
BURBANK SANITARY DISTRICT
REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 1, 2012
THROUGH JUNE 30, 2014

**BURBANK SANITARY DISTRICT
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2014**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1-2
MANAGEMENT’S DISCUSSION AND ANALYSIS	3-8
FINANCIAL STATEMENTS:	
Statement of Net Position – Proprietary Fund Type – Enterprise Fund	9
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund Type – Enterprise Fund	10
Statement of Cash Flows – Proprietary Fund Type – Enterprise Fund	11
Notes to the Financial Statements	12-17
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>	18-19
SCHEDULE OF FINDINGS AND RESPONSES	20
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS	21

INDEPENDENT AUDITOR'S REPORT

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 June 30, 2014 and for the period July 1, 2012 through June 30, 2014, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Burbank Sanitary District'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 Sanitary District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Burbank Sanitary District as of June 30, 2014, and the respective changes in financial position and, cash flows for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in the notes to the basic financial statements, Burbank Sanitary District implemented the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the period ended June 30, 2014. Our opinion is not modified with respect to this matter.

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 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2014 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 *Governmental Auditing Standards* in considering Burbank Sanitary District's internal control over financial reporting and compliance.


Patricia Ann Kelly, CPA
Oakland, California
December 23, 2014

**BURBANK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD FROM JULY 1, 2012 THROUGH JUNE 30, 2014**

This section presents management's analysis of the Burbank Sanitary District (the "District") financial condition and activities for two years ended June 30, 2014. 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 2012-2014) as compared to previous 2 fiscal years

	June 30, <u>2014</u>	June 30, <u>2012</u>	<u>Change</u>	<u>%</u>
Current Assets	\$ 1,403,189	\$ 1,669,263	\$ (266,074)	(15.9%)
Capital Assets, net	<u>513,537</u>	<u>259,082</u>	<u>254,455</u>	<u>98.2%</u>
Total Assets	<u>1,916,726</u>	<u>1,928,345</u>	<u>(11,619)</u>	<u>(0.6%)</u>
Current Liabilities	<u>17,126</u>	<u>16,488</u>	<u>638</u>	<u>4%</u>
Total Liabilities	<u>17,126</u>	<u>16,488</u>	<u>638</u>	<u>4%</u>
Invested in Capital Assets	513,537	259,082	254,455	8.2%
Unrestricted	<u>1,386,063</u>	<u>1,652,775</u>	<u>(266,712)</u>	<u>(16.2%)</u>
Total Net Position	<u>\$ 1,899,600</u>	<u>\$ 1,911,857</u>	<u>\$ (12,257)</u>	<u>(0.6%)</u>

**BURBANK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD FROM JULY 1, 2012 THROUGH JUNE 30, 2014**

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

	Two years ended June <u>30, 2014</u>	Two years ended June <u>30, 2012</u>	<u>Change</u>	<u>%</u>
Operating Revenue	\$ 1,107,609	\$ 1,024,650	\$ 82,959	8.1%
Operating Expenses, excl. depreciation	(1,101,613)	(1,058,704)	42,909	4.1%
Depreciation Expense	<u>(32,787)</u>	<u>(30,994)</u>	<u>1,793</u>	<u>5.8%</u>
Net Operating Loss	(26,791)	(65,048)	38,257	58.9%
Non-Operating Revenues	<u>14,534</u>	<u>22,063</u>	<u>(7,529)</u>	<u>(34.1%)</u>
Change in Net Position	(12,257)	(42,985)	30,728	71.5%
Fund Net Position, Beginning (as restated)	<u>1,911,857</u>	<u>1,954,842</u>	<u>(42,985)</u>	<u>(2.2%)</u>
Fund Net Position Ending	<u>\$ 1,899,600</u>	<u>\$ 1,911,857</u>	<u>\$ (12,257)</u>	<u>(0.6%)</u>

Balance Sheet Analysis

- Current Assets, which are cash balance at the end of two years period, showed a decrease of \$266,074 or 15.9% change in total cash balance. The current asset balance at the end of two years period was \$1,403,189. This decrease in cash balance was primarily due to capital improvement cost (Olive Street Sewer Rehabilitation).
- Net capital assets showed an increase of \$254,454. The major increase was the fact that the cash was expended for capital improvement for the Olive Street Sewer Rehabilitation and became subsurface asset. This adjustment reflects 98.2% change in net capital asset.
- Current liability showed an increase of \$637 or 4% change. There are no major reasons and the expected changes are within a reasonable operating range.
- Operating revenue showed an increase in the amount of \$82,959 or 8.1% increase due annual service rate increase.
- Operating expenses showed an increase of \$42,909 or 4.1% due to treatment plant O&M increases and district cost for completing CCTV program.
- Depreciation adjustment shows an increase of \$1,793 which is within the range of deviation for depreciation of assets.
- Non-Operating Revenue showed a decrease of \$7,529 or 34.1% reduction due to lower interest earning on cash investment.
- Net Position of June 30, 2014 showed a decrease of \$12,257 or 0.6% total reduction.

**BURBANK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD FROM JULY 1, 2012 THROUGH JUNE 30, 2014**

Budget versus Actual Comparison

The following table shows the budget versus actual for the combined two fiscal years (FY 2012-13 and FY 2013-14).

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable Variance)</u>
OPERATING REVENUES			
Sewer service revenue	\$ 1,115,400	1,102,329	(13,071)
Other income	<u>3,000</u>	<u>5,280</u>	<u>2,280</u>
Total Operating Revenue	<u>1,118,400</u>	<u>1,107,609</u>	<u>(10,791)</u>
OPERATING EXPENSES			
Debt Related Treatment Plant (Bonds)	58,200	56,155	2,045
Treatment Plant O&M	210,600	155,985	54,615
District Capital Projects	400,000	287,242	112,758
Treatment O&M	474,200	406,054	68,146
Street Sweeping	28,000	26,910	1,090
Waste Management SCC/Annual Clean Up	18,400	14,922	3,478
Preventative Maintenance	40,000	5,162	34,838
Emergency R/M & Stoppages	30,000	3,096	26,904
Rehabilitation/Replacements	100,000	41,597	58,403
Permits (SWRCG & Encroachment)	31,800	5,873	25,927
Engineering, Management & Administration	383,250	320,243	63,007
Legal Services	20,000	18,871	1,129
Audit/Accounting Services	42,600	21,300	21,300
CASA Membership	3,500	3,722	(222)
Insurance Renewals	7,000	6,909	91
Directors' Fees/Reimbursements	<u>16,200</u>	<u>14,815</u>	<u>1,385</u>
Total Operating Expenses	<u>1,863,750</u>	<u>1,388,856</u>	<u>474,894</u>
NON-OPERATING INCOME			
Interest income	<u>30,000</u>	<u>14,534</u>	<u>(15,466)</u>
Net gain/(loss)	<u>\$ (715,350)</u>	<u>\$ (266,713)</u>	<u>\$ 448,637</u>

**BURBANK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD FROM JULY 1, 2012 THROUGH JUNE 30, 2014**

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 revenue was less by \$10,791 as compared to the budget amount. This decrease is due to annexation of 43 parcels by City of San Jose and reduction of water consumption for retail and commercial usages.
- The actual expenditure for capital replacement and rehabilitation for these two fiscal years was less by \$112,758 as compared to the budgeted amount of \$400,000. The only major capital improvement completed in the last two fiscal years was the Olive Street Sewer Replacement Project. Other capital projects are being deferred until a condition assessment is completed.
- The BSD Board has consistently budgeted \$150,000 for capital improvement work until a condition assessment is completed and a new capital improvement program/budget is established.
- San Jose Treatment Plant cost was lowered by \$122,761 as compared to the budgeted amount, which accounted for \$54,615 in unspent operations and maintenance cost and \$68,146 credit for unspent amount in capital improvement program.
- District condition assessment process and budget has been approved for fiscal year 2014-15. Depending on the final adopted capital improvement program and budget, future fiscal year budget related to these tasks will be considered on an annual basis as part of the budget review and approval process.

USING THIS BI-ANNUAL REPORT

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

**BURBANK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD FROM JULY 1, 2012 THROUGH JUNE 30, 2014**

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 and Expenses and 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.

**BURBANK SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD FROM JULY 1, 2012 THROUGH JUNE 30, 2014**

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 TYPE
ENTERPRISE FUND
JUNE 30, 2014

ASSETS

Current assets:

Cash and cash equivalents (Note 3)	\$	1,401,960
Interest receivable		<u>1,229</u>
		<u>1,403,189</u>

Capital assets:

Subsurface lines - infrastructure and improvements, net of accumulated depreciation (Note 4)		<u>513,537</u>
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Total assets		<u>1,916,726</u>
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LIABILITIES

Current liabilities:

Accounts payable		<u>17,126</u>
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Total liabilities		<u>17,126</u>
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NET POSITION

Invested in capital assets		513,537
Unrestricted		<u>1,386,063</u>
Total net position	\$	<u><u>1,899,600</u></u>

The accompanying notes are an integral part of these financial statements

BURBANK SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUND TYPE
ENTERPRISE FUND
FOR THE PERIOD FROM JULY 1, 2012 THROUGH JUNE 30, 2014

OPERATING REVENUE:

Sewer service charges	\$	1,102,329
Permit, inspection and other fees		<u>5,280</u>
Total operating revenue		<u>1,107,609</u>

OPERATING EXPENSES:

Sewage treatment/Bonds/Capital outlay		618,194
Sewer maintenance		14,130
Street sweeping		26,910
Replacement and rehabilitation		39,847
Integrated waste disposal		14,922
Administration and engineering management		335,483
Legal		14,142
Accounting and professional fees		21,300
Insurance		6,909
Office		9,776
Depreciation		<u>32,787</u>
Total operating expenses		<u>1,134,400</u>
Operating loss		<u>(26,791)</u>

NON-OPERATING REVENUE:

Interest income		<u>14,534</u>
Total non-operating revenue		<u>14,534</u>
Change in net position		(12,257)
Net position - beginning of period		<u>1,911,857</u>
Net position - end of period	\$	<u><u>1,899,600</u></u>

The accompanying notes are an integral part of these financial statements

**BURBANK SANITARY DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE
ENTERPRISE FUND
FOR THE PERIOD FROM JULY 1, 2012 THROUGH JUNE 30, 2014**

Cash flows from operating activities:

Receipts from customers and users	\$ 1,107,609
Payments to suppliers and service providers	<u>(1,100,975)</u>
Net cash provided by operating activities	<u>6,634</u>

Cash flow from investing activities:

Interest received	15,607
Acquisition of Capital Asset	<u>(287,242)</u>
Net cash used in investing activities	<u>(271,635)</u>

Net decrease in cash and cash equivalents (265,001)

Cash and cash equivalents, beginning of the period 1,666,961

Cash and cash equivalents, end of the period \$ 1,401,960

Reconciliation of operating loss to net cash used in operating activities:

Operating loss	\$ (26,791)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	32,787
Changes in assets and liabilities:	
Increase in accounts payable	<u>638</u>
Net cash provided by operating activities	\$ <u><u>6,634</u></u>

The accompanying notes are an integral part of these financial statements

BURBANK SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 1, 2012 THROUGH JUNE 30, 2014

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 December 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.

BURBANK SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 1, 2012 THROUGH JUNE 30, 2014

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") issued on or before December 30, 1989, except those that conflict with GASB pronouncements.

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

**BURBANK SANITARY DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE PERIOD FROM JULY 1, 2012 THROUGH JUNE 30, 2014**

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, 2014. Future impairment indicators, including the anticipated annexation and reduction in areas served by the District in fiscal year 2014-2015, 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.

G. Implementation of New Pronouncement

The District has implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* for the period ended June 30, 2014. This statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The statement also recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments as of June 30, 2014 consist of the following:

Cash in County Treasury common pool	\$ 1,376,117
Cash with banks	<u>25,843</u>
Total	<u>\$ 1,401,960</u>

**BURBANK SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 1, 2012 THROUGH JUNE 30, 2014**

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, 2014 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.

NOTE 4: CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the period from July 1, 2012 through June 30, 2014 is as follows:

	<u>Balance 7/1/2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2014</u>
Subsurface lines - Infrastructure and improvements	\$ 838,093	\$ 287,242	\$	\$ 1,125,335
Less accumulated depreciation	<u>(579,011)</u>	<u>(32,787)</u>	<u></u>	<u>(611,798)</u>
Capital assets, net	<u>\$ 259,082</u>	<u>\$ 254,455</u>	<u>\$</u>	<u>\$ 513,537</u>

**BURBANK SANITARY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM JULY 1, 2012 THROUGH JUNE 30, 2014**

NOTE 5: COMMITMENTS AND CONTINGENT LIABILITIES

- A. The District has various agreements with the City of San Jose and Santa Clara relating to the discharge of sewage into the San Jose-Santa Clara Water Pollution Control Plant (Plant). Total payment under these agreements during the period July 1, 2012 through June 30, 2014 was \$633,116. These charges are calculated based on the District's share of budgeted Plant operating expenditures, estimated capital improvements to the Plant, and related debt financing charges incurred by the Plant.

The City of San Jose invoices the District for these charges throughout the year and then reconciles the payment made by the District to the actual expenses incurred by the Plant subsequent to each fiscal year end. Prior year under or over payments made by the District versus actual expenses incurred by the Plant are credited to the District in the third quarter of the subsequent year. Therefore, due to the fact that the actual over/under payment is not known at year end, there are no residual amounts reflected in these financial statements at year end. Historically, any over or under payment has been immaterial for financial reporting purposes. Any calculated over or under payment from the prior year is netted with the current year operating or capital outlay expenses.

The District does not hold title to any Plant assets, nor is it directly or legally responsible for any related outstanding long-term debt. However, as long as the District continues these agreements, it will be responsible for a predetermined share of the Plant's annual debt service payments.

- B. The District and the City of San Jose were parties to an agreement which granted the District permission to discharge its sewage to the City's outfall sewer system, and granted the City permission to transport its sewage through the District's collection system and outfall. Under this exchange of rights, the District was to pay the City \$2,668.72 per year, and the City was to pay the District \$579.06 per year, for a net payment of \$2,089.66 from the District to the City. After the expiration of the agreement on June 30, 1983, the District continued to make payments to the City until approximately 1997. Since that time, the District has used the City's outfall but has not made any payments. Recently the City has discussed making a claim against the District for past usage of its sewer system, indicating that it wishes to collect allegedly past due payments from the District for a period from 1997 to the present. These payments would total approximately \$29,000. To date, there has been no formal claim. It is management's opinion that should a formal claim materialize, due to applicable statutes of limitations the District would be liable to the City of San Jose for a maximum of four years of payments, estimated at approximately \$8,400. No adjustment has been made in the financial statements to the effect of potential claim. The management is of the opinion if there is a claim, the amount would not have a material impact on the financial statements.

**BURBANK SANITARY DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE PERIOD FROM JULY 1, 2012 THROUGH JUNE 30, 2014**

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 installments. First installment is due and payable on November 1 and second installment 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 Special District Risk Management Authority (SDRMA) Primary Insurance Program to protect against these risks.

<u>Type of Coverage</u>	<u>Limits</u>
General liability	\$ 2,500,000
Public officials and Employees errors	\$ 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**

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 1, 2012 through June 30, 2014, 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 December 23, 2014.

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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Burbank Sanitary District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Permin & Associates LLP
Oakland, California
December 23, 2014

**BURBANK SANITARY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE PERIOD FROM JULY 1, 2012 THROUGH JUNE 30, 2014**

No matters were reported.

**BURBANK SANITARY DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD FROM JULY 1, 2012 THROUGH JUNE 30, 2014**

There were no findings in the prior year.