
Changes in Statement of Revenues, Expenses and Changes in Net Assets
Fiscal Year Ending June 30

	Actual <u>FY 2010</u>	Actual <u>FY 2009</u>	Variance Increase (Decrease)
Operating revenues:			
Annual charges	\$ 4,279,422	\$ 4,262,159	\$ 17,263
Standby fees	96,323	100,160	\$ (3,837)
Rental income	45,273	45,446	\$ (173)
Waste disposal fees	14,072	15,632	\$ (1,560)
Other revenue	10,690	5,230	\$ 5,460
Total operating revenue	<u>4,445,780</u>	<u>4,428,626</u>	\$ 17,154
Operating expenses			
Salaries and benefits	1,830,689	1,801,680	29,009
Power	434,849	410,294	24,555
Sludge removal	196,628	181,536	15,092
Chemicals	99,547	79,190	20,357
Materials and supplies	173,096	140,078	33,018
Repairs and replacements	209,257	237,423	(28,166)
Equipment rental	2,029	4,045	(2,016)
Utilities expense	18,426	17,929	497
Communications expense	39,110	22,663	16,447
Contractual services - other	74,668	83,192	(8,524)
Contractual services - professional	112,718	431,996	(319,278)
Permits and fees	101,255	96,566	4,689
Property tax expense	3,100	2,988	112
Insurance expense	97,774	109,481	(11,707)
Other operating expense	60,139	51,732	8,407
Depreciation expense	861,513	867,109	(5,596)
Total operating expenses	<u>4,314,799</u>	<u>4,537,902</u>	(223,103)
Operating Income	130,981	(109,276)	240,257
Non-operating income:			
Interest income	<u>25,749</u>	<u>93,277</u>	<u>(67,528)</u>
Total nonoperating income	25,749	93,277	(67,528)
Non-operating expense:			
Net loss on asset disposal	148,792	52,158	96,634
Amortization of debt issue costs	7,501	28,020	(20,519)
Interest expense	<u>285,131</u>	<u>350,089</u>	<u>(64,958)</u>
Total nonoperating expense	441,424	430,267	11,157
Income before capital contrib	(284,694)	(446,266)	161,572
Capital contrib - connection fees	<u>54,562</u>	<u>131,991</u>	<u>(77,429)</u>
Change in net assets	(230,132)	(314,275)	84,143
Net assets at beginning of year	<u>16,478,035</u>	<u>16,792,310</u>	<u>(314,275)</u>
Net assets at end of year	<u>\$ 16,247,903</u>	<u>\$ 16,478,035</u>	<u>\$ (230,132)</u>

Operating Revenues

Operating revenues increased \$17,154 due to an increase in member agency fees and other revenues offset by minor declines in standby fee revenue. Member agency fees (fees collected for wastewater system use and charged per equivalent dwelling unit, or EDU) increased \$17,263 due to an increase in system EDUs. Other revenue increased \$5,460 as a result of a one-time payment to the Agency related to an Easement Agreement. Standby fee revenue declined \$3,837 due to a reduction in vacant parcels. Standby fees are fees charged to owners of vacant parcels and are expected to decline each year as vacant parcels are developed and connect to the wastewater system.

Operating Expenses

Operating expenses declined \$223,103 or 4.9%. The decline was primarily due to a decrease in professional contractual services, offset in part by increases in salaries and benefits, power, sludge removal, chemicals, and materials and supplies expense. The major contributor to the decline in operating expenses was a reduction in professional contractual services due to a nonrecurring charge in FY 2009. Excluding the nonrecurring charge, operating expenses, on a comparable basis, would have declined \$73,165 or 1.6% over the prior year.

- ***Contractual services – professional*** decreased by \$319,278 or 73.9% due to declines in both engineering and legal expense. The decline in engineering expense was largely due to a nonrecurring accounting adjustment of \$149,938 that occurred in FY 2009. Legal expense decreased \$117,042, or 65.9% compared to the prior year due to fewer board-directed projects.
- ***Materials and supplies expense*** increased by \$33,018 or 23.6%. The increase was due to an increase in 1) ground maintenance expense associated with the cleaning and seal coating of approximately 70,000 square feet of asphalt, 2) office equipment expense due to six computer replacements and 3) laboratory supplies expense associated with prior year deferrals.
- ***Salaries and benefits expense*** increased by \$29,009 or 1.6%. The increase over the prior year was primarily the result of a \$22,221, or 3.4% increase in employee benefits and a \$6,314 or 0.5% increase in salaries and wages. The increase in benefits was due to marginal increases in the Agency's retirement contribution rate, its OPEB annual required contribution amount, and medical insurance expense. The minimal increase in salaries and wages expense was due to average annual merit increases of approximately 5.0%, offset by reductions in over-time and standby pay and in financial staffing expense. An agreement between the Agency and its employees was modified during the fiscal year to provide the Agency with the flexibility to manage average annual changes in salaries and benefits expense to 5.0%. The intent of the Agency is to align the growth in operating expenses more closely with inflation.
- ***Power expense and Sludge removal expense*** increased by \$24,555 and \$15,092, or 6.0% and 8.3%, respectively. The increases were the direct result of wet weather resulting in higher flows and thus higher power and sludge removal expense. The Agency's flows increased 168 million gallons, or 72.7% for the wet season from February through April 2010 compared to the prior year. It should be noted that sludge removal expense includes

refunded monies of \$100,820 in both FY 2010 and FY 2009 due to underperformance of the Agency's cannibalization system. The refunded monies have been paid by the system's manufacturer. Excluding these refunded monies, sludge removal expense would have been \$297,448 and \$282,356 in FY 2010 and FY 2009, respectively.

- **Chemicals expense** increased by \$20,357, or 25.71%. The majority of the increase was due to odor control costs of \$15,275 associated with carbon replacement. The Agency replaces carbon every two to three years and is scheduled for replacement again in FY 2013.

Income before Capital Contributions

Income before capital contributions increased by \$161,572 due to an increase in operating income resulting from decreased operating expenses noted above, and lower interest expense, offset by lower interest income and a higher loss on asset disposals.

- **Interest income** decreased by \$67,528 or 72.4% as a result of lower interest rates than in the prior period and a lower amount of invested monies. The average interest rate for LAIF, the Agency's primary investment vehicle, averaged 0.56% in FY 2010 compared to 2.3% during FY 2009.
- **Interest expense** decreased by \$64,958, or 18.6% due to less debt outstanding than in the prior year. The Agency prepaid a bond issue in FY 2009 which accounted for approximately \$41,900 in interest expense in the prior year.
- **Loss on asset disposal** increased \$96,634. The loss was primarily related to the Agency's evaluation of its fixed assets and the elimination of assets that were no longer in service or obsolete.

Capital contributions – connection charges

Connection fee revenue was down \$77,429 or 58.7% due to lower wastewater connections as a result of the continuing recessionary impact on new housing construction. Connections were 18 in the current period, down 29 from the prior period of 47.

Contacting the Agency

This 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 questions regarding this report or need additional financial information, contact the Agency office, at 121 Palomino Dr., Big Bear City, California 92314.

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

Statement of Net Assets

June 30, 2010

(With Comparative Data for Prior Year)

<u>Assets</u>	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and investments (note 3)	\$ 4,950,105	4,900,940
Accounts receivable	128,393	125,937
Due from member agencies	15,156	17,207
Interest receivable	5,481	15,489
Prepaid expenses	22,428	22,469
Total current assets	<u>5,121,563</u>	<u>5,082,042</u>
Noncurrent assets:		
Restricted cash and investments (note 3)	633,559	633,808
Capital assets, undepreciated (note 4)	816,823	816,823
Capital assets, net of depreciation (note 4)	16,094,752	16,701,318
Total noncurrent assets	<u>17,545,134</u>	<u>18,151,949</u>
Total assets	<u>22,666,697</u>	<u>23,233,991</u>
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	103,540	152,057
Accrued salaries and benefits	29,392	25,314
Accrued interest	26,391	28,334
Deposit	100	100
Total current liabilities	<u>159,423</u>	<u>205,805</u>
Noncurrent liabilities (notes 5, 6 and 7):		
Due within one year	482,558	451,866
Due beyond one year	5,776,813	6,098,285
Total noncurrent liabilities	<u>6,259,371</u>	<u>6,550,151</u>
Total liabilities	<u>6,418,794</u>	<u>6,755,956</u>
Net assets:		
Invested in capital assets, net of related debt	11,584,347	11,882,132
Unrestricted net assets	4,663,556	4,595,903
Total net assets	<u>\$ 16,247,903</u>	<u>16,478,035</u>

See accompanying notes to the basic financial statements.

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2010

(With Comparative Data for Prior Year)

	2010 <u>Actual</u>	2010 <u>Budget</u>	Increase <u>(Decrease)</u>	2009 <u>Actual</u>
Operating revenues:				
Member agency fees	\$ 4,279,422	4,279,422	-	4,262,159
Standby charges	96,323	96,323	-	100,160
Rent/disposal charges	45,273	45,219	54	61,077
Tertiary water revenue	14,072	14,964	(892)	1,708
Other revenues	10,690	-	10,690	3,522
Total operating revenues	<u>4,445,780</u>	<u>4,435,928</u>	<u>9,852</u>	<u>4,428,626</u>
Operating expenses:				
Salaries and benefits	1,830,689	1,852,270	(21,581)	1,801,680
Power	434,850	501,920	(67,070)	410,294
Sludge Removal	196,628	201,900	(5,272)	181,536
Chemicals	99,547	108,640	(9,093)	79,190
Materials and supplies	173,096	172,107	989	140,078
Repairs and replacements	209,257	229,850	(20,593)	237,423
Equipmental rental	2,029	7,960	(5,931)	4,045
Utilities expense	18,426	22,150	(3,724)	17,929
Communications expense	39,110	29,441	9,669	22,663
Contractual services - other	74,668	83,536	(8,868)	83,192
Contractual services - professional	112,718	206,150	(93,432)	431,996
Permits and fees	101,255	96,784	4,471	96,566
Property tax expense	3,100	3,048	52	2,988
Insurance expense	97,774	119,706	(21,932)	109,481
Other operating expense	60,139	68,392	(8,253)	51,732
Depreciation	861,513	-	861,513	867,109
Total operating expenses	<u>4,314,799</u>	<u>3,703,854</u>	<u>610,945</u>	<u>4,537,902</u>
Operating income	<u>130,981</u>	<u>732,074</u>	<u>(601,093)</u>	<u>(109,276)</u>
Nonoperating revenues (expenses):				
Investment income	25,749	84,992	(59,243)	93,277
Interest expense	(285,131)	(285,704)	573	(350,089)
Amortization of bond cost	(7,501)	-	(7,501)	(28,020)
Gain/(loss) on sale of assets	(148,792)	-	(148,792)	(52,158)
Total nonoperating revenues (expenses)	<u>(415,675)</u>	<u>(200,712)</u>	<u>(214,963)</u>	<u>(336,990)</u>
Income before contributions	<u>(284,694)</u>	<u>531,362</u>	<u>(816,056)</u>	<u>(446,266)</u>
Capital contributions - connection charges	54,562	242,498	(187,936)	131,991
Change in net assets	<u>(230,132)</u>	<u>773,860</u>	<u>(1,003,992)</u>	<u>(314,275)</u>
Net assets at beginning of year	<u>16,478,035</u>	<u>16,478,035</u>	<u>-</u>	<u>16,792,310</u>
Net assets at end of year	<u>\$ 16,247,903</u>	<u>17,251,895</u>	<u>(1,003,992)</u>	<u>16,478,035</u>

See accompanying notes to the basic financial statements.

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

Statement of Cash Flows

Year ended June 30, 2010

(With Comparative Amounts for Prior Year)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from customers and other sources	\$ 4,446,745	4,373,333
Cash payments to suppliers for goods and services	(1,670,850)	(1,949,959)
Cash payments to employees	<u>(1,808,370)</u>	<u>(1,863,932)</u>
Net cash provided by (used for) operating activities	<u>967,525</u>	<u>559,442</u>
Cash flows from capital and related financing activities:		
Capital contributions	54,562	131,991
Purchases of property, plant and equipment	(405,332)	(459,747)
Sale of property, plant and equipment	-	72,817
Principal payments on long-term debt	(317,892)	(1,205,017)
Interest paid on long-term debt	<u>(285,705)</u>	<u>(344,227)</u>
Net cash provided by (used for) capital and related financing activities	<u>(954,367)</u>	<u>(1,804,183)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	-	464,000
Investment income received	<u>35,758</u>	<u>109,313</u>
Net cash provided by (used for) investing activities	<u>35,758</u>	<u>573,313</u>
Net change in cash	48,916	(671,428)
Cash and cash equivalents at beginning of year	<u>5,534,748</u>	<u>6,206,176</u>
Cash and cash equivalents at end of year	<u>\$ 5,583,664</u>	<u>5,534,748</u>
Reconciliation of cash and cash equivalents:		
Cash and investments	\$ 4,950,105	4,900,940
Restricted cash and investments	<u>633,559</u>	<u>633,808</u>
Total cash and cash equivalents	<u>\$ 5,583,664</u>	<u>5,534,748</u>

See accompanying notes to the basic financial statements.

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

Statement of Cash Flows

(Continued)

	<u>2010</u>	<u>2009</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 130,981	(109,276)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	861,513	867,109
Disposal of assets	1,593	(52,158)
Decrease (increase) in accounts receivable	(2,456)	(103,727)
Decrease (increase) in due from member agencies	2,051	48,494
Decrease (increase) in prepaid expenses	41	10,298
Increase (decrease) in accounts payable	(48,517)	(57,893)
Increase (decrease) in accrued expenses	22,319	(9,584)
Increase (decrease) in retentions payable	-	(33,761)
Increase (decrease) in deposits	-	(60)
	<u> </u>	<u> </u>
Net cash provided by (used for) operating activities	<u>\$ 967,525</u>	<u>559,442</u>

Noncash investing, capital or financing activity transactions

There were no significant noncash investing, capital or financing activity transactions.

See accompanying notes to the basic financial statements.

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

Notes to the Basic Financial Statements

Year ended June 30, 2010

(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 was 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 principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies, taxes, and investment earnings result from non-exchange transactions or ancillary activities.

(c) Applicable Accounting Standards

The Agency applies all applicable Government Accounting Standards Board (GASB) pronouncements in accounting and reporting for its proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

(d) Investments

Investments are reported in the accompanying statement of net assets 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.

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Reporting Entity and Significant Accounting Policies (Continued)

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.

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) Statements of Cash Flows

For purposes of the statement of cash flows, cash and cash equivalents are defined to be cash on hand, demand deposits 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 by bond trustee for debt service reserve required by debt agreements.

(g) Capital Assets

Assets purchased are recorded and capitalized at cost. Contributed fixed assets are recorded at fair market value at the time received. The Agency's capitalization threshold for capital assets is \$5,000.

Depreciation is provided using the straight-line method over the estimated service lives (ranging from 3-50 years) of the related assets.

(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 a 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

(Continued)

(1) Reporting Entity and Significant Accounting Policies (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.

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

Notes to the Basic Financial Statements

(Continued)

(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.

(3) Cash and Investments

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$4,950,105
Restricted cash and investments (held by bond trustee)	<u>633,559</u>
Total cash and investments	<u>\$5,583,664</u>

Cash and investments as of June 30, 2010 consist of the following:

Cash on hand	\$ 600
Deposits with financial institutions	114,513
Investments	<u>5,468,551</u>
Total cash and investments	<u>\$5,583,664</u>

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments, (Continued)

Investments Authorized by the California Government Code and the Agency's Investment Policy

The table below 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.

<u>Investment Types Authorized by State Law</u>	<u>Authorized by Investment Policy</u>	<u>Maximum Maturity*</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment In One Issuer*</u>
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	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

(Continued)

(3) Cash and Investments, (Continued)

Investments Authorized by Debt Agreements

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Repurchase Agreements	270 days	None	None
Investment Contracts	30 years	None	None

Disclosures Relating to 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 coming 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) to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturing (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
State investment pool	\$4,834,992	4,834,992	-	-	-
Held by bond trustee:					
Money market funds	<u>633,559</u>	<u>633,559</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$5,468,551</u>	<u>5,468,551</u>	<u>-</u>	<u>-</u>	<u>-</u>

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments, (Continued)

Disclosures Relating to 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.

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
State investment pool	\$4,834,992	N/A	-	-	-	4,834,992
Held by bond trustee:						
Money market funds	<u>633,559</u>	A	<u>-</u>	<u>633,559</u>	<u>-</u>	<u>-</u>
 Total	 <u>\$5,468,551</u>		 <u>-</u>	 <u>633,559</u>	 <u>-</u>	 <u>4,834,992</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

(Continued)

(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.

For investments identified herein as held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

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.

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

Notes to the Basic Financial Statements

(Continued)

(4) Capital Assets

A summary of changes in capital assets of the Agency for the year ending June 30, 2010 is as follows:

	Balance at <u>July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	Balance at <u>June 30, 2010</u>
Capital assets, not being depreciated:				
Land	\$ 816,823	-	-	816,823
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>816,823</u>	<u>-</u>	<u>-</u>	<u>816,823</u>
Capital assets, being depreciated:				
Administration Building	1,977,655	-	-	1,977,655
Treatment Plant	13,921,271	48,615	(54,487)	13,915,399
Inceptor System	2,873,624	3,936	-	2,877,560
Effluent Disposal Assets	4,672,543	90,893	(50,177)	4,713,259
Power Generation Equipment	1,382,041	114,502	-	1,496,543
Flow Measuring Devices	160,989	-	-	160,989
Other Equipment	1,754,477	134,764	(120,701)	1,768,540
Transportation Equipment	350,324	12,622	-	362,946
Other Tangible Plant	465,146	-	-	465,146
Studies and Maps	<u>604,049</u>	<u>-</u>	<u>(503,264)</u>	<u>100,785</u>
Total capital assets being depreciated	<u>28,162,119</u>	<u>405,332</u>	<u>(728,629)</u>	<u>27,838,822</u>
Less accumulated depreciation for:				
Administration building	(279,648)	(55,357)	-	(335,005)
Treatment Plant	(4,489,348)	(387,494)	29,102	(4,847,740)
Inceptor System	(1,903,854)	(65,173)	-	(1,969,027)
Effluent Disposal Assets	(3,064,541)	(115,829)	27,070	(3,153,300)
Power Generation Equipment	(217,869)	(58,865)	-	(276,734)
Flow Measuring Devices	(59,224)	(13,490)	-	(72,714)
Other Equipment	(758,017)	(80,159)	94,946	(743,230)
Transportation Equipment	(170,616)	(21,617)	-	(192,233)
Other Tangible Plant	(64,948)	(15,661)	-	(80,609)
Studies and Maps	<u>(452,736)</u>	<u>(47,868)</u>	<u>427,126</u>	<u>(73,478)</u>
Total accumulated depreciation	<u>(11,460,801)</u>	<u>(861,513)</u>	<u>578,244</u>	<u>(11,744,070)</u>
Total capital assets being depreciated, net	<u>16,701,318</u>	<u>(456,181)</u>	<u>(150,385)</u>	<u>16,094,752</u>
Total capital assets, net	<u>\$17,518,141</u>	<u>(456,181)</u>	<u>(150,385)</u>	<u>16,911,575</u>

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

Notes to the Basic Financial Statements

(Continued)

(5) Changes in Long-Term Liabilities

A summary of long-term liabilities of the Agency at June 30, 2010 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>	<u>Due Beyond One Year</u>
1998 ABAG Water and Wastewater Revenue Bonds	\$1,655,000	-	(135,000)	1,520,000	140,000	1,380,000
Less: Unamortized discount and issuance cost	<u>(62,678)</u>	<u>-</u>	<u>6,672</u>	<u>(56,007)</u>	<u>(6,672)</u>	<u>(49,335)</u>
Subtotal	<u>1,592,322</u>	<u>-</u>	<u>(128,328)</u>	<u>1,463,993</u>	<u>133,328</u>	<u>1,330,665</u>
Municipal Finance Loan Agreement	4,715,985	-	(182,892)	4,533,093	191,121	4,341,972
Less: Unamortized discount and issuance costs	<u>(38,500)</u>	<u>-</u>	<u>2,200</u>	<u>(36,300)</u>	<u>(2,200)</u>	<u>(34,100)</u>
Subtotal	<u>4,677,485</u>	<u>-</u>	<u>(180,692)</u>	<u>4,496,793</u>	<u>188,921</u>	<u>4,307,872</u>
Compensated absences	<u>280,344</u>	<u>168,757</u>	<u>(150,516)</u>	<u>298,585</u>	<u>160,309</u>	<u>138,276</u>
Total	<u>\$6,550,151</u>	<u>168,757</u>	<u>(459,536)</u>	<u>6,259,371</u>	<u>482,558</u>	<u>5,776,813</u>

(6) 1998 ABAG Water and Wastewater Revenue Bonds

On December 8, 1998, the Agency issued \$2,745,000 of 1998 ABAG Water and Wastewater Revenue Bonds to help fund needed sewer plant upgrades and a portion of the proceeds funded the administration building. This financing was facilitated by the Association of Bay Area Governments (ABAG), which provides a pooled financing program for other governmental agencies. The Agency's debt is a portion of 1998 Water and Wastewater Revenue Bonds issued by ABAG in December 1998. Under the terms of an installment purchase agreement with ABAG, the Agency is responsible for a portion of the debt service on the Bonds, as follows. Interest is at rates ranging from 3% to 5%. Annual installments of principal are due through October 1, 2018 in amounts ranging from \$95,000 to \$205,000. A reserve in the amount of \$215,690 is required to be maintained. The balance held by fiscal agent in the reserve account as of June 30, 2010 and 2009 was \$215,253 and \$215,704, respectively. The Agency's debt under the terms of its installment

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

Notes to the Basic Financial Statements

(Continued)

(6) 1998 ABAG Water and Wastewater Revenue Bonds, (Continued)

purchase agreement is secured by the sewer system revenues of the Agency. The Agency has also covenanted to set revenue charges at rates necessary to provide net revenues equal to at least 120% of the debt service for that year. For the years ended June 30, 2010 and 2009 the Agency's compliance with this requirement is set forth below:

	<u>2010</u>	<u>2009</u>
Gross revenues	\$4,526,091	4,653,894
Less operating expenses, excluding depreciation, amortization, interest, and write-offs	<u>(3,453,286)</u>	<u>(3,670,793)</u>
Net revenues	<u>1,072,805</u>	<u>983,101</u>
Annual debt service (all debt)	601,653	605,874
	<u>x 1.20</u>	<u>x 1.20</u>
Less 120% of annual debt service	<u>(721,984)</u>	<u>(727,049)</u>
Excess of net revenues	<u>\$ 350,821</u>	<u>256,052</u>

The Agency has excluded from the above computation the affects of the disposition of assets no longer used in operations that are not considered by the Agency to be costs necessary for the maintenance and operation of the wastewater treatment system.

The Agency's obligation under the 1998 ABAG Water and Wastewater Revenue Bonds are presented in the accompanying financial statements, as follows:

	<u>2010</u>	<u>2009</u>
Outstanding bonds payable	\$1,520,000	1,655,000
Less: Unamortized bond discount	(11,529)	(12,899)
Unamortized bond issuance costs	<u>(44,478)</u>	<u>(49,799)</u>
Subtotal bonds payable (net)	<u>1,463,993</u>	<u>1,592,302</u>
Less: Current principal outstanding	(140,000)	(135,000)
Current unamortized bond discount & issuance costs	<u>6,672</u>	<u>6,671</u>
Long-term principal outstanding	<u>\$1,330,665</u>	<u>1,463,973</u>

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

Notes to the Basic Financial Statements

(Continued)

(7) Municipal Finance Loan Agreement

On December 15, 2006, the Agency entered into a Loan Agreement with Municipal Finance Corporation in the amount of \$5,139,500 with a fixed interest rate of 4.45%. The loan will be repaid in 40 semi-annual installments of \$195,371 each. The purpose of this loan is to provide financing for the Cannibal Solids Reduction System and two natural gas generators. A reserve in the amount of \$390,741 is required to be maintained. The balance held by fiscal agent in the reserve account as of June 30, 2010 was \$418,306. This loan is secured by a pledge of net wastewater revenues on parity with the Master Indenture and the 1998 Installment Purchase Agreement. The Agency has also covenanted to set revenue charges at rates necessary to provide net revenues equal to at least 110% of the annual debt service for that year. For the years ended June 30, 2010 and 2009 the Agency's compliance with this requirement is set forth below:

	<u>2010</u>	<u>2009</u>
Gross revenues	\$4,526,091	4,653,894
Less operating expenses, excluding depreciation, amortization, interest, and write-offs	<u>(3,453,286)</u>	<u>(3,670,793)</u>
Net revenues	<u>1,072,805</u>	<u>983,101</u>
Annual debt service (all debt)	601,653	605,874
	<u>x 1.10</u>	<u>x 1.10</u>
Less 110% of annual debt service	<u>(661,818)</u>	<u>(666,461)</u>
Excess of net revenues	<u>\$ 410,987</u>	<u>316,640</u>

The Agency has excluded from the above computation the affects of the disposition of assets no longer used in operations that are not considered by the Agency to be costs necessary for the maintenance and operation of the wastewater treatment system.

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

Notes to the Basic Financial Statements

(Continued)

(7) Municipal Finance Loan Agreement. (Continued)

The Agency's obligation under the Mutual Finance Loan Agreement is presented in the accompanying financial statements, as follows:

	<u>2010</u>	<u>2009</u>
Outstanding loan payable	\$4,533,093	4,715,985
Less: Unamortized debt issuance costs	<u>(36,300)</u>	<u>(38,500)</u>
Subtotal loan payable (net)	4,496,793	4,677,485
Less: Current principal outstanding	(191,121)	(182,892)
Current unamortized bond discount & issuance costs	<u>2,200</u>	<u>2,200</u>
Long-term principal outstanding	<u>\$4,307,872</u>	<u>4,496,793</u>

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

Notes to the Basic Financial Statements

(Continued)

(8) Debt Service Requirements to Maturity

<u>Fiscal</u> <u>Year</u>	<u>1998 ABAG Water and</u> <u>Wastewater Revenue Bonds</u>		<u>Municipal Finance</u> <u>Loan</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010-2011	\$ 140,000	72,010	191,121	199,620
2011-2012	145,000	65,375	199,721	191,020
2012-2013	150,000	58,000	208,707	182,034
2013-2014	160,000	50,250	218,099	172,643
2014-2015	165,000	42,125	227,911	162,830
2015-2016	175,000	33,625	238,166	152,575
2016-2017	185,000	24,625	248,882	141,858
2017-2018	195,000	15,125	260,081	130,660
2018-2019	205,000	5,125	271,784	118,958
2019-2020	-	-	284,013	106,729
2020-2021	-	-	296,791	93,950
2021-2022	-	-	310,146	80,596
2022-2023	-	-	324,101	66,641
2023-2024	-	-	338,683	52,058
2024-2025	-	-	353,922	36,817
2025-2026	-	-	369,847	20,893
2026-2027	-	-	191,118	4,252
Total	<u>\$1,520,000</u>	<u>366,260</u>	<u>4,533,093</u>	<u>1,914,134</u>

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

Notes to the Basic Financial Statements

(Continued)

(9) 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 connection charges, member agency fees, and standby charges.

(10) Defined Benefit Pension Plan

Plan Description

The Big Bear Area Regional Wastewater Agency contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and Agency regulation. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, California 95814.

Funding Policy

The employee contribution is 8% of the employee's covered salary. The employer contribution is 22.505% of annual covered payroll. The contribution requirements of plan members and the Agency are established and may be amended by PERS.

During the year the agency has paid to PERS \$238,355. The amount of its actuarially required contribution (employer contribution) was the amount of \$189,549.

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

Notes to the Basic Financial Statements

(Continued)

(10) Defined Benefit Pension Plan, (Continued)

Annual Pension Cost

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2009 to June 30, 2010 has been determined by an actuarial valuation of the plan as of June 30, 2007. The contribution rate for the indicated period is 22.505% of payroll for the Retirement Program.

Effective with the 6/30/2003 valuation, risk pools were established for plans containing less than 100 active members as of the valuation date. In general, plans satisfying this criteria were lumped into pools based on their benefit formula and membership category (safety/miscellaneous). In total, ten risk pools, including the Agency's, were established for the 6/30/2003 valuation.

<u>Fiscal Year</u>	<u>Annual Pension Cost (Employer Contribution)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/08	\$185,698	100%	\$-0-
6/30/09	195,961	100%	-0-
6/30/10	189,549	100%	-0-

(11) Post Employment Benefits Plan

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

Agency's Funding Policy: The Agency's contribution requirements to cover the costs of its post employment benefits plan are established and may be amended by the Agency's Governing Board. The Agency, during the current fiscal year, elected to voluntarily prefund 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

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

Notes to the Basic Financial Statements

(Continued)

(11) Post Employment Benefits Plan, (Continued)

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. 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 for these benefits:

Annual required contribution	\$ 191,650
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	191,650
Contributions made (including premiums paid)	<u>(191,650)</u>
Increase in net OPEB obligation	-
Net OPEB obligation – beginning of year	<u>-</u>
Net OPEB obligation – end of year	<u><u>\$ -</u></u>

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

Notes to the Basic Financial Statements

(Continued)

(11) Post Employment Benefits Plan, (Continued)

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and the two preceding years were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>OPEB Obligation</u>
6/30/08	N / A	N / A	N / A
6/30/09	\$ 185,898	100.0%	\$0
6/30/10	\$ 191,650	100.0%	\$0

Funded Status and Funding Progress. The funded status of the plan as of July 1, 2008, the date of the most recent actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	\$1,806,937
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	1,806,937
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	922,834
UAAL as a percentage of covered payroll	0%

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.

BIG BEAR AREA REGIONAL WASTEWATER AGENCY

Notes to the Basic Financial Statements

(Continued)

(11) Post Employment Benefits Plan, (Continued)

The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Cost, Level Percent of Pay Method. The actuarial assumptions included 1) a 7.75 percent 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 10 percent initially, reduced by decrements of 0.5% per year to an ultimate rate of 4.5 percent in the tenth year and 3) a 3.25% annual increase in salaries. The UAAL is being amortized as a level percentage of projected payroll over 30 years.

SCHEDULE OF FUNDING PROGRESS

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)
07/01/06	N/A	N/A	N/A	N/A	N/A	N/A
07/01/07	N/A	N/A	N/A	N/A	N/A	N/A
07/01/08	\$0	1,806,937	1,806,937	0%	922,834	0.00%

(12) 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, 2010 and 2009, 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.



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Board of Directors
Big Bear Area Regional Wastewater Agency

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

We have audited the financial statements of the Big Bear Area Regional Wastewater Agency ("Agency"), as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements and have issued our report thereon, dated August 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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 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.

Board of Directors
Big Bear Area Regional Wastewater Agency
Page Two

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors and management of the Agency and is not intended to be and should not be used by anyone other than these specified parties.

Major Hoffman Melton P.C.

Irvine, California
August 19, 2010



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Board of Directors

Big Bear Area Regional Wastewater Agency

We have audited the financial statements of the Big Bear Area Wastewater Agency for the year ended June 30, 2010, and have issued our report thereon dated August 19, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit.. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Agency are described in note one to the financial statements. We noted no transactions entered into by the Agency during the year for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Examples of significant judgments and estimates reflected in the Agency's financial reporting process include:

- Judgments concerning which capital projects represent ordinary maintenance activities necessary to keep an asset operational for its originally intended useful life versus significant improvement, replacement, and life extending projects that should be capitalized as additions to capital assets.
- Estimates involving revenues and expenses to be accrued as of year end.

Significant Difficulties Encountered in Performing the Audit

We encountered no difficulties in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to report to you all known and likely misstatements identified during the audit, other than those that are trivial. No misstatements were identified during the audit process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

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 grants, 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.

Scope and Timing of the Audit

Audit fieldwork was substantially completed in July 2010. Auditing procedures included:

- Fraud risk for cash receipts and cash disbursements
- Risk of material fraud or misstatement associated with investments
- Risk of improper revenue recognition
- Risk of improper classification of expenditures
- Risk of errors associated with identifying capital asset additions and deletions

Significant Audit Findings

We have separately reported to you that we noted no deficiencies in internal control that we consider to be material weaknesses.

Corrected and Uncorrected Misstatements

Professional standards require us to report to you all known and likely misstatements identified during the audit, other than those that are trivial. No misstatements were identified during the audit process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have obtained representations from management that are included in the management representation letter dated August 19, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Agency's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Board of Directors and management of the Agency and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McLean P.C.

August 19, 2010
Irvine, California