

BURBANK SANITARY DISTRICT

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED

JUNE 30, 2018 AND 2017

BURBANK SANITARY DISTRICT

TABLE OF CONTENTS

	<u>PAGE(S)</u>
INDEPENDENT AUDITOR'S REPORT.....	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3 - 7
FINANCIAL STATEMENTS	
Statement of Net Position.....	8
Statement of Revenues, Expenses and Changes in Net Position.....	9
Statement of Cash Flows.....	10
Notes to Financial Statements.....	11 - 14
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 <i>GOVERNMENT AUDITING STANDARDS</i>	15
SCHEDULE OF FINDINGS AND RESPONSES.....	17
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....	19

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Burbank Sanitary District
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Burbank Sanitary District, as of and for the fiscal years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Burbank Sanitary District'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's *Minimum Audit Requirements for California Special District*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Burbank Sanitary District as of June 30, 2018, and the respective changes in financial position and cash flows for the period July 01, 2016 through June 30, 2018 ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2018 on our consideration of Burbank Sanitary District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Burbank Sanitary District's internal control over financial reporting and compliance.

**Harshwal & Company, LLP
Certified Public Accountants**

Harshwal & Company LLP

**Oakland, California
October 12, 2018**

BURBANK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD FROM JULY 01, 2016 THROUGH JUNE 30, 2018

This section presents management's analysis of the Burbank Sanitary District (the "District") financial condition and activities for two years ended June 30, 2018. Please read it in conjunction with the District financial statements.

FINANCIAL HIGHLIGHTS

District Balance Sheet

The following table shows a condensed version of the District's balance sheet for the past 2 fiscal year (FY 2018 and 2017) as compared to previous 2 fiscal years.

	<u>June 30</u> <u>2018</u>	<u>June 30</u> <u>2016</u>	<u>Increase/</u> <u>Decrease</u> <u>(\$)</u>	<u>Increase/</u> <u>Decrease</u> <u>(%)</u>
Current assets	\$ 1,389,530	\$ 1,152,463	\$ 237,067	21 %
Capital assets, net	<u>959,798</u>	<u>980,398</u>	<u>(20,600)</u>	<u>(2)%</u>
Total assets	<u>2,349,328</u>	<u>2,132,861</u>	<u>216,467</u>	<u>10 %</u>
Current liabilities	<u>3,676</u>	<u>14,923</u>	<u>(11,247)</u>	<u>(75)%</u>
Total liabilities	<u>3,676</u>	<u>14,923</u>	<u>(11,247)</u>	<u>(75)%</u>
Net Investment in capital assets	959,798	980,398	(20,600)	(2)%
Unrestricted	<u>1,385,854</u>	<u>1,137,540</u>	<u>248,314</u>	<u>22 %</u>
Total Net Position	<u>\$ 2,345,652</u>	<u>\$ 2,117,938</u>	<u>\$ 227,714</u>	<u>11 %</u>

- Current Assets showed an increase of \$237,067 or 21% change which includes cash in the County Treasury Common Pool and cash balance in the bank account. The current asset balance at the end of two year's period was \$1,389,530. The increase in cash balance of \$237,067 is primarily due to 15% increase in sewer services charges to the District rate payers and a refund of \$196,660 from City of San Jose for treatment plant capital, bond refinancing and O&M.
- Net capital assets (Net Investment in capital assets) showed a decrease of \$20,600. The depreciation of asset has exceeded the capital investment by this amount (\$46,321 in depreciation less \$25,720 in capital investment). District made a decision not to complete the second year District CIP for the last two years due to uncertainty with the City of San Jose capital project funding for the treatment plant.
- Current liability showed a decrease of \$11,247 or 75% change. This decrease is the accounts payable. Two years ago, consultant invoice was recorded as accounts payable, whereas, end of FY 2018, this invoice was paid and recorded as expenses for the fiscal year.
- Unrestricted cash position showed an increase of \$227,714 or 22% increase with a current balance of \$1,385,854 for same reasons as increase in current asset.

**BURBANK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD FROM JULY 01, 2016 THROUGH JUNE 30, 2018**

FINANCIAL HIGHLIGHTS-CONT'D

- The total net position showed an increase of \$227,714 or 11% to \$2,345,652 which indicates overall solid financial position. Moving forward, District will need to manage this growth in capital assets with the available cash to manage and operate District's O&M and capital projects, as well as ability to pay for San Jose Santa Clara Regional Wastewater Facility's O&M and capital projects.

District Statements of Revenues, Expenses and Changes

The following table shows a condensed version of the District's Statements of Revenues, Expenses and Changes in Net Position.

	June 30 2018	June 30 2016	Increase/ Decrease (\$)	Increase/ Decrease (%)
Operating revenue	\$ 1,761,687	\$ 1,333,381	\$ 428,306	32 %
Operating expenses, excl. depreciation	(1,706,739)	(1,367,250)	339,489	25 %
Depreciation expense	(46,321)	(30,998)	15,323	49 %
Net operating loss	8,627	(64,867)	73,494	(113)%
Non-operating revenues	219,087	178,085	41,002	23 %
Change in net position	227,714	113,218	114,496	101 %
Net position, beginning	2,117,938	2,004,720	113,218	6 %
Net position ending	\$ 2,345,652	\$ 2,117,938	\$ 227,714	11 %

- Operating revenue showed an increase in the amount of \$428,306 or 32% increase due one fiscal year rate increase of 15%.
- Operating expenses showed an increase of \$339,489 or 25% increase due to increased cost for the San Jose-Santa Clara Regional Wastewater Facility (from \$459,240 to \$1,117,528) which was offset/ reduced by District operating expenses for District administration and engineering management services.
- Net operating income is operating revenue minus operating expenses, which showed a net positive income of \$8,627 as compared to prior 2 fiscal year loss of \$64,867.
- Depreciation adjustment shows an increase of \$15,323 due to increased capital asset from the completion of the first year District capital project.
- Non-Operating Revenue showed an increase of \$41,002 or 23% due to increased refunds from City of San Jose for the O&M and capital cost.
- Net Position of June 30, 2018 showed an increase of \$227,714 or 12%. This increased amount indicates overall solid financial position. Moving forward, District will need to manage this growth in capital assets with the available cash to manage and operate District's O&M and capital projects, as well as ability to pay for San Jose Santa Clara Regional Wastewater Facility's O&M and capital projects.

**BURBANK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD FROM JULY 01, 2016 THROUGH JUNE 30, 2018**

BUDGET VERSUS ACTUAL COMPARISON

The following table shows the budget versus actual for the combined two fiscal years (FY 2017-2018 and FY 2016-2017).

	<u>Budget</u>	<u>Actual</u>	<u>Favourable (Unfavourable) Variance</u>
OPERATING REVENUES			
Sewer service revenue	\$ 1,750,500	\$ 1,746,066	\$ (4,434)
Other Income	<u>17,000</u>	<u>15,621</u>	<u>(1,379)</u>
Total Operating Revenue	<u>1,767,500</u>	<u>1,761,687</u>	<u>(5,813)</u>
OPERATING EXPENSES			
Sewage treatment/Bonds/Capital outlay	1,151,100	1,117,528	33,572
Sewer maintenance	60,000	82,606	(22,606)
Replacement and rehabilitation	120,000	118,916	1,084
Administration and engineering management	414,400	292,214	122,186
Legal	92,000	50,014	41,986
Accounting and professional fees	12,000	10,750	1,250
Insurance	20,000	18,005	1,995
Office	<u>17,500</u>	<u>16,706</u>	<u>794</u>
Total Operating Expenses	<u>1,887,000</u>	<u>1,706,739</u>	<u>180,261</u>
NON-OPERATING INCOME			
Interest income	11,000	21,227	10,227
Refund & other income	<u>170,000</u>	<u>197,860</u>	<u>27,860</u>
Net gain/(loss)	<u>\$ 61,500</u>	<u>\$ 274,035</u>	<u>\$ 212,535</u>

BURBANK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD FROM JULY 01, 2016 THROUGH JUNE 30, 2018

Budget and Actual Results Analysis

Overall, the results of the actual operation were within the acceptable tolerance level as compared to the approved budgets for the past two fiscal years. More specifically, following discussion are provided as guidance for future programming and budgeting:

- The actual operating revenue was less by \$4,434 as compared to the budget amount. This difference is within the acceptable tolerance for budgeting purposes.
- Operating Expenses comments:
 - i) The San Jose Santa Clara Regional Wastewater Facility reported \$33,573 less than the budgeted amount for these past two fiscal years.
 - ii) District Capital Projects was budgeted at \$640,000 for these past two fiscal years and incurred \$98,875 for State Revolving Loan Application and related engineering support costs, leaving a balance of \$541,125. The reason for this unspent amount was due to the District deferring second year of CIP because of the issues with the City of San Jose and uncertainty in the required cash payments to City of San Jose for the San Jose Santa Clara Regional Wastewater Facility.
 - iii) District discontinued street sweeping. No budget nor expenses were incurred.
 - iv) District preventive maintenance, emergency R/M was budgeted for \$120,000. The actual expenditure was \$118,916.
 - v) Permit was budgeted at \$30,000 to cover District CIP and annual clean-up. The actual permit fee paid is \$5,942.
 - vi) District engineering, management and administration was budgeted at \$414,400, whereas the actual expenditure was \$292,214, leaving a balance of \$122,186. This unspent balance was due to District deferring engineering services for capital project design.
 - vii) Legal services were budgeted at \$92,000. The actual expense incurred was \$41,986, this unspent balance was due to late initiation of law-suit against Cities of San Jose/Santa Clara.
 - viii) The total operating expenses was budgeted at \$1,887,000. The actual expenditure was \$1,706,739, a difference of \$188,264 (explanation for major differences are provided above).
- Non-operating income only budgeted for income revenue. Due to election by the District to receive cash payment from City of San Jose, there was an additional income of \$196,660.
- The last two fiscal year budget had income revenue greater than expenses by \$66,500. The actual net gain was \$274,035, resulting in favourable variance of \$340,535. This indicates that District is currently managing expenses and capital expenditures in line with the revenue. However, reserve account to pay for future capital cost to City of San Jose is not increasing.

BURBANK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD FROM JULY 01, 2016 THROUGH JUNE 30, 2018

USING THIS BI-ANNUAL REPORT

This bi-annual report consists of two parts: Management's Discussion & Analysis and Financial Statements. The Financial Statements also include notes that explain in more detail some of the information contained in those statements.

REQUIRED FINANCIAL STATEMENTS

District financial statements report financial information about the District using accounting methods similar to those used by private sector companies. The Statement of Net Positions includes all District assets and liabilities, and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Positions. This statement measures the success of the District operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District cash receipts, cash disbursements and net changes in cash resulting from operating, investing, and capital and noncapital financing activities. It provides answers to questions such as, "Where did the cash come from?" "Cash was used for what purpose?" and "What was the change in cash balance during the reporting period?"

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District finances is whether or not the District's overall financial position has improved or deteriorated. The Statement of Net Positions and the Statement of Revenues, Expenses & Changes in Net Positions report information about the District activities in a way that will help answer this question. These two statements report the Net Position of the District and changes in them. You can think of District Net Position – the difference between assets and liabilities as one way to measure financial health or financial position. Over time, increases or decreases in District Net Position is one indicator of whether its financial health is improving or deteriorating. Other factors to consider include changes in economic conditions, population growth, and new or changed legislation.

RATES AND OTHER ECONOMIC FACTORS

The District is governed in part by provisions of the State Water Resources Control Board (SWRCB) that require rate based revenues must cover the costs of operation, maintenance, and recurring capital replacement (OM&R). The District is not subject to general economic conditions such as increases or declines in property tax values or other types of revenues that vary with economic conditions such as sales taxes. Accordingly, the District sets its rates to its users to cover the costs of OM&R plus any increments for known or anticipated changes in program costs. Increases in operating costs have been kept at or below inflationary levels in recent years for the District's portion of the expenses. However, the San Jose Santa Clara Treatment Plant expenses have increased at a much higher rate due to the need to rehabilitate or replace the plant's older infrastructure.

REQUESTS FOR INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of District finances, and demonstrate District accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact the District at 20863 Stevens Creek Blvd., Suite #100, Cupertino, California, 95014 or by calling (408) 255 2137.

BURBANK SANITARY DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2018

ASSETS:

Current assets:

Cash and cash equivalents (Note 3) \$ 1,389,530

Total current assets 1,389,530

Capital assets:

Subsurface line, net 959,798

Total Assets 2,349,328

LIABILITIES:

Current liabilities:

Accounts payable 3,676

Total Liabilities 3,676

NET POSITION

Net investment in capital assets 959,798

Unrestricted 1,385,854

Total Net Position \$ 2,345,652

BURBANK SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE PERIOD FROM JULY 01, 2016 THROUGH JUNE 30, 2018

OPERATING REVENUE:	
Sewer service charges	\$ 1,746,066
Permit, inspection and other fees	<u>15,621</u>
Total operating revenue	<u>1,761,687</u>
OPERATING EXPENSES:	
Sewage treatment/Bonds/Capital outlay	1,117,528
Sewer maintenance	82,606
Replacement and rehabilitation	118,916
Administration and engineering management	292,214
Legal	50,014
Accounting and professional fees	10,750
Insurance	18,005
Office	16,706
Depreciation	<u>46,321</u>
Total operating expenses	<u>1,753,060</u>
Operating loss	<u>8,627</u>
NON-OPERATING REVENUE:	
Interest income	21,227
Refunds & other income	<u>197,860</u>
Total non-operating revenue	<u>219,087</u>
Change in net position	227,714
Net position - beginning of period	<u>2,117,938</u>
Net position - end of period	<u>\$ 2,345,652</u>

The accompanying notes are an integral part of these financial statements

BURBANK SANITARY DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE PERIOD FROM JULY 01, 2016 THROUGH JUNE 30, 2018

Cash flows from operating activities:	
Receipts from customers and users	\$ 1,808,008
Payments to suppliers and service providers	<u>1,764,307</u>
Net cash used by operating activities	<u>43,701</u>
Cash flows from investing activities:	
Interest received	21,227
Refunds and other incomes	197,859
Purchase of fixed Assets	<u>(25,720)</u>
Net cash used by investing activities	<u>193,366</u>
Net decrease in cash and cash equivalents	237,067
Cash and cash equivalents – beginning of the period	<u>1,152,463</u>
Cash and cash equivalents – end of the period	<u>\$ 1,389,530</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ <u>8,627</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	46,321
Changes in assets and liabilities:	
Decrease in accounts payable	<u>(11,247)</u>
Net cash used by operating activities	<u>\$ 43,701</u>

The accompanying notes are an integral part of these financial statements

BURBANK SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 01, 2016 THROUGH JUNE 30, 2018

NOTE 1: GENERAL INFORMATION

Burbank Sanitary District (the District) is a special district organized under the California Health and Safety Code and the Sanitary Act of 1923. The District was established on May 20, 1940. The District provides sewage collection, treatment and disposal services and operates and maintains approximately 7 miles of collection sewer lines and transports approximately 300,000 gallons of sewage per day to the San Jose/Santa Clara Water Pollution Control Plant. Revenues are derived principally from sewer service charges collected from commercial and residential users within the District.

The District is governed by a 5-member Board of Directors elected at large. Election of Directors is consolidated with the November Elections, with three and two Directors being elected in alternating, odd numbered years. Directors are elected to serve four year terms.

There are no component units, as defined in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, which are included in the District's reporting entity.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

Although the nucleus of financial reporting entity usually is a primary government, an organization other than a primary government, such as a stand-alone government, may serve as the nucleus for its financial reporting entity when the stand-alone government provides separately issued financial statements. A stand-alone government is a legally separate governmental organization that does not have a separately elected governing body and does not meet the definition of a component unit. The District meets the criteria as a stand-alone government, and accordingly, is accounted for and reported on as though it were a primary government.

For financial reporting purposes and in conformity with GASB Codification Section 2100 which defines the governmental reporting entity, the District includes all funds that are controlled by, or are dependent on the Board of Directors of the District. Since no other entities are controlled by, or rely upon the District, the reporting entity consists solely of the District.

B. Fund Accounting Classification

The financial statements of the District are presented as those of an enterprise fund under the broad category of funds called proprietary funds.

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprise, where the intent is that the costs, (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The acquisition and capital improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, cash flow from operations, and contributed capital.

C. Basis of Accounting

Enterprise funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. The District follows Alternative 1 of GASB Statement No. 20 regarding the use of the pronouncements of GASB and Financial Accounting Standards Board ("FASB") in its accounting. That is, the District follows (1) all GASB pronouncements and (2) FASB pronouncements. Accounting Principles Board ("APB") Opinions, and Accounting Research Bulletins ("ARB") that do not conflict with GASB pronouncements.

BURBANK SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 01, 2016 THROUGH JUNE 30, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONT'D

C. Basis of Accounting-Cont'd

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for the District 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 non-operating revenues and expenses.

D. Capital Assets

GASB Statement No. 34 requires the inclusion of infrastructure capital assets in local government's basic financial statements. District infrastructure assets, subsurface line improvements are stated on the basis of historical cost. Capital assets are recorded at historical cost or estimated historical cost in actual cost is not available. Future infrastructure additions will be financed from the District's unrestricted net assets. These assets are depreciated over their useful lives using the straight-line method.

Subsurface lines	50 years
------------------	----------

The District's threshold for capitalization is \$1,000.

The District evaluates capital assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the future net cash flow the asset is expected to generate. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value. An impairment loss is recognized in profit or loss in the period in which it arises. Management believes that there was no asset impairment as of June 30, 2018. Future impairment indicators, including the anticipated annexation and reduction in areas served by the District in fiscal year 2018-2019, could require impairment charges to be recorded.

E. Use of Estimates

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

F. Statement of Cash Flows

For the purpose of the statement of cash flows, all highly liquid investments with maturities of three months or less when purchased are considered cash equivalents.

BURBANK SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 01, 2016 THROUGH JUNE 30, 2018

NOTE 3: CASH AND CASH EQUIVALENT

Cash and cash equivalents as of June 30, 2018 consist of the following:

Cash in County Treasury common pool	\$ 1,342,984
Cash with banks	<u>46,546</u>
Total	<u>\$ 1,389,530</u>

Cash in County Treasury

Funds with the County Treasurer are invested pursuant to investment policy established by the Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority, preservation of capital, liquidity and yield. The policy addresses the soundness of financial institutions in which the County deposits funds, the types of investment instruments and the percentage of the portfolio which may be invested in certain instruments, as permitted by Section 53600 et seq. of the Government Code of the State of California. Authorized instruments in which the Treasurer can invest include debts issued by the County, US Treasury securities, banker's acceptances, federal, state and local government securities, commercial paper, medium-term corporate notes, negotiable certificates of deposit, local agency investment fund, money market funds, mutual funds, and mortgage-backed securities. Information regarding the characteristics of the entire investment pool including interest rate risk, credit risk, concentration of credit risk and custodial credit risk for deposits and investments can be found in the County's June 30, 2018 comprehensive annual financial report. A copy of that report may be obtained by contacting the County's Finance Agency, Controller-Treasurer Department, 70 West Hedding Street, 2nd Floor, East Wing, San Jose, CA 95110.

Governmental Accounting Standards Board, Statement No. 31, "Accounting and Financial Reporting for Certain Investment and for External Investment Pools" establishes accounting and financial reporting standards for all investments held by governmental external investment pools. The statement requires governmental entities to report investments at fair value.

The original cost of cash with County Treasury common pool as of June 30, 2018 is \$1,340,933.

NOTE 4: CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the period from July 01, 2016 through June 30, 2018 is as follows:

	<u>Balance</u> <u>07/01/2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/2018</u>
Subsurface lines - Infrastructure and improvements	\$ 1,518,074	\$ 25,720	\$ -	\$ 1,543,794
Less: Accumulated Depreciation	<u>(537,675)</u>	<u>(46,321)</u>	<u>-</u>	<u>(583,996)</u>
Capital assets, net	<u>\$ 980,399</u>	<u>\$ (20,601)</u>	<u>\$ -</u>	<u>\$ 959,798</u>

Depreciation expense for the year ended June 30, 2018 is \$46,321.

BURBANK SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 01, 2016 THROUGH JUNE 30, 2018

NOTE 5: COMMITMENTS AND CONTINGENT LIABILITIES

In the past, City has discussed making a claim against the district for past usage of its sewer system, indicating that it wished to collect allegedly past due payments from the district for a period from 1997. These payments would total approximately \$33,000. Last year, City and District have had conversation regarding renewal of the agreement with little progress being made to date. It is management's position that District could be liable for a maximum of four years of payment due to statutes of limitation. The estimated payment would be \$8,400. However, the management is of the opinion that if there is a new agreement, this small amount would not have a material impact on the District's financial position.

NOTE 6: SEWER FEES

The County of Santa Clara bills and collects sewer service fees and apportions collections to the District twice a year. The fees attach as an enforceable lien on real property as of January 1. Property taxes are payable in two instalments. First instalment is due and payable on November 1 and second instalment is due and payable on February 1.

NOTE 7: RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destructions of assets; errors and omissions; injuries to third parties and natural disasters. The District pays annual premiums to purchase commercial insurance through the California Sanitation Risk Management Authority (CSRMA) Primary Insurance Program to protect against these risks.

Type of Coverage	Limits
General liability	\$ 2,500,000
Public officials / Management liability	\$ 2,500,000
Personal liability coverage for board members	\$ 500,000
Employment practices liability	\$ 2,500,000
Employee benefits liability	\$ 2,500,000
Employee dishonesty coverage	\$ 400,000
Auto liability	\$ 2,500,000
Uninsured/Underinsured Motorist	\$ 750,000

**INDEPENDENT AUDITORS 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***

To the Board of Directors
Burbank Sanitary District
San Jose, 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 business-type activities of Burbank Sanitary District as of and for the period from July 01, 2016 through June 30, 2018, and the related notes to the financial statements, which collectively comprise the Burbank Sanitary District's basic financial statements, and have issued our report thereon dated September 24, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Burbank Sanitary District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Burbank Sanitary District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Burbank Sanitary District'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Burbank Sanitary District'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Burbank Sanitary District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Harshwal & Company, LLP
Certified Public Accountants

Harshwal & Company LLP

Oakland, California
October 12, 2018

BURBANK SANITARY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE PERIOD FROM JULY 01, 2016 THROUGH JUNE 30, 2018

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness? Yes None reported
- Noncompliance material to financial statements noted? Yes No

BURBANK SANITARY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE PERIOD FROM JULY 01, 2016 THROUGH JUNE 30, 2018

There is no current year finding.

BURBANK SANITARY DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE PERIOD FROM JULY 01, 2016 THROUGH JUNE 30, 2018

There were no findings in the prior year.