ALAMEDA COUNTY

East Bay Regional Communications System Authority

CONTRA COSTA COUNTY

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 and San Ramon Valley Fire Protection District

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2010

EAST BAY REGIONAL COMMUNICATIONS SYSTEM AUTHORITY
FINANCIAL REPORT
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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 governmental activities of East Bay Regional Communications System Authority ("Authority") as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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 of the East Bay Regional Communications System Authority, as of June 30, 2010, and the respective changes in financial position 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 October 27, 2010, on our consideration of the Authority 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.

The management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 23, are not a required part of the basic financial statements but are supplementary

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information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is also not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

C. G. Uhlenberg LLP

October 27, 2010

Redwood City, California

FINANCIAL SECTION

Management's Discussion and Analysis

As management of the East Bay Regional Communications System Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2010.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the fiscal year by $3,920,662 (*net assets*). Of this amount, $1,321,985 (*unrestricted net assets*) may be used to meet the Authority's ongoing operating needs and obligations.

- The Authority's total net assets increased by $2,704,949 during the fiscal year. Nearly ninety percent of this increase is due to the receipt of federal grants.

- As of the close of the current fiscal year, the Authority's governmental fund reported an ending fund balance of $1,321,985, an increase of $106,272 in comparison with the prior year. The entire fund balance, $1,321,985, is *available for spending* at the Authority's discretion (*undesignated fund balance).*

- The Authority received federal funds in the amount of $3,347,950 during the fiscal year. These funds were used for infrastructure development, which are reported as capital outlay, consulting 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. The Authority's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to private-sector business.

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.

The *statement of activities* presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., unrealized claims against federal awards and earned but unpaid contractual services).

Both of the government-wide statements distinguish functions of the Authority that are principally supported by federal grants (*governmental activities*) from other functions that are

intended to recover a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Authority are entirely related to the development of an interoperable radio system for the two county areas. Since its inception in 2007, the Authority supported its functions through radio subscription revenue contributed by various cities and special districts within Alameda County and Contra Costa County and federal grants. When the Authority has substantially completed the communications system and radio user fees are expected to recover all or a significant portion of the costs, the Authority may be reported as a business-type activity.

The government-wide financial statements are located on pages 12 and 13 of this report.

Fund financial statements. Fund financial statements are designed to report information about groupings of related amounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The only fund currently used by the Authority is the general fund, which is considered a governmental fund.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. These governmental fund statements, however, focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. The focus, therefore, is on (1) how cash and other financial assets can readily be converted to available resources and (2) the balances left at year-end that are available for spending. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Authority maintains only one governmental fund. Information is presented in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balance for the general fund. The basic governmental fund financial statements can be found on pages 14 and 15 of this report. The Authority adopts an annual budget for its general fund. A budgetary comparison has been provided for the general fund to demonstrate compliance with this budget.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 through 22 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents a comparison of the Authority's approved budget and actual results.

Government-wide Financial Analysis

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 $3,920,662 at June 30, 2010.

By far the largest portion of the Authority's net assets (66 percent) reflects its investments in construction of the communication system (e.g. buildings, equipment and infrastructure development costs). No assets have been depreciated at this time since the construction is still in progress. The Authority will eventually use these assets to provide interoperable radio service to the two-county area; consequently, these assets are not available for future spending. The Authority has not issued debt for the acquisition of these assets as of June 30, 2010.

The remaining balance of *unrestricted net assets* ($1,321,985) may be used to meet the Authority's ongoing operating needs and obligations. At the end of the current fiscal year, the Authority is able to report positive balances in both categories of net assets. A similar situation held true for the previous fiscal year for unrestricted assets. There were no amounts invested in capital construction in that prior year.

The Authority reported $2,598,677 investment in capital assets compared to zero for the prior fiscal year. Fiscal year 2010 witnessed the start of development of infrastructure for the Authority. There was also an increase of $106,272 in unrestricted net assets reported in connection with the Authority's net assets. This was due to an increase in federal funding for the project as well as additional interest earned on deposits of members' radio subscription fees.

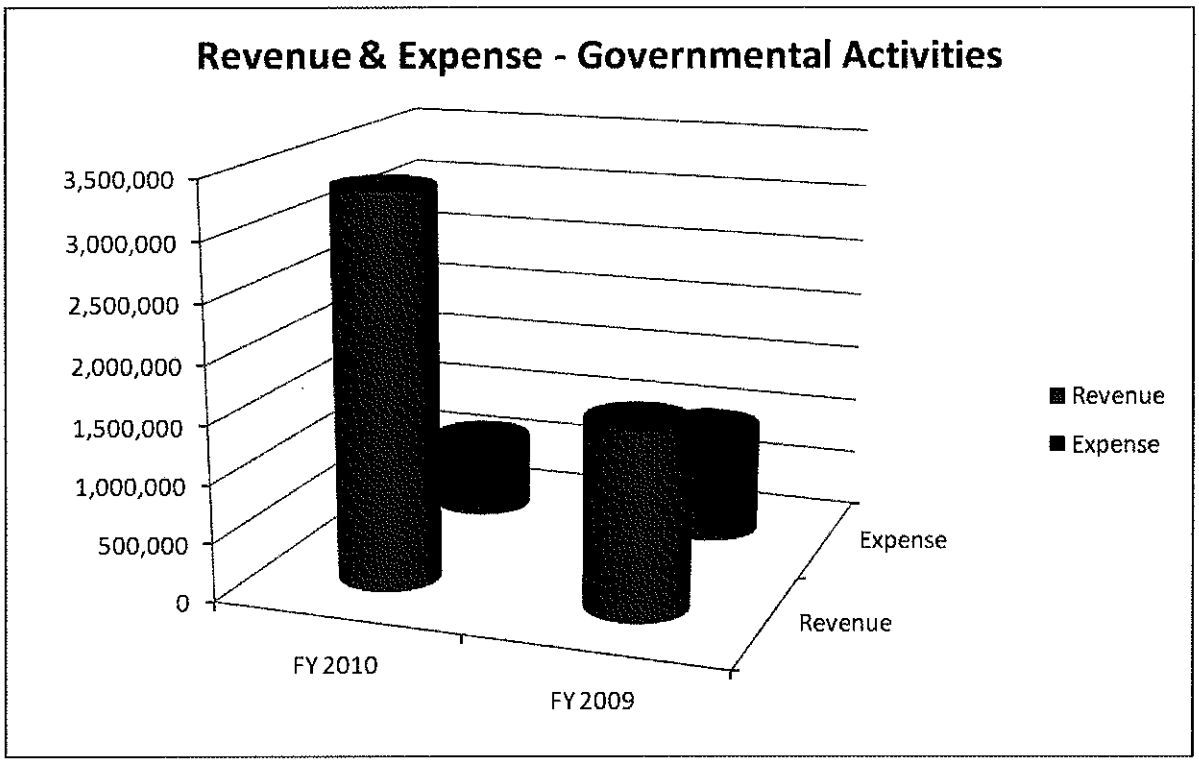
The government's net assets increased by $2,704,949 during the fiscal year. Nearly this entire amount was due to the increase in federal awards identified for the communication project. The Authority realized $3,347,950 in federal funds claimed through the counties of Alameda and Contra Costa, as a sub-grantee and US Department of Justice as direct grantee. All the expenditures of these funds were applied to allowable communication system consultation, equipment purchases and infrastructure development. The Authority voted to not charge radio subscription fees after fiscal year 2009, resulting in a decrease of $645,000 in general revenues in fiscal year 2010. Interest income of $5,884 reflected a decrease of $8,750 or 60% from the prior year due to the combination of depressed interest rates and less available cash deposited with the treasurer in the current fiscal year.

East Bay Regional Communications System Authority's Changes in Net Assets

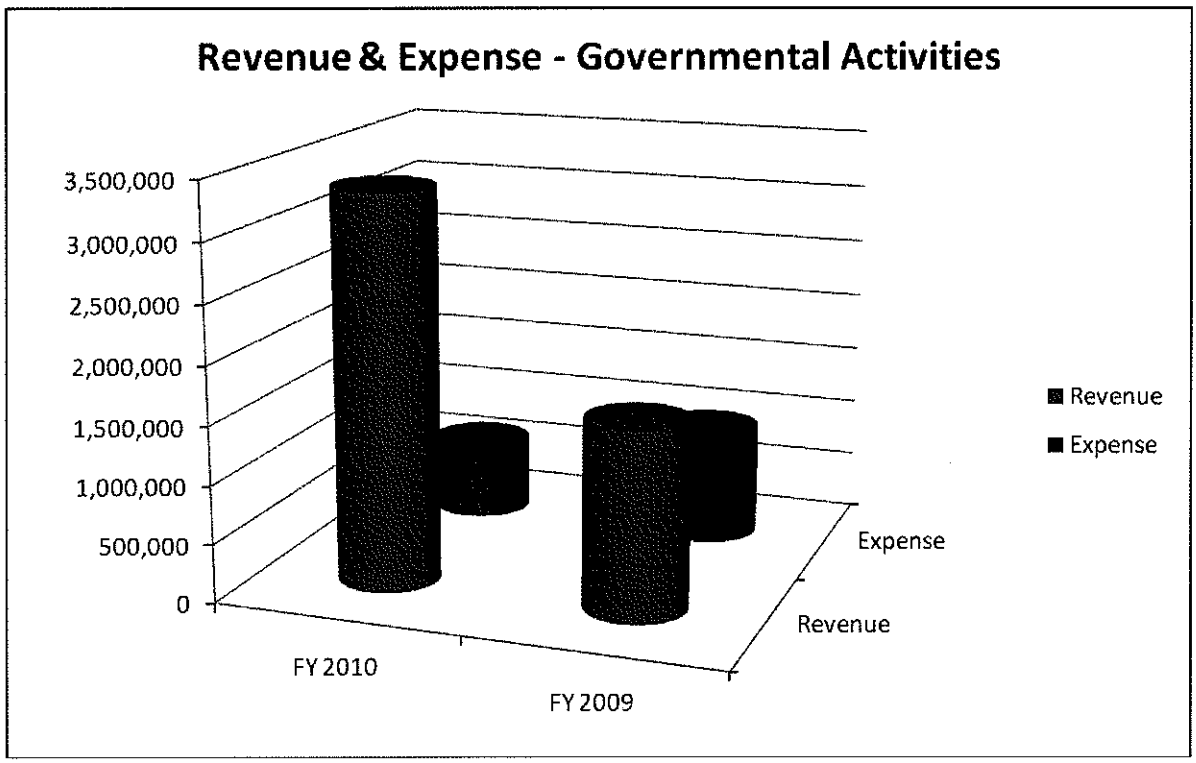
	2010	2009	Change
Revenues:			
Program revenues:			
Operating grants and contributions	$ 3,347,950	$ 944,058	$ 2,403,892
General revenues:			
Radio subscription fees	-	645,600	(645,600)
Interest revenue	5,884	14,634	(8,750)
Total revenues	3,353,834	1,604,292	1,749,542
Expenses:			
Administrative and operating expenses	648,885	972,390	(323,505)
Total expenses	648,885	972,390	(323,505)
Increase in net assets	2,704,949	631,902	2,073,047
Net assets - beginning	1,215,713	583,811	631,902
Net assets - ending	$ 3,920,662	$ 1,215,713	$ 2,704,949

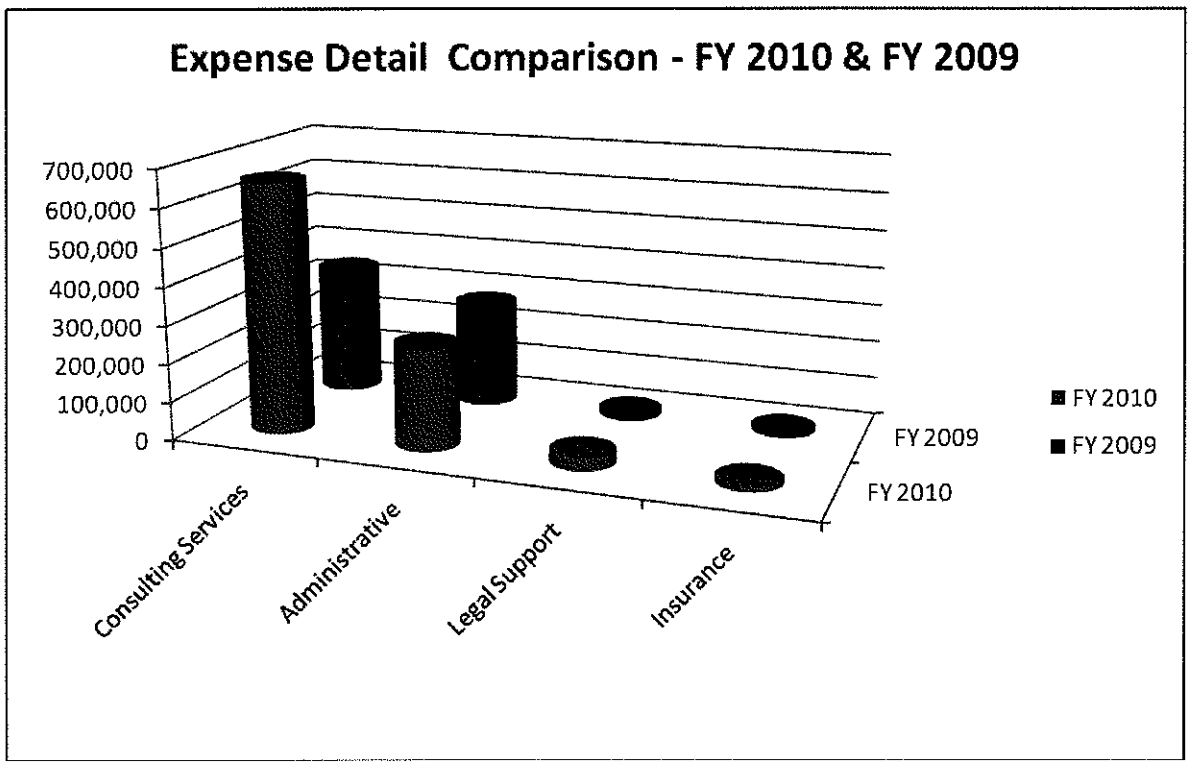
Governmental Activities. As stated above, the activities of the Authority increased its net assets by $2,704,949 in fiscal year 2010. This is due primarily to the construction and development of the communications system and the claiming and receipt of the related federal awards. Key elements of this increase are listed as follow:

- This is the third fiscal year of the Authority's operations. The main source of revenue for Authority in the first fiscal year was from radio subscription fees from cities and districts in Alameda County and Contra Costa County. Second year revenues included grant revenue as well as radio subscription fees..
- The Authority applied radio subscription fee revenue generated in the first two years as working capital for project development, and then claimed these costs from the federal grant awards.
- The Authority's revenues exceeded expenses in the current fiscal year due to the reimbursement of project expenses from federal grants.



The two charts that follow show the different revenues and expenses for fiscal years 2009 and 2010. Revenues reflect grant revenue, radio subscription fees, and interest on trust fund balance. Expenses are grouped into consulting services, administrative, legal support, and insurance.





Financial Analysis of the Governmental's Fund

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental fund. The focus of the Authority's *governmental fund* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Authority's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Authority's governmental fund reported an ending balance of $1,321,985, an increase of $106,272 or 8 percent in comparison with the prior year. The entire fund balance constitutes *unreserved, undesignated fund balance*, which is available for spending at the Authority's discretion.

The general fund is the only operating fund of the Authority. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was $1,321,985. Since the general fund is the only fund, total fund balance also totaled $1,321,985. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures ($3,247,562). Unreserved, unassigned fund balance represents 41 percent of the total general fund expenditures of 2010, while total fund balance represents 41 percent of that same amount.

As stated above, the fund balance of the Authority increased by $106,272 during the current fiscal year. Key factors in this growth are as follows:

- The Authority received $3,347,950 in federal grant revenue during the year.
- Although the Authority incurred significant project costs, most of the costs were for communication system development and were reimbursed by various grantors by the end of the fiscal year.
- Much of the procurement and accounting costs were provided by the two counties.

Revenues for the governmental fund totaled $3,353,834 in the fiscal year ended June 30, 2010. Expenditures for the Authority total $3,247,562 for the year ended June 30, 2010. In the fiscal year, revenue for the governmental fund exceeded expenditures by approximately $106,272. This is primarily due to the receipt of approximately $3,347,950 of grant revenue for fiscal year 2010 and that most project expenditures were reimbursed by grantors.

General Fund Budgetary Highlights

The Authority adopted a budget for the year 2010 in June 2009. Below is a comparison of the budgeted expenses to the actual results for the fiscal year 2010. The Revenue portion of the budget presented below is for presentation purposes only.

East Bay Regional Communications System Authority
Budget to Actual Comparison - FY 2010

	Budget FY 2010		Actuals FY 2010	Variance from Budget
Revenues:				
Operating grants	$ 1,105,135		$ 3,347,950	$ 2,242,815
Interest earned	-		5,884	5,884
Fund Balance	22,400		-	(22,400)
Total revenue	1,127,535	*	3,353,834	2,226,299
Expenditures:				
Capital outlay	790,135		2,598,677	(1,808,542)
Radio engineering consultant	-		344,441	(344,441)
General and administrative	302,400		277,815	24,585
Legal support	35,000		15,608	19,392
Travel and miscellaneous	-		11,021	(11,021)
Total expenditures	1,127,535		3,247,562	(2,120,027)
Excess of revenue over expenditures	$ -		$ 106,272	$ 106,272

** Revenue budget is pro-forma only*

At the inception of the Authority in 2007 the Board prepared a long-range budget, which included overall revenues for the entire project period, including all known and anticipated

grants. When adopting the FY 2010 annual budget the Board took a long-range, project approach. Therefore, the portion of that revenue budget allocable to FY 2010 was not specifically identified, as it was not known at that time how long it would take to begin building the infrastructure for the communications system, or when the grant money would be available. Therefore, the revenue amounts in the FY 2010 budget above are pro-forma only.

Grant revenue exceeded the FY 2010 pro-forma budget, however, the Authority did include an estimate in the first year budget that encompassed amounts received in the current year. Actual revenue and expenditure expense activity approximates what the Authority anticipated for the fiscal year 2010.

Capital assets and debt administration

Capital assets

Although the Authority began developing the P-25 compliant communications system in FY 2010, there were no completed capital assets as of June 30, 2010. The Authority acquired two shelters to house radio interoperability equipments but these had not been placed into service by year end. Other equipment, such as computers, consoles and microwave antennas are also in the state of development. The Authority's construction-in-progress at year end follows:

Construction in Progress	June 30, 2010
Brittanny Loop Microwave - Dublin	$ 287,707
Dispatch Consoles - Livermore	414,312
Dispatch Consoles - Pleasanton	352,165
Equipment Shelters	82,946
IP Upgrade	1,461,547
Total Construction-in-progress	$ 2,598,677

Debt administration

The Authority did not carry any long-term indebtedness as of the end of the fiscal year. During the fiscal year, management and the governing body investigated methods for raising capital for eventual completion of the P-25 communications project.

Economic Factors and Next Year's Budgets and Rates

- 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 11.5% for most of the fiscal year, and the rate for Contra Cost County started the fiscal year at 11%, but increased slightly to 11.3% by June 2010. The State of California unemployment was slightly

higher, at 12%, and the national unemployment rate was between 9.4 and 9.5% for the same period.

- According to the U.S. Bureau of Labor Statistics the Consumer Price Index increased 1.4 percent between July 2009 and June 2010.
- National security and Bay Area crime control remain high priorities for local and state governments, as well as for the U.S. government.
- Interest rates remained low during the preceding 12 months. The federal funds interest rate was below 1% throughout fiscal year 2010. Though future rates cannot be predicted, it is reasonably safe to assume that rates will remain low during the first half of fiscal year 2011.

All of these factors were considered in preparing the Authority's budget for the 2011 fiscal year.

The communications system is expected to begin operation in 2013. 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

Basic Financial Statements

EAST BAY REGIONAL COMMUNICATIONS SYSTEM AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities
Assets:	
Current assets:	
Cash	$ 976,979
Accounts receivable	352,165
Total current assets	1,329,144
Noncurrent assets:	
Construction in progress	
Infrastructure development	2,598,677
Total noncurrent assets	2,598,677
Total assets	3,927,821
Liabilities:	
Accounts payable	7,159
Total liabilities	7,159
Total Liabilities	7,159
Net Assets:	
Invested in capital assets	2,598,677
Unrestricted	1,321,985
Total net assets	$ 3,920,662

The accompanying notes are an integral part of these financial statements

EAST BAY REGIONAL COMMUNICATIONS SYSTEM AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**
Governmental activities:					
General government	$ 648,885	$ -	$ -	$ 3,347,950	$ 2,699,065
Total governmental activities	$ 648,885	$ -	$ -	$ 3,347,950	$ 2,699,065
	General revenues:				
	Interest revenues				$ 5,884
	Total general revenues				5,884
	Change in net assets				2,704,949
	Net assets - beginning				1,215,713
	Net assets - ending				$ 3,920,662

The accompanying notes are an integral part of these financial statements

EAST BAY REGIONAL COMMUNICATIONS SYSTEM AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2010

Assets:	
Current assets:	
Cash	$ 976,979
Accounts receiable	352,165
Total current assets	1,329,144
Total Assets	$ 1,329,144
Liabilities:	
Current liabilities	
Accounts payable	7,159
Total current liabilities	7,159
Total Liabilities	7,159
Fund Balance:	
Unreserved	1,321,985
Total fund balance	1,321,985
Total Liabilities and Fund Balance	$ 1,329,144

RECONCILATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET ASSETS, JUNE 30, 2010

Fund balance - Total governmental fund	$ 1,321,985
Construction in progress - Infrastructure development reported in the Statement of Net Assets is not financial resources and, therefore, is not reported in the balance sheet	2,598,677
Net assets of governmental activities	$ 3,920,662

The accompanying notes are an integral part of these financial statements

EAST BAY REGIONAL COMMUNICATIONS SYSTEM AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Total Governmental Fund
Revenues		
Grants		
COPS 2007	$ 196,185	$ 196,185
COPS 2008	370,653	370,653
COPS 2009	911,317	911,317
PSIC 2007	418,830	418,830
SHSGP 2007	685,186	685,186
SHSGP 2008	147,337	147,337
SUASI 2007	462,462	462,462
UASI 2009	155,980	155,980
Interest revenue	5,884	5,884
Total Revenues	3,353,834	3,353,834
Expenditures		
Administrative expenses		
General and administration	628,909	628,909
Legal support	15,608	15,608
Miscelleneous	4,367	4,367
Total administrative expenses	648,884	648,884
Capital outlay:		
Infrastructure development	2,598,677	2,598,677
Total capital outlay	2,598,677	2,598,677
Total Expenditures	3,247,562	3,247,562
Excess (deficiency) of revenues over expenditures	106,272	106,272
Net change in fund balance	106,272	106,272
Fund balance - beginning	1,215,713	1,215,713
Fund balance - ending	$ 1,321,985	$ 1,321,985

Notes:
COPS=Community Oriented Policing Services
PSIC=Public Safety Interoperable Communications
SHSGP=State Homeland Security Grant Program
SUASI=Super Urban Area Security Initiative
UASI=Urban Area Security Initiative

The accompanying notes are an integral part of these financial statements

Notes to the Basic Financial Statements

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 Statue, a JPA is viewed as an independent government agency with powers that accrue to one of the member agencies. Currently there are 35 member agencies consisting of 2 counties, 29 cities, and 4 special districts. 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 5 years using Homeland Security grants funds from the Bay Area Super Urban Area Security Initiative (SUASI), Urban Area Security Initiative (UASI), 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. Since 2004, the two counties have received $26 million in Federal Homeland Security grants to build the infrastructure. An additional $8 million is in process as of June 2010.

NOTE 2: 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 33 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. The books and records for the Authority are maintained by the County of Alameda JPA Accountant.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Authority. The financial statements are reported as *governmental activities* rather than *business-type activities* here because the Authority's revenue is currently represented by intergovernmental sources.

The statement of activities presents a comparison between direct expenses and program revenues for the Authority's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues generally include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to

meeting the operational or capital requirements of a particular function or segment. Items not properly included among program revenues are reported instead as *general revenues*.

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

The government-wide statements are prepared using the *economic resources measurement focus* and the accrual basis of accounting. 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 as soon as all eligibility requirements imposed by the provider have been met.

This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, normally include a reconciliation section with brief explanations to better identify the relationship between the government-wide statements and the statements for the government funds.

Governmental fund financial statements are prepared using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 180 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Grant revenue and interest associated with the current period are considered to be subject to accrual and so have been recognized as revenues of the current fiscal period.

Fund financial statements report detailed information about the Authority. The focus of governmental fund financial statements is on major funds rather than reporting funds by type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet.

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

D. 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 all its cash with the County of Alameda Treasurer. The County pools these 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.

Cash held in banks are insured to $100,000 (temporarily increased to $250,000 in October 2008) by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized, except those, which exceeds the maximum insured levels of the FDIC.

2. *Receivables and payables*

Claims presented to the federal government for grant-related expenditures incurred prior to July 1, 2010 are expected to be available to the Authority within 180 days of the end of the fiscal year. These amounts are reflected as accounts receivable as of June 30, 2010.

3. *Inventories and prepaid items*

The Authority does not have an inventory on hand as of the end of the fiscal year. Also, as of June 30, 2010 there were no payments to vendors that reflect costs applicable to future accounting periods. Neither the government-wide nor the fund financial statements show any prepaid items.

4. *Restricted assets*

If grant awards from the federal government had been received but not yet expended as of the end of the fiscal year they would be considered restricted assets. The Authority, however, expends money for grant purposes using other available funds, and than claims for reimbursement. The assets of the Authority are, therefore, available to pay ongoing expenses.

5. *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. The Authority did not have any qualifying capital assets on June 30, 2010.

6. *Fund Balance*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The Authority, other than an accounts payable of $7,159, does not have any restrictions or designations against its fund balance.

7. County Cost Allocation

The Authority receives certain accounting and administrative services from the County of Alameda. In the year ended June 30, 2010, the County of Alameda did not allocate costs to the East Bay Regional Communications System Authority.

E. Budgets and Budgetary Accounting

Authority prepares its budget on basis of accounting that differs from generally accepted accounting principles (GAAP). The actual results of operation are presented in the Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget vs. Actual- General Fund on the budgetary basis to provide a meaningful basis of accounting and GAAP is the encumbrances are recorded as expenditures under the budgetary basis.

Authority adopts an annual expense budget on or before June 30 for the ensuing fiscal year. Beginning with the budget for FY 2011 the Authority also identified revenue flows anticipated for that year. The actual results of operations are presented in the Statement of Revenues and Expenditures Budget vs. Actual, submitted as Required Supplementary Information in this report.

These annual budgets can be revised by the Authority's governing body during the year to consider unanticipated income and expenditures. For the two-year budget for the period ending June 30, 2010 there were no amendments to the budget.

Expenditures over Appropriation

For the year ended June 30, 2010, expenditures exceed appropriations in the General fund by $2,120,027. Site development expenditures were not captured in the budget.

F. New Accounting Pronouncements

The GASB has issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement establishes new categories for reporting for fund balance and revises the definitions for governmental fund types. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010.

NOTE 3: CASH

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

	FY 2010
Cash and investments	$ 976,979
Total	$ 976,979

The cash balance as of June 30, 2010 was held entirely by the Treasurer of the County of Alameda. The Authority is considered to be a voluntary participant in an external investment pool. The fair value of the Authority's investment in the pool is reported in the accounting financial statements at amounts based on the District'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 mortgaged obligations.

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.

A. *Deposit*

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside entity. The Federal Depository Insurance Corporation insures cash balances in bank up to $100,000 (up to $250,000 as of June 30, 2010). Note: Beginning December 31, 2010 through December 31, 2012, deposits held in noninterest-bearing transaction accounts will be fully insured, regardless of the amount in the account, at all FDIC-insured institutions

NOTE 4: ACCOUNTS RECEIVABLE

As of June 30, 2010, the Authority's receivable consisted of grants reimbursement from Contra Costa County and City and County of San Francisco under the program UASI 2009 and COPS 2007 respectively. The grants reimbursement was accrued as revenue because it is expected to be received within 180 days from June 30, 2010. The following table shows the summary of Accounts receivable for fiscal year 2010.

	FY 2010
Contra Costa County	$ 155,980
City and County of San Francisco - COPS 2007	196,185
	$ 352,165

NOTE 5: CAPITAL ASSETS AND DEPRECIATION

The Authority began developing the P-25 compliant communications system in fiscal year 2010; however, there were no completed capital assets as of June 30, 2010. The Authority initiated an acquisition for two shelters to house certain system equipment in June 2009, but the facilities had not been completed and installed prior to June 30, 2010.

NOTE 6: SUBSEQUENT EVENTS

The Authority resolved to pursue debt capitalization in order to assure sufficient funding to complete the radio interoperability project. Early in fiscal year 2011 the Authority secured bond counsel services and disclosure counsel services. The Executive Director is meeting with the officials of both Alameda and Contra Costa Counties, as well as with the represented cities and special districts comprising the Authority, to discuss various strategies for raising capital. The Counties have proposed alternative strategies for the Authority including the possibility of a long-term loan coupled with up-front investments by some of the cooperating entities.

REQUIRED SUPPLEMENTARY INFORMATION

EAST BAY REGIONAL COMMUNICATIONS SYSTEM AUTHORITY
REVENUES AND EXPENDITURES, BUDGET VS ACTUAL
JULY 01, 2009 THROUGH JUNE 30, 2010

	Actual FY 2010	Approved FY 09/10 Budget *	Variance Fav/(Unfav)
Revenues			
COPS 2007	$ 196,185	$ -	$ 196,185
COPS 2008	370,653	-	370,653
COPS 2009	911,317	-	911,317
PSIC	418,830	-	418,830
SHSGP 2007	685,186	-	685,186
SHSGP 2008	147,337	-	147,337
SUASI 2007	462,462	-	462,462
UASI 2009	155,980	-	155,980
Estimated FY 2010 Claims	-	*1,105,135*	(1,105,135)
Fund balance	-	*22,400*	(22,400)
Total grants	3,347,950	*1,127,535*	2,220,415
Interest revenue	5,884	-	5,884
Total interest revenue	5,884	-	5,884
Total Revenues	3,353,834	*1,127,535*	2,226,299
Expenditures			
Capital construction			
Site development	2,598,677	*200,000*	(2,398,677)
CTA consulting services	344,441	*590,135*	245,694
Total capital construction	2,943,118	*790,135*	(2,152,983)
General & admin expenditures			
Executive director	231,300	*240,000*	8,700
Admin consultant	-	*20,000*	20,000
Legal services	15,608	*35,000*	19,392
Liabilities insurance	11,021	*20,000*	8,979
Website hosting	2,388	*2,400*	12
Audit fees	20,500	-	(20,500)
Radio licensing	19,260	-	(19,260)
Travel and entertainment	1,820	-	(1,820)
Miscellaneous	2,547	*20,000*	17,453
Total general & admin expenditures	304,444	*337,400*	32,956
Total Expenditures	3,247,562	*1,127,535*	(2,120,027)
Excess of revenues over expenditures	$ 106,272	$ -	$ 4,346,326

Note: *The Board approved a project revenue budget in FY 2008; the revenue budget for FY 2010, above, is an estimate to balance the Board-approved expenditure budget.

COPS=Community Oriented Policing Services
PSIC=Public Safety Interoperable Communications
SHSGP=State Homeland Security Grant Program
SUASI=Super Urban Area Security Initiative
UASI=Urban Area Security Initiative

FEDERAL AWARD COMPLIANCE SECTION

EAST BAY REGIONAL COMMUNICATIONS SYSTEM AUTHORITY
SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Federal CFDA No.	FY 2010 Federal Expenditures
U.S. Department of Commerce		
Pass through program:		
Passed through the County of Contra Costa		
Public Safety Interoperable Communications		
PSIC 2007	11.555	$ 323,991
Total U.S. Department of Commerce		323,991
U.S. Department of Justice		
Direct program:		
Community Oriented Policing Services		
COPS 2008 Technology Program, Grant#2008CKWX0615	16.710	370,653
Community Oriented Policing Services		
COPS 2009 Technology Program, Grant#2009CKWX0263	16.710	911,317
Pass through program:		
Passed through the City and County of San Francisco		
Community Oriented Policing Services		
COPS 2007; Grant#2007CKWX0028	16.710	196,185
Total U.S. Department of Justice		1,478,155
Department of Homeland Security		
Pass through program:		
Passed through the County of Contra Costa		
Urban Area Security Initiative		
FY 2009 Urban Area Security Initiative Program Grant	97.008	155,980
Passed through the City and County of San Francisco		
Urban Area Security Initiative		
FY 2007 Urban Area Security Initiative Program Grant	97.008	434,762
Passed through the County of Alameda, Sheriff's Office		
Homeland Security Grant Program		
FY 2007 Homeland Security Grant Program(HSGP)	97.067	637,449
Passed through the County of Alameda, Sheriff's Office		
Homeland Security Grant Program		
FY 2008 Homeland Security Grant Program (HSGP)	97.067	203,039
Total Department of Homeland Security		1,431,230
Total Federal Awards Expenditures		$ 3,233,376

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the East Bay Regional Communications System Authority and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirement of OMB Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in the basic financial statements.

OTHER INDEPENDENT AUDITOR'S REPORTS

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

We have audited the financial statements of East Bay Regional Communications System Authority ("Authority") as of and for the year then ended June 30, 2010 which collectively comprise the Authority's basic financial statements and have issued our report thereon dated October 27, 2010 We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2010-1.

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

October 27, 2010
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

Compliance

We have audited the compliance of East Bay Regional Communications System Authority ("Authority"), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. 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, East Bay Regional Communications System Authority, complied, in all material respects, with the 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, 2010. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2010-1.

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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 in order to determine our 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. G. Uhlenberg LLP

October 27, 2010

Redwood City, California

FINDINGS AND RECOMMENDATIONS

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	_X_ no
Significant deficiency (ies) identified that are not considered to be material weaknesses?	___ yes	_X_ none reported
Noncompliance material to financial statement noted?	___ yes	_X_ 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	_X_ no
Significant deficiency (ies) identified that are not considered to be material weakness (es)?	___ yes	_X_ none reported
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	_X_ yes	___ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
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	_X_ no

Section II – Financial Statement Findings

None noted

Section III – Federal Award Findings and Questioned Costs

2010-01

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

CRITERIA: According to the COPS 2009 Technology Program Grant Owner's Manual, the Authority is required to submit quarterly financial status report within 30 days after the end of each calendar quarter using the government-wide Standard From 425 (SF-425) Federal Financial Report.

CAUSE OF CONDITION: Lack of policy or procedure to ensure the timeliness of filing required reports.

EFFECT OF CONDITION: According to the COPS 2009 Technology Program Grant Owner's Manual, failure to submit complete reports, or submit SF-425 in a timely manner, may result in the suspension and possible termination of the program funding.

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