



***East Bay Regional
Communications
System Authority***



Participating agencies include Alameda and Contra Costa Counties and the following cities and special districts: Alameda, Albany, Antioch, Brentwood, Clayton, Concord, Danville, Dublin, El Cerrito, Emeryville, Fremont, Hayward, Hercules, Lafayette, Livermore, Martinez, Moraga, Newark, Oakley, Pinole, Pittsburg, Pleasant Hill, Pleasanton, Richmond, San Leandro, San Pablo, San Ramon, Union City, Walnut Creek, East Bay Regional Park District, Kensington Police Community Services District, Rodeo-Hercules Fire Protection District, San Ramon Valley Fire Protection District, University of California, Berkeley and California Department of Transportation

**Comprehensive Annual Financial Report
For Fiscal Year Ended June 30, 2011**

**East Bay Regional Communications System Authority
Alameda County Office of Homeland Security and Emergency Services
4985 Broder Blvd, Dublin CA 94568 • (925) 803-7802 • www.ebrcsa.org**

**Prepared by the Alameda County Auditor-Controller Agency
Specialized Accounting Unit**

East Bay Regional Communications System Authority

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Introductory Section

East Bay Regional Communications System Authority

Board of Directors

County Representatives

Scott Haggerty, President, Alameda County Board of Supervisors
Gayle Uilkema, Supervisor, Contra Costa County
David Livingston, Sheriff, Contra Costa County
Greg Ahern, Sheriff, Alameda County (Currently serving as Board Vice Chair)
Susan Muranishi, County Administrator, Alameda County
David Twa, County Administrator, Contra Costa County

City Representatives

Jennifer Hosterman, Mayor, City of Pleasanton
Olden Henson, Councilmember, City of Hayward
Leonard McNeil, Mayor, City of San Pablo
Tim Sbranti, Mayor, City of Dublin
Bill Shinn, Councilmember, City of Concord (Currently serving as Board Chair)
Abram Wilson, Mayor, City of San Ramon
Matt Rodriguez, City Manager, City of San Pablo
Joni Pattillo, City Manager, City of Dublin
Joe Calabrigo, Town Manager, Town of Danville
June Catalano, City Manager, City of Pleasant Hill
Larry Cheeves, City Manager, City of Union City
Patrick O'Keeffe, City Manager, City of Emeryville

Public Safety Representatives

Mike McQuiston, Police Chief, City of Albany
Pete Dunbar, Police Chief, City of Pleasant Hill
Lance Maples, Fire Chief, El Cerrito Fire Department
Andy Smith, Alameda County Assistant Fire Chief

Special District Representative

Tim Anderson, Police Chief, East Bay Regional Park District

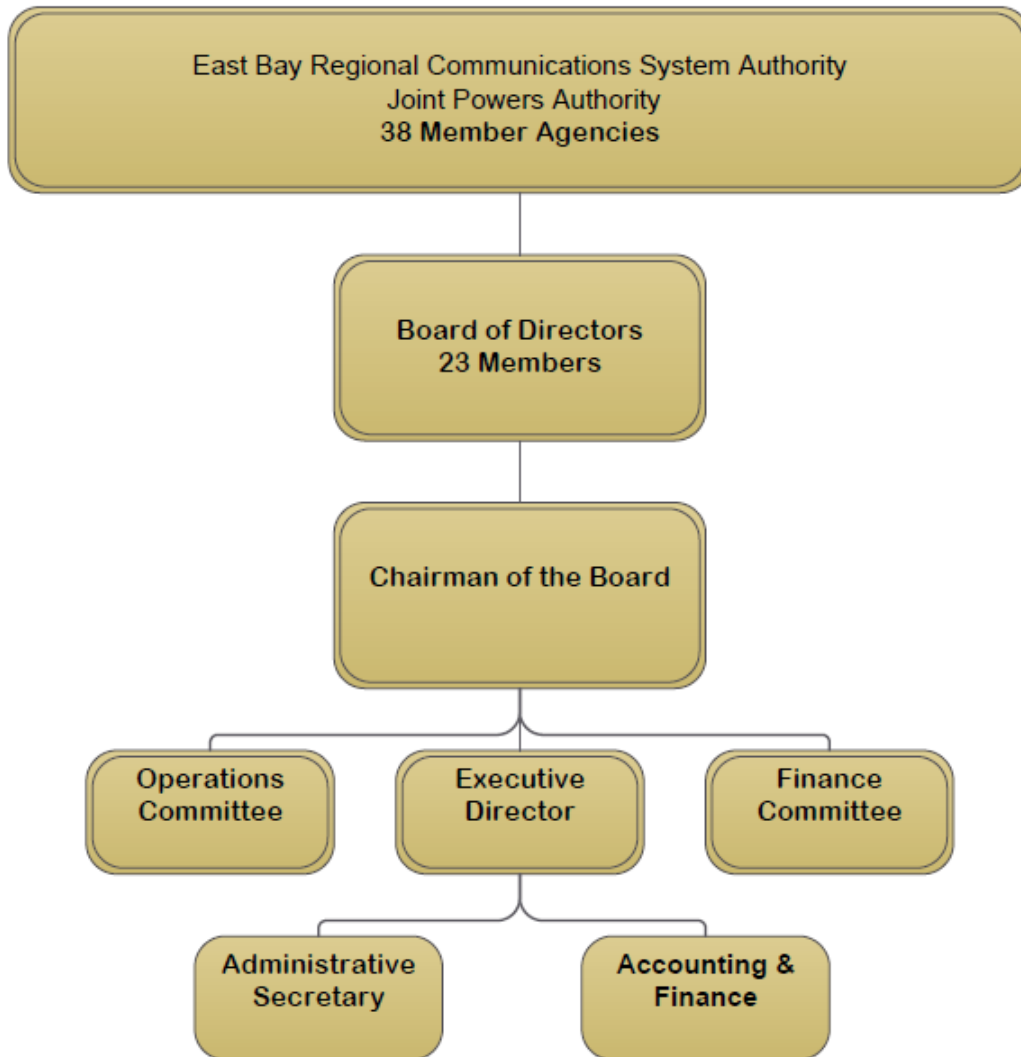
Management Personnel

Executive Director

William McCammon

East Bay Regional Communications System Authority

Organization Chart



East Bay Regional Communications System Authority

Members

The EBRCSA currently has 38 member agencies. Participating agencies include:

Counties

Alameda County
Contra Costa County

Special Districts

East Bay Regional Park District
Kensington Police Community Services District
Rodeo-Hercules Fire Protection District
San Ramon Valley Fire Protection District
Moraga-Orinda Fire District

State

California Department of Transportation
University of California, Berkeley

Cities

City of Alameda
City of Albany
City of Antioch
City of Brentwood
City of Clayton
City of Concord
Town of Danville
City of Dublin
City of El Cerrito
City of Emeryville
City of Fremont
City of Hayward
City of Hercules
City of Lafayette
City of Livermore
City of Martinez
Town of Moraga
City of Newark
City of Oakley
City of Pinole
City of Pittsburg
City of Pleasant Hill
City of Pleasanton
City of Richmond
City of San Leandro
City of San Pablo
City of San Ramon
City of Union City
City of Walnut Creek

Financial Section



C. G. UHLENBERG LLP

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
East Bay Regional Communications System Authority
Dublin, California

We have audited the accompanying financial statements of the business-type activities of East Bay Regional Communications System Authority ("Authority"), as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Authority, as of June 30, 2011, and the respective changes in financial position, and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2011, on our consideration of the Authority'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 and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards



generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

C. D. Uhlenberg LLP

December 14, 2011
Redwood City, California

**East Bay Regional Communications System Authority
Management's Discussion and Analysis (Unaudited)
For Fiscal Year Ended June 30, 2011**

This section of the East Bay Regional Communications System Authority (the Authority) of the Authority's financial statements presents a narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2011. This information is presented in conjunction with the audited basic financial statements, which follows this section.

Financial Highlights

- The Authority adopted to change from governmental fund to enterprise fund type.
- The Authority issued \$6,136,866 in revenue bonds to finance the build out of the communications system.
- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$26,821,455 (*net assets*).
- The Authority began receiving capital contributions in fiscal year ending June 30, 2011 in the amount of \$11,518,400.
- Total net assets increased by \$22,900,793 during the fiscal year.
- The Authority received federal funds in the amount of \$11,402,698 during the current fiscal year. These funds were used for infrastructure development, which are reported as capital assets, professional services, and project administration.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the East Bay Regional Communications System Authority's basic financial statements. In fiscal year 2011, the Authority's Board of Directors approved a resolution to change from governmental fund to an enterprise fund (proprietary fund type). As a result, the financial statements of the fiscal year ended June 30, 2011 are prepared on an accrual basis in accordance with generally accepted accounting principles which are generally accepted in the United States of America.

Required Financial Statements

The Authority's financial information is presented in the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. The Statement of Net Assets includes all the Authority's assets and liabilities, and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). The Statement of Revenues, Expenses, and Changes in Net Assets identify the Authority's revenues and expenses and can be used to determine whether the Authority has successfully recovered all its costs through user fees and other charges. The Statement of Cash Flows provides information on the Authority's cash receipts, cash disbursements, and net changes in cash resulting from operations, investments, and financing activities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis of the Authority

Statement of Net Assets – The statement of net assets presents information on all of the Authority’s assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. A summarized comparison of the Authority’s assets, liabilities, and net assets at June 30 is shown below:

Table 1: Condensed Statement of Net Assets

| | <u>June 30, 2011</u> | <u>June 30, 2010</u> | <u>Dollar Change</u> | <u>2011 vs. 2010</u> <u>Percent Change</u> |
|---|----------------------|----------------------|----------------------|---|
| Assets: | | | | |
| Current assets | 17,246,384 | 1,329,144 | 15,917,240 | 1,198 % |
| Deferred charges - bond issuance costs | 134,591 | - | 134,591 | 100 % |
| Capital assets | <u>17,599,549</u> | <u>2,598,677</u> | <u>15,000,872</u> | 577 % |
| Total Assets | <u>34,980,524</u> | <u>3,927,821</u> | <u>31,052,703</u> | 791 % |
| Liabilities: | | | | |
| Current liabilities | 1,973,958 | 7,159 | 1,966,799 | 27,473 % |
| Noncurrent liabilities | <u>6,185,111</u> | <u>-</u> | <u>6,185,111</u> | 100 % |
| Total Liabilities | <u>8,159,069</u> | <u>7,159</u> | <u>8,151,910</u> | 113,869 % |
| Net Assets: | | | | |
| Invested in capital assets, net of related debt | 11,597,274 | 2,598,677 | 8,998,597 | 346 % |
| Restricted | 8,036,889 | - | 8,036,889 | 100 % |
| Unrestricted | <u>7,187,292</u> | <u>1,321,985</u> | <u>5,865,307</u> | 444 % |
| Total Net Assets | <u>26,821,455</u> | <u>3,920,662</u> | <u>22,900,793</u> | 584 % |

Current assets increased \$15,917,240 due to mainly to receipts of bond proceeds (\$6,136,866) and capital contributions (\$11,518,400) from member agencies. The \$15,000,872 increase in capital assets was due to a significant increase in construction activity for the build out of the communications system in fiscal year 2011.

Current liability increased \$1,966,799 primarily due to a \$1.4 million payable to the County of Alameda for services the county contracted and paid for on behalf of the Authority for the build out of the system. The increase in noncurrent liabilities is due to issuance of revenue bonds; debt service payments on these bonds begins in 2013.

The increase in net assets reflects its investments in construction of the communication system (e.g. buildings, equipment and infrastructure development costs), and cash from bond proceeds and capital contributions. No assets have been depreciated at this time since the construction is still in progress.

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the Authority, assets exceed liabilities by \$26,821,455 at June 30, 2011.

Statement of Revenues, Expenses and Changes in Net Assets – The Statements of Revenues, Expenses and Changes in Net Assets reflect how the Authority’s net assets changed during the recent fiscal year as compared to the prior year. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. A summary of the Statements of Revenues, Expenses and Changes in Net Assets is shown below:

Table 2: Changes in Net Assets

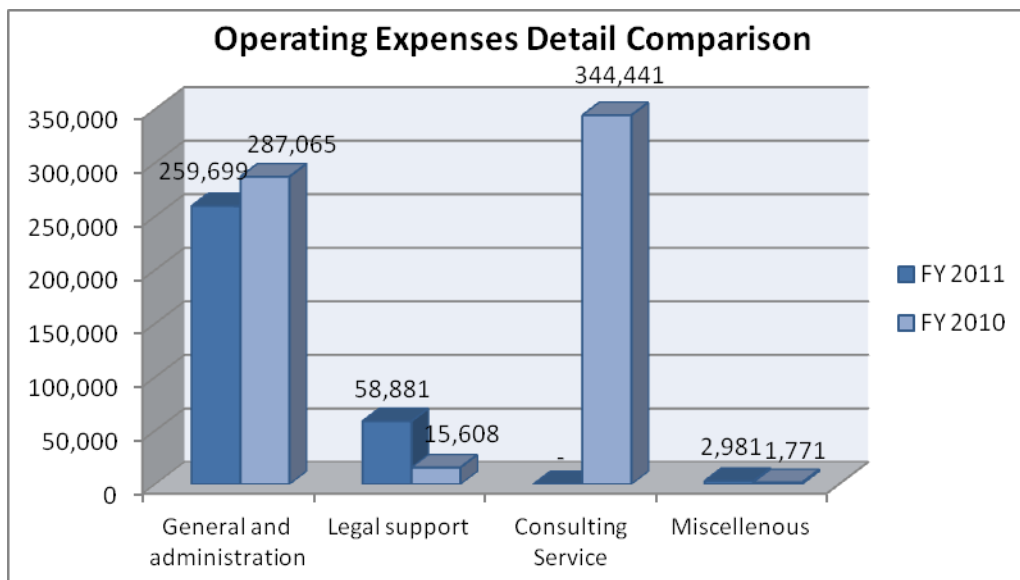
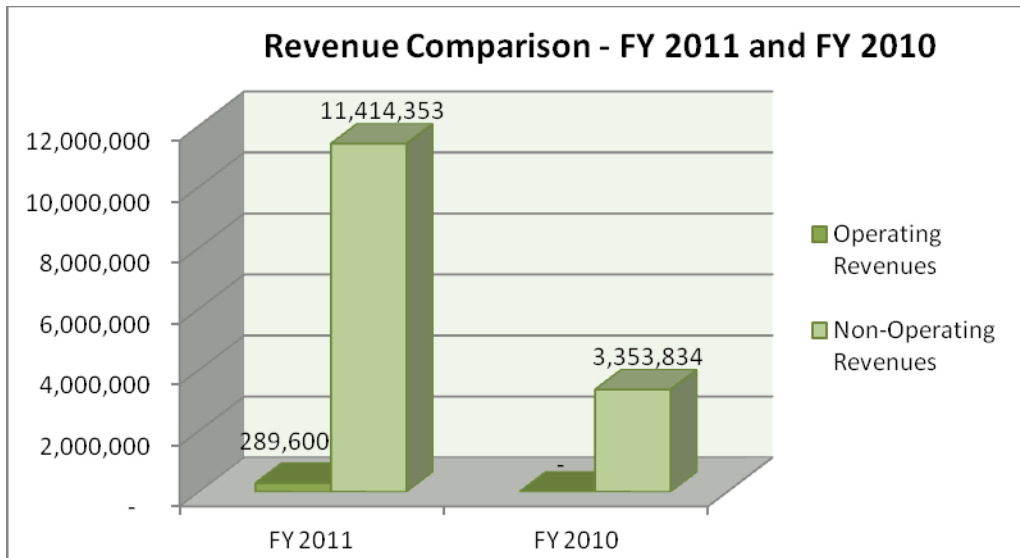
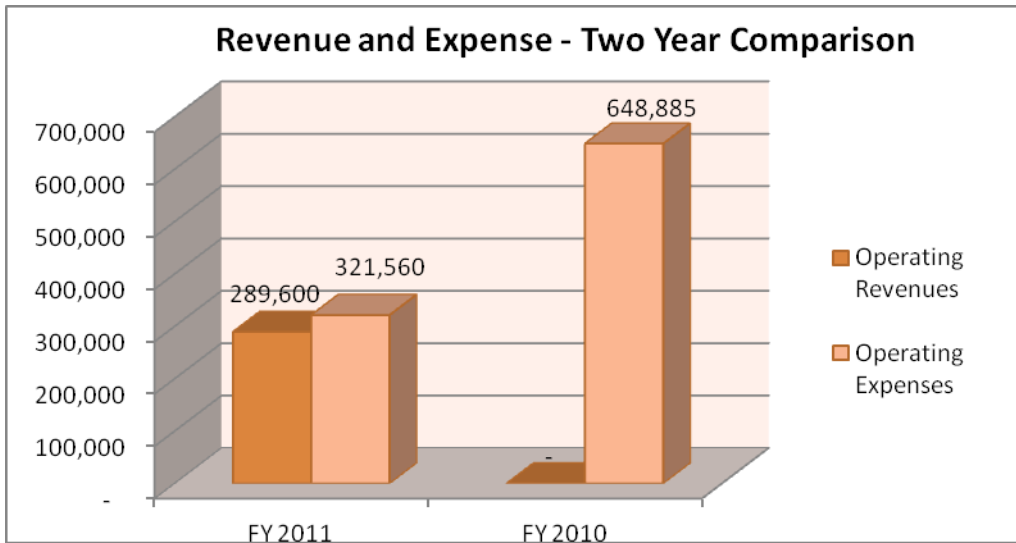
| | 2011 vs. 2010 | | | |
|---|----------------------|---------------------|----------------------|-----------------------|
| | <u>FY 2011</u> | <u>FY 2010</u> | <u>Dollar Change</u> | <u>Percent Change</u> |
| Operating Revenues | | | | |
| Charges for services | | | | |
| Initial payments | \$ 289,600 | - | \$ 289,600 | 100 % |
| Total Operating Revenues | <u>289,600</u> | <u>-</u> | <u>289,600</u> | <u>100 %</u> |
| Operating Expenses | | | | |
| General and administration | 259,699 | 287,065 | (27,366) | -10 % |
| Legal support | 58,881 | 15,608 | 43,273 | 277 % |
| Consulting Service | - | 344,441 | (344,441) | -100 % |
| Miscellaneous | 2,981 | 1,771 | 1,210 | 68 % |
| Total Operating Expenses | <u>321,561</u> | <u>648,885</u> | <u>(327,324)</u> | <u>-51 %</u> |
| Non-Operating Revenues (Expenses): | | | | |
| Grants | 11,402,698 | 3,347,950 | 8,054,748 | 241 % |
| Interest Income | 13,064 | 5,884 | 7,180 | 122 % |
| Bonds Issuance Costs | (1,409) | - | (1,409) | 100 % |
| Total Non-Operating Revenues | <u>11,414,353</u> | <u>3,353,834</u> | <u>8,060,519</u> | <u>241 %</u> |
| Income (Loss) Before Contribution and Transfers | <u>11,382,392</u> | <u>2,704,949</u> | <u>8,677,443</u> | <u>321 %</u> |
| Capital contribution | <u>11,518,400</u> | <u>-</u> | <u>11,518,400</u> | <u>100 %</u> |
| Change in net assets | 22,900,793 | 2,704,949 | 20,195,844 | 747 % |
| Total net assets - beginning | <u>3,920,662</u> | <u>1,215,713</u> | <u>2,704,949</u> | <u>222 %</u> |
| Total net assets - ending | <u>\$ 26,821,455</u> | <u>\$ 3,920,662</u> | <u>\$ 22,900,793</u> | <u>584 %</u> |

As stated above, the Authority increased its net assets by \$22,900,793 in fiscal year 2011. Key elements of this increase are listed as follow:

- This is the fourth fiscal year of the Authority's operations. The main source of revenue for Authority in this fiscal year was from grant revenue, capital contributions, as well as radio subscription fees from members.
- Legal expenses increased due to additional support required for preparation and review of operating agreements with the member organizations.
- Consulting services in fiscal year 2011 were for equipment testing and therefore capitalized as part of the system build out.
- The Authority's revenues exceeded expenses in the current fiscal year due to the reimbursement of project expenses from federal grants. Federal grant reimbursements increased because of increased construction activity for build out of the system in fiscal year 2011.

The Authority realized \$11,402,698 in federal funds claimed through the counties of Alameda and Contra Costa, as a sub-grantee and U.S. Department of Justice as direct grantee. All the expenditures of these funds were applied to allowable communication system consultation, equipment purchases, and infrastructure development.

Two-Year Comparison of Operating Revenues and Expenses – The three charts that follow illustrate revenues and expenses for fiscal years 2010 and 2011.



Capital Assets and Debt Administration

Capital Assets – Although the Authority began developing the P-25 compliant communications system in fiscal year 2008, there are no completed capital assets as of June 30, 2011. The Authority acquired \$15 million in capital assets in fiscal year 2011. None of the capital assets are completed or placed into service by year end. The Authority’s construction-in-progress at year end is as follows:

Table 3: Construction in Progress

| | <u>Balance</u> <u>June 30, 2010</u> | <u>Additions</u> | <u>Balance</u> <u>June 30, 2011</u> |
|-----------------------------------|--|----------------------|--|
| Brittanny Loop Microwave - Dublin | \$ 287,707 | \$ - | \$ 287,707 |
| Dispatch Consoles - Livermore | 414,312 | - | 414,312 |
| Dispatch Consoles - Pleasanton | 352,165 | 62,180 | 414,345 |
| East Cell Completion | - | 621,014 | 621,014 |
| East Dublin Repeater Site | - | 7,654 | 7,654 |
| Equipment Shelters | 82,946 | - | 82,946 |
| Final System Build-Up | - | 10,177,384 | 10,177,384 |
| Glenn Dyer Jail Prime Site | - | 935,364 | 935,364 |
| IP Upgrade | 1,461,547 | 257,920 | 1,719,467 |
| NICE Master Site Logging Record | - | 413,173 | 413,173 |
| Professional Service - CTA | - | 97,044 | 97,044 |
| Project Cornerstone | - | 2,429,139 | 2,429,139 |
| Total Construction-in-Progress | <u>\$ 2,598,677</u> | <u>\$ 15,000,872</u> | <u>\$ 17,599,549</u> |

Debt Administration – On April 21, 2011, the Authority issued a total of \$6,136,866 in 2011 Series A & B revenue bonds in the amount of \$3,681,751.81 and \$2,455,113.76, which were acquired by Alameda and Contra Costa Counties respectively. The bonds have an interest rate of 4.05%. The first payment for scheduled debt service is December 1, 2013. The purpose for the issuance and sale of revenue bonds is to finance the build out and completion of the communications system. Additional information on long term debt can be found in note 8 of the Notes to the Financial Statements of this report.

Economic Factors and Next Year’s Budgets and Rates

The economy of California remains poor because of the recession that began in 2008 due to a housing market crisis and the resulting failure of several major financial institutions has impacted the ability of the local governments to maintain normal levels of spending.

The unemployment rate for Alameda County was 10.9% down from 11.4% in June of 2010. The rate for Contra Cost County was 11% on June 2011 down from last year’s rate of 11.2%. The unemployment rate for the State of California was slightly higher at 11.8%, and the national unemployment rate was 9.2% for June 2011.

Interest rates remained low during the preceding 12 months. The earned interest rate yield on funds held by the County Treasurer for fiscal year 2010-2011 was 1.04%. Though future rates cannot be predicted, it is reasonably safe to assume that rates will remain low during the first half of fiscal year 2012.

All of these factors were considered in preparing the Authority’s budget for the 2011 fiscal year. The communications system is expected to begin partial operations in July 2012. Rates for radio system usage have not been finalized, and will be dependent on the cost of financing and maintaining the system, as well as the ultimate number of users.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Below is the contact for questions about this report or requests for additional financial information.

East Bay Regional Communications System Authority
Alameda County Office of Homeland Security and Emergency Services
4985 Broder Blvd., Dublin, CA 94568
Website: www.EBRCSA.org

East Bay Regional Communications System Authority
Statement of Net Assets
June 30, 2011

Assets

Current assets:

| | | |
|---------------------------|----|-------------------|
| Cash and cash equivalents | \$ | 2,637,777 |
| Cash with fiscal agent | | 7,586,889 |
| Receivables, net | | 7,021,718 |
| Total current assets | | <u>17,246,384</u> |

Noncurrent assets:

| | | |
|--|--|-------------------|
| Deferred charges - bond issuance costs | | 134,591 |
| Capital assets: | | |
| Construction in progress | | 17,599,549 |
| Total noncurrent assets | | <u>17,734,140</u> |

| | | |
|--------------|----|-------------------|
| Total assets | \$ | <u>34,980,524</u> |
|--------------|----|-------------------|

Liabilities

Current liabilities

| | | |
|---------------------------|----|------------------|
| Accounts payable | \$ | 1,973,958 |
| Total current liabilities | | <u>1,973,958</u> |

Noncurrent liabilities

| | | |
|--------------------------------|--|------------------|
| Accrued bonds interest payable | | 48,245 |
| Bonds payable | | 6,136,866 |
| Total noncurrent liabilities | | <u>6,185,111</u> |

| | | |
|-------------------|----|------------------|
| Total liabilities | \$ | <u>8,159,069</u> |
|-------------------|----|------------------|

Net assets

| | | |
|---|----|-------------------|
| Invested in capital assets, net of related debt | | 11,597,274 |
| Restricted | | 8,036,889 |
| Unrestricted | | 7,187,292 |
| Total net assets | \$ | <u>26,821,455</u> |

The accompanying notes are an integral part of these financial statements

East Bay Regional Communications System Authority
Statement of Revenues, Expenses and Changes in Net Assets
For Fiscal Year Ended June 30, 2011

| | |
|--|------------------------------------|
| Operating revenues: | |
| Charges for services | |
| Initial payments | \$ 289,600 |
| Total operating revenues | <u>289,600</u> |
| Operating expenses: | |
| General and administration | 259,699 |
| Legal support | 58,881 |
| Miscellaneous | 2,981 |
| Total operating expenses | <u>321,561</u> |
| Operating Income (Loss) | <u>(31,961)</u> |
| Nonoperating revenues (expenses): | |
| Grants | 11,402,698 |
| Interest income | 13,064 |
| Bond issuance costs | (1,409) |
| Total nonoperating revenues (expenses) | <u>11,414,353</u> |
| Income (Loss) Before Contribution and Transfers | <u>11,382,393</u> |
| Capital contribution from members | <u>11,518,400</u> |
| Change in net assets | 22,900,793 |
| Total net assets - beginning | <u>3,920,662</u> |
| Total net assets - ending | <u><u>\$ 26,821,455</u></u> |

The accompanying notes are an integral part of these financial statements

East Bay Regional Communications System Authority
Statement of Cash Flows
For Fiscal Year Ended June 30, 2011

| | |
|---|----------------------|
| Cash flows from operating activities | |
| Receipts from members | \$ 289,600 |
| Payments to suppliers | (92,310) |
| Payments for contractual services | (224,850) |
| Net cash provided by operating activities | <u>(27,560)</u> |
| Cash flows from noncapital financing activities | |
| Grants | 238,669 |
| Net cash (used) by nonfinancing activities | <u>238,669</u> |
| Cash flows from capital and related financing activities | |
| Grants | 4,557,476 |
| Proceeds from long term borrowing | 6,136,866 |
| Capital contribution | 11,455,400 |
| Acquisition and construction of capital assets | (12,990,574) |
| Other receipts (payments) | (136,000) |
| Net cash (used) by capital and related financing activities | <u>9,023,168</u> |
| Cash flows from investing activities | |
| Interest income | 13,409 |
| Net cash provided by investing activities | <u>13,409</u> |
| Net increase (decrease) in cash and cash equivalents | 9,247,686 |
| Balances - Beginning of the year | 976,979 |
| Balances - End of the year | <u>\$ 10,224,665</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating | |
| Operating income (loss) | (31,961) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities | |
| Change in assets and liabilities | |
| Accounts payable | 4,400 |
| Net cash provided by operating activities | <u>\$ (27,560)</u> |
| Noncash investing, capital and financing activities | |
| Capital contribution due from member | \$ 63,000 |
| Purchase of Capital Assets on account | \$ 1,965,271 |
| Grants recognized as receivables | \$ 6,958,718 |

The accompanying notes are an integral part of these financial statements

East Bay Regional Communications System Authority
Notes to the Financial Statements
For Fiscal Year Ended June 30, 2011

Note 1: General Information

The East Bay Regional Communications System Authority (the Authority) was officially created on September 11, 2007 with the formation of a Joint Powers Authority (JPA). In California State Statute, a JPA is viewed as an independent government agency with powers that accrue to one of the member agencies. Currently there are 38 member agencies consisting of 2 counties, 30 cities, and 5 special districts, the University of California, and the California Department of Transportation, serving a population of over 2.5 million people. The Board of Directors consists of 23 representatives consisting of Elected Officials, Police Chiefs, Fire Chiefs, and City Managers who will be responsible for the overall development, operations, and funding of the system.

Representatives from both counties have been working together on this project for over 6 years using Homeland Security grants funds from the Urban Area Security Initiative (UASI), Community Oriented Policing Services (COPS), Public Safety Interoperable Communications (PSIC), and State Homeland Security Grant Programs (SHSGP) to fund infrastructure build-out while the JPA formation process moved forward. The project to build the infrastructure is estimated to cost nearly \$70 million.

Note 2: Change in Accounting Principal

On June 17, 2011, the Authority's Board of Directors voted and approved Board Resolution 11-11 adopting enterprise fund standard for reporting of financial activities. The change was made to comply with Generally Accepted Accounting Principles and agreements with users that stated that management's intention is to recover operating costs, including depreciation or debt service, from fees and charges.

Note 3: Summary of Significant Accounting Policies

A. Reporting entity

The Authority is legally separate from the two Counties, and is governed by a Board of Directors made up of 23 elected and appointed officials from the Counties of Alameda and Contra Costa and 34 cities and districts within those counties. The Authority's financial activities are reported under the JPA Radio Interoperability Fund in the County of Alameda and funds are held by the Treasurer of the County of Alameda and with a trustee. The books and records for the Authority are maintained by the County of Alameda, Auditor-Controller Agency's Specialized Accounting Unit.

B. Measurement focus, basis of accounting, and financial statement presentation

The financial statements of the Authority are presented as those of an enterprise fund under the broad category of funds called proprietary funds. The acquisition and capital outlays for the build-out of the communications system are financed from existing cash resources, cash flow from operations, federal grants, issuance of bonds, and contributed capital from member agencies.

Enterprise funds account for business-like activities that are financed primarily by user charges and uses the *economic resources measurement focus* and the accrual basis of accounting similar to the private sector. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues when all eligibility requirements imposed by the provider have been met.

The financial statements are presented in accordance with the pronouncements of the Government Accounting Standard Board (GASB). According to GASB Statement 34, enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services.

The Authority follows accounting principles generally accepted in the United States of America issued by the GASB, which includes accounting principles issued by the FASB on or before November 30, 1989.

C. Assets, liabilities, and net assets or equity

1. Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments. The Authority maintains its cash with the County of Alameda Treasurer and Deutsche Bank.

The County pools funds with those of other departments in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool. State statute authorizes the government to invest in obligations of the U.S. Treasury, commercial paper, and mutual funds.

2. Receivables and Payables

Revenue from expenditure-driven (reimbursement) grants, including those used for capital projects, is recognized as expenditures are incurred. Claims that were or were not presented to the federal government for grant-related expenditures incurred prior to July 1, 2011 were recorded in accrual basis of accounting. These amounts that were not received are reflected as accounts receivable as of June 30, 2011. In the same way, allowable costs are recognized as liabilities when cost incurred and services provided. These unpaid amounts are treated as accounts payables as of June 30, 2011.

3. Restricted Assets

Advanced service payments received from member agencies are classified as restricted because they are maintained in a separate bank account and their use is limited by the terms of the trust agreement.

4. Revenue

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the Authority. Non-operating revenue such as grant revenue and investment earnings, result from non-exchange transactions.

5. Capital Contributions

Member agencies may elect to prepay the service payment component of the user payments. The Authority considers these advanced service payments as capital contributions. Service payments are annual payments by member agencies for services provided and are to be used by the Authority to pay the principal and interest on the bonds or deposited in the reserve and replacement fund.

6. *Capital Assets*

Acquisition of land and purchase or construction of structures and equipment costing more than \$5,000 are considered capital items and are not expensed in the year acquired. There were no completed capital assets as of June 30, 2011. Once completed, the Authority will identify the useful life of the major components and depreciate the assets accordingly.

7. *Long-Term Debt and Related Costs*

Bonds payable are reported at face value. Costs related to the issuance of debt are deferred and amortized over the life of the debt issue and are shown as an asset on the Statement of Net Assets.

8. *Accounting and Administrative Services*

The County of Alameda provides the Authority accounting and administrative services at zero cost.

Note 4: Cash

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Cash and Investments

| | <u>FY 2011</u> |
|------------------------|-----------------------------|
| Cash in treasury pool | \$ 2,637,777 |
| Cash with fiscal agent | <u>7,586,889</u> |
| Total | <u>\$ 10,224,666</u> |

Cash in treasury pool – The Authority is considered to be a voluntary participant in an external investment pool as the Authority is required to deposit all receipts and collections, except those required to be deposited with the trustee, with the Treasurer. The fair value of the Authority’s investment in the pool is reported in the accounting financial statements at amounts based on the Authority’s prorate share of the fair value provided by the Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the Treasurer of Alameda County, which is recorded on the amortized cost basis.

The Authority is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Cash with fiscal agent – The cash with fiscal agent is invested in a single mutual fund, which is stated at fair value and has a Moody’s investment rating of A-mf. According to the trust agreement with the fiscal agent, the fiscal agent is allowed to make certain permitted investments including money market mutual funds.

Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statement of net assets.

The Authority has no formal investment policy on managing interest rate, credit risk and concentration of credit risk. However, the Authority manages these risks by participating in the County’s pool. These risks are described below:

- Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.
- Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment.
- Custodial risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to it.

Note 5: Accounts Receivable

As of June 30, 2011, the Authority’s receivable consists primarily of grants reimbursement from Alameda County, Contra Costa County, and U.S. Department of Justice. All these grants will be reimbursed under different years in grant programs such as COPS, PSIC, SHSGP, and UASI (see the table below). The following table shows the summary of accounts receivable as of June 30, 2011.

| <u>Entity</u> | <u>Grant/Account</u> | <u>Receivable Amount</u> |
|--------------------------------|----------------------|--------------------------|
| Alameda County Sheriff's Dept. | SHSGP 2009 | \$ 937,796 |
| Alameda County Sheriff's Dept. | SHSGP 2010 | 252,383 |
| Alameda County Sheriff's Dept. | UASI 2009 | 518,304 |
| Contra Costa County | COPS 2007 | 20,749 |
| Contra Costa County | PSIC 2007 | 28,411 |
| Contra Costa County | SHSGP 2010 | 1,200,000 |
| Contra Costa County | UASI 2009 | 47,689 |
| U.S. Dept. of Justice | COPS 2010 | 114,636 |
| Alameda & Contra Costa County | UASI 2010 | 1,838,750 |
| Alameda & Contra Costa County | UASI 2011 | 2,000,000 |
| City of Lafayette | Capital Contribution | 63,000 |
| | Total | <u>\$ 7,021,718</u> |

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at June 30, 2011, comprised the following:

| <u>Project/Account</u> | <u>Payable Amount</u> |
|--------------------------|-----------------------|
| Contractual Services | \$ 1,800 |
| Professional Fees | 6,383 |
| Utilities | 505 |
| Construction in Progress | <u>1,965,270</u> |
| Total | \$ <u>1,973,958</u> |

Note 7: Capital Assets and Depreciation

There were no completed capital assets as of June 30, 2011 and no assets have been depreciated. In fiscal year 2011, the Authority acquired additional capital assets of \$15 million in construction projects. The Authority plans to complete and place some assets into service beginning July 2012.

| <u>Description</u> | <u>Beginning Balance</u> | | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | |
|--------------------------|--------------------------|--|------------------|-------------------|-----------------------|--|
| | <u>July 1, 2011</u> | | | | <u>June 30, 2011</u> | |
| Construction-in-progress | \$ 2,598,677 | | \$ 15,000,872 | \$ - | \$ 17,599,549 | |

Note 8: Long Term Debt

Long-term debt activities for the fiscal year ended June 30, 2011 were as follows:

| <u>Description</u> | <u>Beginning Balance</u> | | | <u>Ending Balance</u> | <u>Amounts Due</u> | <u>Amounts Due</u> |
|--------------------|--------------------------|------------------|-------------------|-----------------------|--------------------|--------------------|
| | <u>July 1, 2010</u> | <u>Additions</u> | <u>Reductions</u> | | | |
| 2011 Revenue Bonds | - | 6,136,886 | - | 6,136,886 | - | 6,136,886 |

2011 Revenue Bonds, Series A & B

The Authority issued \$6,136,866 in revenue bonds to finance the build out of the communications system on April 21, 2011. The Series A bond was issued for \$3,681,751.81 and the Series B bond was issued for \$2,455,113.76. The interest rate for both bonds is 4.05%. The Revenue Bonds are payable from and secured by the revenues from service payments from the operations of the Authority's communications system.

Costs related to the issuance of debt of \$136,000 are deferred and amortized over the life of the debt issue. The amount amortized for the fiscal year ended June 30, 2011 was \$1,409. The total interest incurred for the year ended June 30, 2011 was \$48,245 which was capitalized as a component of the cost of construction in progress during the year. Annual debt service requirements to maturity for the revenue bonds, including interest payments, are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|------------------|-----------------|----------------|
| 2012 | \$ - | \$ - | \$ - |
| 2013 | - | - | - |
| 2014 | 198,467 | 288,032 | 486,500 |
| 2015 | 355,587 | 293,164 | 648,752 |
| 2016 | 370,288 | 278,790 | 649,078 |
| 2017-2021 | 2,091,257 | 1,156,459 | 3,247,717 |
| 2022-2026 | 2,548,834 | 697,274 | 3,246,109 |
| 2027 | <u>572,431</u> | <u>75,800</u> | <u>648,232</u> |
| | \$ 6,136,866 | \$ 2,789,520 | \$ 8,926,386 |

Note 9: Schedule of Expenditures of Federal Award

The Authority prepares the Schedule of Expenditures of Federal Award (SEFA) for the year which included expenditures that were reimbursed and the expenditures that are claimable but accrued as grants revenue for the year. The expenditures transactions are reported in SEFA as an accrual basis of accounting. In fiscal year 2011, the Authority received several federal grants directly from the U.S. Department of Justice and indirectly from the U.S. Department of Commerce and Department of Homeland Security under different programs. Furthermore, some of these indirect federal awards received were passed through the local governments: County of Alameda and County of Contra Costa. The grants received were reimbursements from capital and operating expenditures incurred by the Authority in fiscal year 2011.

Note 10: Risk Management

The Authority is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Authority participates in the Special District Risk Management Authority’s (SDRMA) property and liability insurance program for risk of loss. The programs provides for coverage for general liability, public official and employee errors, personal liability for board members, employment practices liability, employee benefits liability, employee dishonesty coverage, auto liability, uninsured/underinsured motorists, property coverage, and boiler and machinery coverage. The Authority’s deductibles and maximum coverage as of June 30, 2011 are as follows:

| <u>Coverage Description</u> | <u>Deductible</u> | <u>Insurance Coverage</u> |
|--------------------------------------|-------------------|---------------------------|
| General Liability | \$ 500 | \$ 5,000,000 |
| Public Official And Employee Errors | | 5,000,000 |
| Personal Liability For Board Members | 500 | 500,000 |
| Employment Practices Liability | | 5,000,000 |
| Employee Benefits Liability | | 5,000,000 |
| Employee Dishonesty Coverage | | 400,000 |
| Auto Liability | 1,000 | 5,000,000 |
| Uninsured/Underinsured Motorists | | 750,000 |
| Property Coverage | | 1,000,000,000 |
| Boiler And Machinery Coverage | | 100,000,000 |

The Authority has had no settled claims resulting from these risks that exceeded the Authority’s insurance coverage in any of the past three years.

Note 11: Subsequent Events

Project Cornerstone is a Pilot System for the Regional 700 MHz Wireless Broadband Network and the project is designed to provide a LTE broadband network. The core of the system is located at the Emergency Operations Center in Dublin. Although the Authority purchased the equipment, the total cost had been reimbursed by Bay Area Urban Area Security Initiative and is of no cost to the Authority. The Authority will transfer the Project Cornerstone equipment (\$2.4 million) to the BayRICS (Bay Area Regional Interoperable Communications) Joint Powers Authority.

Single Audit Section

**East Bay Regional Communications System Authority
Schedule of Expenditures of Federal Awards
For Fiscal Year Ended June 30, 2011**

| Federal/Pass-Through Entity Name Federal Program Name Program Name/Totals | Federal CFDA No. | Federal Expenditures |
|--|---------------------|-------------------------|
| <u>U.S. Department of Commerce</u> | | |
| Passed through the County of Contra Costa Public Safety Interoperable Communications PSIC 2007 | 11.555 | \$ 54,598 |
| Total U.S. Department of Commerce | | 54,598 |
| <u>U.S. Department of Justice</u> | | |
| Direct program: | | |
| Community Oriented Policing Services COPS 2009, Grant#2009CKWX0263 | 16.710 | 257,920 |
| COPS 2010, Grant#2010CKWX0058 | 16.710 | 1,050,000 |
| Passed through the County of Contra Costa Community Oriented Policing Services COPS 2007 | 16.710 | 20,749 |
| Total U. S. Department of Justice | | 1,328,669 |
| <u>Department of Homeland Security</u> | | |
| Passed through the County of Alameda, Sheriff's Office Urban Area Security Initiative 2008 Urban Area Security Initiative Program Grant | 97.008 | 728,732 |
| 2009 Urban Area Security Initiative Program Grant | 97.008 | 2,733,982 |
| Passed through the County of Contra Costa Urban Area Security Initiative 2009 Urban Area Security Initiative Program Grant | 97.008 | 89,120 |
| Passed through the County of Alameda, Sheriff's Office and County of Contra Costa Urban Area Security Initiative 2010 Urban Area Security Initiative Program Grant | 97.008 | 1,838,750 |
| 2011 Urban Area Security Initiative Program Grant | 97.008 | 2,000,000 |
| Passed through the County of Alameda, Sheriff's Office Homeland Security Grant Program 2008 Homeland Security Grant Program (HSGP) | 97.067 | 194,902 |
| 2009 Homeland Security Grant Program (HSGP) | 97.067 | 981,563 |
| 2010 Homeland Security Grant Program (HSGP) | 97.067 | 252,383 |
| Passed through the County of Contra Costa Homeland Security Grant Program 2010 Homeland Security Grant Program (HSGP) | 97.067 | 1,200,000 |
| Total U.S. Department of Homeland Security | | 10,019,431 |
| Total Expenditures of Federal Awards | | \$ 11,402,698 |



C. G. UHLENBERG LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**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**

Board of Directors
East Bay Regional Communications System Authority
Dublin, California

We have audited the financial statements of the business-type activities of East Bay Regional Communications System Authority ("Authority"), as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 14, 2011. 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.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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.

We noted certain matters that we reported to management of the Authority in a separate letter.

This report is intended solely for the information and use of management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

C. D. Uhlenberg LLP

December 14, 2011
Redwood City, California



C. G. UHLENBERG LLP

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
East Bay Regional Communications System Authority
Dublin, California

Compliance

We have audited East Bay Regional Communications System Authority ("Authority")'s compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2011. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose



of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

C. D. Usherberg CPA

December 14, 2011

Redwood City, California

Findings and Recommendations

EAST BAY REGIONAL COMMUNICATIONS SYSTEM AUTHORITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Section I – Summary of Auditor’s Results

Financial Statements

| | |
|---|--------------------------------|
| Type of auditor’s report issued: | Unqualified |
| Internal Control over financial reporting: | |
| Material weakness (es) identified? | ___ yes <u>X</u> no |
| Significant deficiency (ies) identified that are not considered to be material weaknesses? | ___ yes <u>X</u> none reported |
| Noncompliance material to financial statement noted? | ___ yes <u>X</u> no |

Federal Awards

| | |
|--|--------------------------------|
| Type of auditor’s report issued on compliance for major programs: | Unqualified |
| Internal control over major programs: | |
| Material weakness (es) identified? | ___ yes <u>X</u> no |
| Significant deficiency (ies) identified that are not considered to be material weakness (es)? | ___ yes <u>X</u> none reported |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | ___ yes <u>X</u> no |

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|--|
| 11.555 | Public Safety Interoperable Communications 2007 |
| 16.710 | Community Oriented Policing Services 2007 Technology Program |
| 16.710 | Community Oriented Policing Services 2008 Technology Program |
| 16.710 | Community Oriented Policing Services 2009 Technology Program |

| | |
|---|---------------------|
| Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| Auditee qualified as low-risk auditee? | ___ yes <u>X</u> no |

Section II – Financial Statement Findings

No current year finding.

EAST BAY REGIONAL COMMUNICATIONS SYSTEM AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Section III – Federal Award Findings and Questioned Costs

No current year finding.

Summary Schedule of Prior Audit Findings

2010-01 COPS 2009 Technology Program

CONDITION: The Federal Financial Report, SF-425 for the quarter ended September 30, 2009 was filed 21 days late for COPS 2009 Technology Program.

RECOMMENDATION: We recommend that the Authority establishes procedure for ensure the Authority comply with the reporting requirement.

CURRENT STATUS: The recommendation was adopted. No similar finding was noted in the 2011 audit.