

**BURBANK SANITARY DISTRICT
AUDITED FINANCIAL STATEMENTS**

**FOR THE PERIOD FROM JULY 01, 2020
THROUGH JUNE 30, 2022**



**BURBANK SANITARY DISTRICT
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JUNE 30, 2022**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Burbank Sanitary District
Cupertino, California 95014

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of Burbank Sanitary District (the "District") for the period from July 01, 2020 through June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 the District as of June 30, 2022, and the respective changes in financial position and cash flow for the period from July 01, 2020 through June 30, 2022 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the 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 June 13, 2023, on our consideration of the 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Harshmal & Company LLP

Oakland, California
June 13, 2023

BURBANK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD FROM JULY 01, 2020 THROUGH JUNE 30, 2022

This section presents management's discussion and analysis of the Burbank Sanitary District (the "District") financial condition and activities for two years ended June 30, 2022. Please read it in conjunction with the District financial statements.

FINANCIAL HIGHLIGHTS

District Balance Sheet

The following table shows a comparative condensed version of the District's balance sheet as of June 30, 2022 and June 30, 2020.

| | <u>June 30 2022</u> | <u>June 30 2020</u> | <u>Change (\$)</u> | <u>Change (%)</u> |
|----------------------------------|-------------------------|-------------------------|---------------------|-------------------|
| Current assets | \$ 1,155,486 | \$1,733,159 | \$ (577,673) | (33)% |
| Capital assets, net | <u>965,196</u> | <u>965,666</u> | <u>(470)</u> | <u>%</u> |
| Total assets | <u>2,120,682</u> | <u>2,698,825</u> | <u>(578,143)</u> | <u>(21)%</u> |
| Current liabilities | <u>13,744</u> | <u>2,746</u> | <u>10,998</u> | <u>401 %</u> |
| Total liabilities | <u>13,744</u> | <u>2,746</u> | <u>10,998</u> | <u>401 %</u> |
| Net investment in capital assets | 965,196 | 965,666 | (470) | % |
| Unrestricted net position | <u>1,141,742</u> | <u>1,730,413</u> | <u>(588,671)</u> | <u>(34)%</u> |
| Total net position | <u>\$ 2,106,938</u> | <u>\$2,696,079</u> | <u>\$ (589,141)</u> | <u>(22)%</u> |

- Current assets showed a decrease of \$577,673 or 33% which includes cash in the County Treasury Common Pool, cash balance in the bank account, interest receivable, and prepaid expenses. The current assets balance at the end of two year's period was \$1,155,486. The decrease in cash balance is \$577,673 primarily due to spending cash to complete the District CIP project and O&M.
- Current liabilities showed an increase of 10,998 or 401%. This increase is the accounts payable and other liabilities. Although the percentage increase is large, the magnitude of the liabilities is not a concern.
- Net capital assets (Net investment in capital assets) showed a decrease of \$470. The current period capital investment has reduced to the current period depreciation expenses charged on fixed assets by this amount (\$49,485 in capital investment less \$49,955 in depreciation).
- Net position showed a decrease of \$589,141 or 21.85%. This was mainly due to decrease in cash and investments.

The total net position showed a decrease of \$589,141 or 21.85% to \$2,106,938 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.

BURBANK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD FROM JULY 01, 2020 THROUGH JUNE 30, 2022

District Statements of Revenues, Expenses and Changes in Net Position

The following table shows a comparative condensed version of the District's Statements of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2022 and June 30, 2020.

| | <u>June 30</u> <u>2022</u> | <u>June 30</u> <u>2020</u> | <u>Change (\$)</u> | <u>Change (%)</u> |
|--|-------------------------------|-------------------------------|---------------------|-------------------|
| Operating revenues | \$ 2,680,775 | \$ 2,317,539 | \$ 363,236 | 16 % |
| Operating expenses, excl. depreciation | (3,455,048) | (2,211,943) | (1,243,105) | 56 % |
| Depreciation expense | <u>(49,955)</u> | <u>(47,378)</u> | <u>(2,577)</u> | <u>5 %</u> |
| Net operating income/(loss) | (824,228) | 58,218 | (882,446) | (1,516)% |
| Non-operating revenues | <u>235,087</u> | <u>304,935</u> | <u>(69,848)</u> | <u>(23)%</u> |
| Change in net position | (589,141) | 363,153 | (952,294) | (262)% |
| Net position, beginning | 2,696,079 | 2,345,652 | 350,427 | 15 % |
| Net position, <i>restatement</i> | <u>-</u> | <u>(12,726)</u> | <u>12,726</u> | <u>(100)%</u> |
| Net position, beginning (<i>as restated</i>) | <u>2,696,079</u> | <u>2,332,926</u> | <u>363,153</u> | <u>16 %</u> |
| Net position ending | <u>\$ 2,106,938</u> | <u>\$ 2,696,079</u> | <u>\$ (589,141)</u> | <u>(22)%</u> |

- Operating revenue showed an increase in the amount of \$363,236 or 16% due to service rates being higher than during the previous two year period.
- Operating expenses (excluding depreciation) showed an increase of \$1,243,105 or 56%, mainly due to increased cost for the San Jose - Santa Clara Regional Wastewater Facility and District capital cost expenditures.
- Depreciation adjustment shows an increase of \$2,577 or 5% due to increased capital asset from minor capital replacement projects.
- Net operating income is operating revenue minus operating expenses, which showed a net loss of \$824,228 as compared to prior 2 fiscal year income of \$58,218.
- Non-operating revenue showed a decrease of \$69,848 or 23% due to decreased interest/investment income.

BURBANK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD FROM JULY 01, 2020 THROUGH JUNE 30, 2022

BUDGET

Budget Versus Actual Comparison

The following table shows the budget versus actual for the combined two fiscal years (FY 2021-2022 and FY 2020-2021).

| | Budget | Actual | Favorable /(Unfavorable) Variance |
|--|--------------------|---------------------|---|
| OPERATING REVENUES | | | |
| Sewer service charges | \$ 2,656,000 | \$ 2,656,175 | \$ 175 |
| Permit, inspection and other fees | 20,000 | 24,600 | 4,600 |
| Total operating revenues | <u>2,676,000</u> | <u>2,680,775</u> | <u>4,775</u> |
| OPERATING EXPENSES | | | |
| Sewage treatment/bonds/capital outlay | 1,489,825 | 1,154,732 | 335,093 |
| Repair and maintenance | 170,000 | 48,086 | 121,914 |
| Replacement and rehabilitation | 5,514,000 | 1,657,409 | 3,856,591 |
| Professional and contractual services | 498,600 | 450,547 | 48,053 |
| General, administrative, and other | 251,820 | 144,274 | 107,546 |
| Total operating expenses | <u>7,924,245</u> | <u>3,455,048</u> | <u>4,469,197</u> |
| Operating income/(loss) | <u>(5,248,245)</u> | <u>(774,273)</u> | <u>4,473,972</u> |
| NON-OPERATING REVENUES | | | |
| Interest income | 30,000 | 235,087 | 205,087 |
| Refunds & other income | 150,000 | - | (150,000) |
| SRF loan | 5,064,000 | - | (5,064,000) |
| Total non-operating revenues | <u>5,244,000</u> | <u>235,087</u> | <u>(5,008,913)</u> |
| Change in net position | <u>\$ (4,245)</u> | <u>(539,186)</u> | <u>\$ (534,941)</u> |
| Reconciliation of budgetary basis to GAAP basis: | | | |
| Change in net position - Budgetary basis | | (539,186) | |
| Adjustments to expenses (Depreciation) | | (49,955) | |
| Change in net position - GAAP basis | | <u>\$ (589,141)</u> | |

**BURBANK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD FROM JULY 01, 2020 THROUGH JUNE 30, 2022**

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 more by \$4,775 as compared to the budget amount.
- Operating expenses comments:
 - i) The San Jose Santa Clara Regional Wastewater Facility reported \$335,093 less than the budgeted amount for these past two fiscal years. Parts of the treatment plant CIP program were delayed and deferred to later years, resulting in lower expenses incurred.
 - ii) District Capital was budgeted at \$5,514,000 for these past two fiscal years and incurred \$1,657,409 for State Revolving Fund Application and processing, related engineering support costs, and construction of a major sewer rehabilitation project. The reason for the unspent amount is that the original scope of the project was slightly reduced and the District received very competitive bids for the construction work.
 - iii) District preventive maintenance, emergency repair and maintenance was budgeted for \$170,000. The actual expense was \$48,086.
 - iv) District engineering, management and administration was budgeted at \$466,400, whereas the actual expense was \$419,421, leaving a balance of \$46,979. This unspent balance was due to District minimizing engineering, management, and administration costs to preserve cash.
 - v) Legal services were budgeted at \$140,000. The actual expense incurred was \$79,658, this unspent balance was due to lawsuit against Cities of San Jose/Santa Clara not progressing as contemplated.
 - vi) The total operating expenses was budgeted at \$7,924,245. The actual expense was \$3,455,048, a difference of \$4,469,197 (explanation for major differences are provided above).
- Non-operating revenue was budgeted for \$5,244,000, this included \$30,000 of interest income, \$150,000 of miscellaneous credits and refunds and \$5,064,000 of SRF loan. Funding for the loan was not received during the period of the audit. Actual non-operating revenue received was \$235,087, which was for investment income which includes interest and refunds.
- The last two fiscal year budget had revenues less than expenses by \$4,245. The actual net loss was \$539,186, resulting in unfavorable variance of \$534,941. This indicates that District is currently managing expenses and capital expenses in line with a tendency to preserve capital to pay for future operating and capital expenses for the District and at the treatment plant.

**BURBANK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD FROM JULY 01, 2020 THROUGH JUNE 30, 2022**

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 Position 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 Position. This statement measures the success of the District operations over the past two years 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 Position and the Statement of Revenues, Expenses & Changes in Net Position 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 it. 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.

**BURBANK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD FROM JULY 01, 2020 THROUGH JUNE 30, 2022**

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.

FINANCIAL STATEMENTS

BURBANK SANITARY DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2022

ASSETS:

Current assets:

| | |
|----------------------|--------------|
| Cash and investments | \$ 1,143,060 |
| Interest receivable | 881 |
| Prepaid insurance | 11,545 |

Capital assets:

| | |
|----------------------|------------------|
| Subsurface line, net | <u>965,196</u> |
| Total assets | <u>2,120,682</u> |

LIABILITIES:

Current liabilities:

| | |
|--|---------------|
| Accounts payable and other liabilities | <u>13,744</u> |
| Total liabilities | <u>13,744</u> |

NET POSITION

| | |
|------------------------------------|---------------------|
| Net investment in capital assets | 965,196 |
| Unrestricted | <u>1,141,742</u> |
| Total net position | <u>2,106,938</u> |
| Total liabilities and net position | <u>\$ 2,120,682</u> |

BURBANK SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
- PROPRIETARY FUND
FOR THE PERIOD FROM JULY 01, 2020 THROUGH JUNE 30, 2022

OPERATING REVENUES:

| | |
|------------------------------------|------------------|
| Sewer service charges | \$ 2,656,175 |
| Permit, inspection, and other fees | <u>24,600</u> |
| Total operating revenues | <u>2,680,775</u> |

OPERATING EXPENSES:

| | |
|---------------------------------------|------------------|
| Sewage treatment/bonds/capital outlay | 1,154,732 |
| Repair and maintenance | 48,086 |
| Replacement and rehabilitation | 1,657,409 |
| Professional and contractual services | 450,547 |
| General, administrative, and other | 144,274 |
| Depreciation | <u>49,955</u> |
| Total operating expenses | <u>3,505,003</u> |

| | |
|-------------------------|------------------|
| Operating income/(loss) | <u>(824,228)</u> |
|-------------------------|------------------|

NON-OPERATING REVENUES:

| | |
|------------------------------|----------------|
| Investment income, net | <u>235,087</u> |
| Total non-operating revenues | <u>235,087</u> |

| | |
|------------------------|-----------|
| Change in net position | (589,141) |
|------------------------|-----------|

| | |
|------------------------------------|------------------|
| Net position - beginning of period | <u>2,696,079</u> |
|------------------------------------|------------------|

| | |
|------------------------------|----------------------------|
| Net position - end of period | <u><u>\$ 2,106,938</u></u> |
|------------------------------|----------------------------|

BURBANK SANITARY DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE PERIOD FROM JULY 01, 2020 THROUGH JUNE 30, 2022

Cash flows from operating activities:

| | |
|---|------------------|
| Receipts from customers/users and other sources | \$ 2,679,894 |
| Payments to suppliers and service providers | (3,428,665) |
| Payments to employees for services | <u>(26,930)</u> |
| Net cash used in operating activities | <u>(775,701)</u> |

Cash flows from capital activities:

| | |
|-------------------------------------|-----------------|
| Purchase of fixed assets | <u>(49,485)</u> |
| Net cash used in capital activities | <u>(49,485)</u> |

Cash flows from investing activities:

| | |
|---|----------------|
| Investment income, net | <u>235,087</u> |
| Net cash provided by investing activities | <u>235,087</u> |

| | |
|---|---------------------|
| Change in cash and cash equivalents | (590,099) |
| Cash and cash equivalents - beginning of the period | <u>1,733,159</u> |
| Cash and cash equivalents - end of the period | <u>\$ 1,143,060</u> |

Reconciliation of operating income/(loss) to net cash used in operating activities:

| | |
|--|---------------------|
| Operating income/(loss) | \$ (824,228) |
| Adjustments to reconcile operating income/(loss) to net cash used in operating activities: | |
| Depreciation | 49,955 |
| Changes in assets and liabilities: | |
| (Increase)/Decrease in interest receivable | (881) |
| (Increase)/Decrease in prepaid insurance | (11,545) |
| Increase/(Decrease) in accounts payable | <u>10,998</u> |
| Net cash used in operating activities | <u>\$ (775,701)</u> |

BURBANK SANITARY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 01, 2020 THROUGH JUNE 30, 2022

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 8 miles of collection sewer lines and transports approximately 336,000 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, even 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 THE BASIC FINANCIAL STATEMENTS
 FOR THE PERIOD FROM JULY 01, 2020 THROUGH JUNE 30, 2022**

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 if the actual cost is not available. Future infrastructure additions will be financed from the District's unrestricted net position. These assets are depreciated over their useful lives using the straight-line method.

| Asset class | Useful life |
|------------------|-------------|
| Subsurface lines | 50 years |

The District's threshold for capitalization is \$5,000.

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, 2022. Future impairment indicators, including the anticipated annexation and reduction in areas served by the District in fiscal year 2021-2022, 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. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash held in bank(s), and cash pooled in the County Treasurer's Pool. Investment in the County pool is available on demand.

For purposes of the statement of cash flows, the entity considers all highly liquid investments with an original maturity of three months or less and amounts held in the County pool to be cash and cash equivalents.

BURBANK SANITARY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 01, 2020 THROUGH JUNE 30, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONT'D)

G. Net Position

Net Position is classified in the following three components:

- Net investment in capital assets - The category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- Restricted - The category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments, and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This category represents all other net position of the entity that do not meet the definition of "net investment in capital assets" or "restricted net position."

H. Future Accounting Pronouncement

The GASB has issued several new accounting pronouncements, which will be effective for the District in subsequent years. The following GASB pronouncements have been issued, but are not yet effective as of June 30, 2022:

GASB Statement No. 87, Leases

GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period

GASB Statement No. 91, Conduit Debt Obligations

GASB Statement No. 92, Omnibus 2020

GASB Statement No. 93, Replacement of Interbank Offered Rates

GASB Statement No. 97, Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-An Amendment of GASB Statements No. 14 and 84, and a Supersession of GASB Statement No. 32.

GASB Statement No. 101, Compensated Absences

The District had no reportable impacts for the fiscal year 2022.

NOTE 3 - CASH AND INVESTMENTS

Cash and cash equivalents as of June 30, 2022, consist of the following:

| | <u>Amount</u> |
|--|---------------------|
| County Cash in Treasury Common Pool at fair market value | \$ 1,098,310 |
| Cash with Banks | 44,750 |
| Total | <u>\$ 1,143,060</u> |

BURBANK SANITARY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 01, 2020 THROUGH JUNE 30, 2022

NOTE 3 - CASH AND INVESTMENTS - (CONT'D)

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, 2022 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, 2022, is \$1,127,056.

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the period from July 01, 2020 through June 30, 2022, is as follows:

| | Balance | | | Balance |
|--|----------------------|------------------|------------------|----------------------|
| | <u>July 01, 2020</u> | <u>Increases</u> | <u>Decreases</u> | <u>June 30, 2022</u> |
| Subsurface lines - capital infrastructure and improvements | \$ 1,597,040 | \$ 49,485 | \$ - | \$ 1,646,525 |
| Less: accumulated depreciation | <u>(631,374)</u> | <u>(49,955)</u> | <u>-</u> | <u>(681,329)</u> |
| Capital assets, net | <u>\$ 965,666</u> | <u>\$ (470)</u> | <u>\$ -</u> | <u>\$ 965,196</u> |

Depreciation expense for the period from July 01, 2021 through June 30, 2022 is \$49,955.

NOTE 5 - ACCOUNT PAYABLE AND OTHER LIABILITIES

Account payables and other liabilities as of June 30, 2022, are as follows:

| Description | Amount |
|-------------------|------------------|
| Account payables | \$ 12,622 |
| Other liabilities | <u>1,122</u> |
| Total | <u>\$ 13,744</u> |

BURBANK SANITARY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 01, 2020 THROUGH JUNE 30, 2022

NOTE 6 - COMMITMENTS AND CONTINGENT LIABILITIES

In the past, City had discussed making a claim against the district for past usage of City of San Jose interceptor, 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. Five years ago, 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 7 - 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 01. Property taxes are payable in two installments. First installment is due and payable on November 01 and second installment is due and payable on February 01.

NOTE 8 - 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 (Bodily injury, property damage & medical expenses) | \$ 3,000,000 |
| Public officials and management liability | \$ 3,000,000 |
| Personal and advertising injury | \$ 1,000,000 |
| Privacy liability and network risk | \$ 1,000,000 |
| Medical expenses (Any one person) | \$ 10,000 |
| Damage to rented premises (Any one premises) | \$ 1,000,000 |
| Hired and non-owned auto liability coverage | \$ 1,000,000 |

NOTE 9 - EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through June 13, 2023, the date on which the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

COMPLIANCE SECTION

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

To the Board of Directors
Burbank Sanitary District
Cupertino, California 95014

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, (the "District") for the period from July 01, 2020 through June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 13, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 financial statements.

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 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 District' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harshmal & Company LLP

Oakland, California
June 13, 2023

**BURBANK SANITARY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE PERIOD FROM JULY 01, 2020 THROUGH JUNE 30, 2022**

Financial Statements

| | |
|---|---------------|
| Type of auditor's report issued: | Unmodified |
| Internal control over financial reporting: | |
| • Material weakness(es) identified? | No |
| • Significant deficiency(ies) identified that are not considered to be material weakness? | None reported |
| • Noncompliance material to financial statements noted? | No |

**BURBANK SANITARY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE PERIOD FROM JULY 01, 2020 THROUGH JUNE 30, 2022**

There is no current period finding.

**BURBANK SANITARY DISTRICT
STATUS OF PRIOR YEAR'S FINDINGS
FOR THE PERIOD FROM JULY 01, 2020 THROUGH JUNE 30, 2022**

There were no prior year's findings.