

The Board of Directors
Bay Area Regional Interoperable Communications Systems
Oakland, California

We have audited the financial statements of the business-type activities and major fund of Bay Area Regional Interoperable Communications Systems (the Authority) for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 14, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 2 to the financial statements. The Authority implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* for the year ended June 30, 2014. This statement establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Estimates: Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Disclosures: Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements were:

- The disclosure of restatement of prior year financial statements in Note 10 to the financial statements which describes the correction of an accounting error representing the expenses and revenue that were not recorded for the year ended June 30, 2013.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit: We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 11, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis on pages 7 through 10 in the financial statements, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Other Information

We were not engaged to report on the introductory section which is presented for purposes of additional analysis and are not a required part of the basic financial statements, and also are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

This information is intended solely for the use of Board of Directors and management of Bay Area Regional Interoperable Communications Systems and is not intended to be, and should not be, used by anyone other than these specified parties.

Palmieri Associates, LLP
Oakland, California
February 11, 2015

**BAY AREA REGIONAL INTEROPERABLE
COMMUNICATIONS SYSTEMS**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

FOR THE YEAR ENDED JUNE 30, 2014

BAY AREA REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEMS

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Introductory Section

BAY AREA REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEMS

BOARD OF DIRECTORS

State Representative

Karen Wong, Vice Chair, State of California

County Representatives

Richard Lucia, Chair, Alameda County
Candace Anderson, Contra Costa County
Lee Ann Magoski, Marin County
Emily Harrison, Santa Clara County
Anne Kronenberg, San Francisco County
Chris Flatmoe, San Mateo County
Dennis Smiley, Sonoma County

City Representatives

Renee' Domingo, City of Oakland
Greg Suhr, City of San Francisco
Michelle McGurk, City of San Jose

Special District Representatives

Joe Calabrigo, East Bay Hub
Dan Winter, South Bay Hub

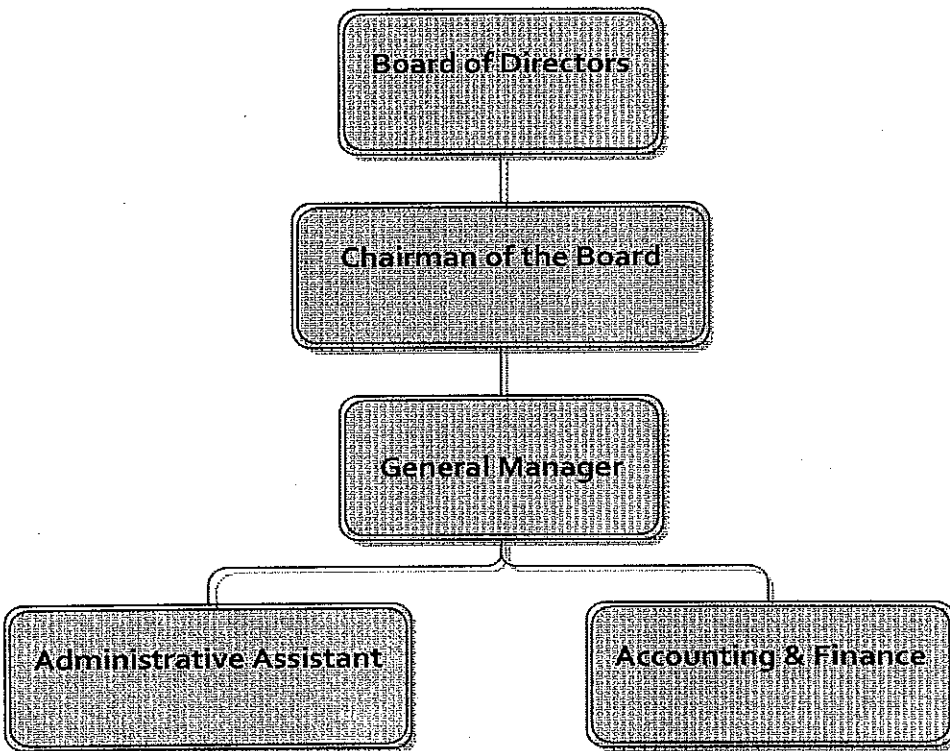
Management Personnel

General Manager

Barry Fraser

BAY AREA REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEMS

ORGANIZATION CHART



BAY AREA REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEMS

MEMBERS

BayRICS currently has 16 member agencies. Participating agencies include:

Counties

Alameda County
Contra Costa County
Marin County
Santa Clara County
San Francisco County
San Mateo County
Sonoma County

Cities

City of Oakland
City of San Francisco
City of San Jose

Special Districts

East Bay Hub (East Bay Regional Communications System Authority)
South Bay Hub (City of Monte Sereno, City of Santa Clara, City of Sunnyvale, and the Town of Los Gatos)

State

California Emergency Management Agency

Financial Section

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Bay Area Regional Interoperable Communications Systems
Oakland, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and major fund of Bay Area Regional Interoperable Communications Systems (the Authority), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's *Minimum Audit Requirements for California Special District*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2015 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 *Governmental Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

PwC
Oakland, California
February 11, 2015

**BAY AREA REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEMS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014**

This section of the financial statements for the Bay Area Regional Interoperable Communications Systems (the Authority) presents a narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2014. This information is presented in conjunction with the audited basic financial statements, which follows this section.

On February 15, 2013 the Authority signed a maintenance agreement with Aviat U.S., Inc. to maintain and monitor the digital microwave BAYLOOP system. The costs incurred from the maintenance agreement were to be offset by Homeland Security federal grants from the Bay Area Urban Areas Security Initiative. For the year ended June 30, 2013, the maintenance expense incurred was \$82,373 and accordingly, grant revenue for the same amount was earned. As a result, the Authority has restated the maintenance expense and grant revenue account balances for the same period. The adjustment had no impact on the Authority's net position as of July 1, 2013.

Financial Highlights

- The Authority's total assets exceeded its total liabilities by \$405,892 (net position) as of June 30, 2014, and the total net position decreased by \$26,989 compared to fiscal year 2013.
- During fiscal year 2014, the Authority received membership fees of \$335,899, an increase of \$4,788 from fiscal year 2013 due to an increase in the rate of membership fees.
- The Authority received grant revenues of \$214,410 to offset the costs to monitor and maintain the BAYLOOP microwave system.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Authority reports financial statements under the enterprise fund type as it is used to report activities for which fees are charged to external users for goods and services. As such, the Authority's financial statements are prepared on an accrual basis in accordance with Generally Accepted Accounting Principles.

Required Financial Statements

The Authority's financial information is presented in the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. The Statement of Net Position 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 Position identify the Authority's revenues and expenses and can be used to determine whether the Authority has successfully recovered all its costs through membership fees. 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.

**BAY AREA REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEMS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014**

Notes to the Financial Statements

The notes to the financial statements 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 Position

The Statement of Net Position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position as of June 30 is shown below:

Table 1: Condensed Statement of Net Position

	<u>June 30, 2014</u>	<u>June 30, 2013 (restated)</u>
Assets:		
Current assets	\$ 480,650	\$ 461,276
Total Assets	<u>480,650</u>	<u>461,276</u>
Liabilities:		
Current liabilities	<u>74,758</u>	<u>82,373</u>
Total Liabilities	<u>74,758</u>	<u>82,373</u>
Net Position:		
Unrestricted	<u>405,892</u>	<u>378,903</u>
Total Net Position	<u>\$ 405,892</u>	<u>\$ 378,903</u>

In fiscal year 2014, total assets increased by \$19,374 or 4 percent. This was primarily due to an increase in cash of \$23,240 from early membership payments.

Total liabilities for fiscal year 2014 decreased by \$7,615. This was due to the reduction in accounts payable for contracted maintenance expenses.

Total net position increased by \$26,989 compared to a \$229,510 increase in the prior year.

**BAY AREA REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEMS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014**

The increase in net position was substantially lower than the prior year because the increase in grant revenue of \$132,037 was not sufficient to cover the increase in operating expenses of \$338,862.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position reflect how the Authority's net position changed during the current 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 Statement of Revenues, Expenses and Changes in Net Position is as follows:

Table 2: Changes in Net Position

	<u>June 30, 2014</u>	<u>June 30, 2013 (restated)</u>
Operating revenues:		
Membership fees	\$ 335,899	\$ 331,111
Total operating revenues	<u>335,899</u>	<u>331,111</u>
Operating expenses:		
Administration	219,641	7,553
Audit	8,500	-0-
Insurance	7,637	6,281
Legal	71,789	89,593
Maintenance	214,410	82,373
Miscellaneous	<u>2,685</u>	<u>-0-</u>
Total operating expenses	<u>524,662</u>	<u>185,800</u>
Non-operating revenues:		
Grants	214,410	82,373
Interest	<u>1,342</u>	<u>1,826</u>
Total non-operating revenues	<u>215,752</u>	<u>84,199</u>
Change in net position	26,989	229,510
Net position – beginning of year	<u>378,903</u>	<u>149,393</u>
Net position – end of year	<u>\$ 405,892</u>	<u>\$ 378,903</u>

The Authority's change in net position decreased by \$202,521 during the fiscal year ended June 30, 2014. The decrease was due to an increase in operating expenses of \$338,862 and offset by an increase in grant revenues of \$132,037.

**BAY AREA REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEMS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014**

Economic Factors and Next Year's Budgets and Rates

According to the U.S. Department of Labor, the unemployment rate for the San Francisco metropolitan area was 5.2 percent in June 2014, compared to the rate of 6.9 percent in June 2013. The San Jose metropolitan area had an unemployment rate of 5.5 percent in June 2014, compared to the rate of 7.3 percent in June 2013. The State's unemployment rate was 7.4 percent in June 2014, compared to the rate of 8.9 percent in June 2013.

Spending for goods and services throughout the state and the country showed signs of improvements as unemployment rates, as indicated above, began to decrease. According to the U.S. Department of Commerce, the gross domestic product for the State of California is forecasted to increase to 4.1 percent in 2014 from 3.6 percent in 2013. By comparison, the national gross domestic product is forecast to increase to 3.5 percent in 2014 from 2.6 percent in 2013.

All of the above factors were considered in preparing the Authority's budget for fiscal year 2015.

The Authority adopted its fiscal year 2015 budget on April 10, 2014.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, and members 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 information for questions about this report or requests for additional financial information.

Bay Area Regional Interoperable Communications Systems
Alameda County Office of Homeland Security and Emergency Services
4985 Broder Boulevard, Dublin, CA 94568
Website: www.bayrics.net

BAY AREA REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEMS
STATEMENT OF NET POSITION
JUNE 30, 2014

Assets:

Cash and cash equivalents (Note 3)	\$ 401,764
Grants receivable (Note 5)	77,123
Prepaid expenses	<u>1,763</u>
Total assets	<u>480,650</u>

Liabilities:

Accounts payable (Note 6)	38,008
Unearned revenue (Note 7)	<u>36,750</u>
Total liabilities	<u>74,758</u>

Net Position

Unrestricted	<u>405,892</u>
Total net position	<u>\$ 405,892</u>

The accompanying notes are an integral part of these financial statements

BAY AREA REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEMS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

Operating revenues:	
Membership fees	\$ 335,899
Total operating revenue	<u>335,899</u>
Operating expenses:	
Maintenance (Note 8)	214,410
Administration (Note 9)	219,641
Legal	71,789
Audit	8,500
Insurance	7,637
Miscellaneous	<u>2,685</u>
Total operating expenses	<u>524,662</u>
Operating income (loss)	(188,763)
Nonoperating revenues:	
Grants	214,410
Interest	<u>1,342</u>
Total nonoperating revenues	<u>215,752</u>
Change in net position	26,989
Net position – beginning of year (Restated) (Note 10)	<u>378,903</u>
Net position – end of year	<u><u>\$ 405,892</u></u>

The accompanying notes are an integral part of these financial statements

BAY AREA REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEMS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

Cash flows from operating activities:	
Receipts from members	\$ 372,649
Payments to suppliers and service providers	<u>(570,789)</u>
Net cash used by operating activities	<u>(198,140)</u>
Cash flows from noncapital financing activities:	
Grants received	<u>219,660</u>
Net cash provided by noncapital financing activities	<u>219,660</u>
Cash flows from investing activities:	
Interest and dividends	<u>1,720</u>
Net cash provided by investing activities	<u>1,720</u>
Net increase in cash and cash equivalents	23,240
Cash and cash equivalents – beginning of year	<u>378,524</u>
Cash and cash equivalents – end of year	<u><u>\$ 401,764</u></u>
Reconciliation of operating income to net cash used by operating activities:	
Operating loss	\$ <u>(188,763)</u>
Changes in assets and liabilities:	
Prepaid expenses	(1,763)
Accounts payable	(44,364)
Unearned revenue	<u>36,750</u>
Total adjustments	<u>(9,377)</u>
Net cash used by operating activities	<u><u>\$ (198,140)</u></u>

The accompanying notes are an integral part of these financial statements

BAY AREA REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEMS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1: GENERAL INFORMATION

The Bay Area Regional Interoperable Communications Systems (the Authority) was officially created on May 2, 2011 with the formation of a Joint Powers Authority (JPA). Per California State Statute, a JPA is viewed as an independent government agency with powers that accrue to one of the member agencies. The intent of the Authority is to establish a regional, interoperable public safety broadband communications system and other advanced information systems for interoperable public communications services. As per JPA there are 16 member agencies consisting of 7 counties, 7 cities and towns, 1 special district, and the California Emergency Management Agency. As of June 30, 2014, the active members who paid the initial membership fees were:

- California Emergency Management Agency
- East Bay Regional Communications Systems Authority
- County of Alameda
- County of Marin
- County of Santa Clara
- City of San Jose
- City of Sunnyvale
- City of Santa Clara
- City and County of San Francisco
- Contra Costa County
- County of Sonoma
- City of Monte Sereno
- Town of Los Gatos
- City of Oakland
- County of San Mateo

The Authority is governed by the Board of Directors (Board) comprised of one representative from each member and the Governor of the State of California plus a Seat at Large to be determined by the Board. Each member has one vote and is also encouraged to designate an alternate to serve in the absence of its regular representative. The Board elects a President and a Vice-President to hold office for a one-year term, except as otherwise provided in the agreement. The officers for fiscal year 2014 were:

President	Rich Lucia	Alameda County
Vice-President	Karen Wong	State of California
Secretary	D.Marie Smith	Alameda County
Treasurer	Emily Harrison	Santa Clara County

The Board has powers and functions to establish priorities in the performance of services, to conduct all business on behalf of the Authority, and to adopt bylaws for the conduct of its business consistent with the agreement and all applicable laws.

BAY AREA REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEMS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Scope of Financial Reporting Entity

The Authority is legally separate from the seven counties, and is governed by a Board of Directors made up of 16 elected and appointed officials from each member agency. The Authority's financial activities are reported under the JPA BayRICS 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.

Enterprise funds account for business-like activities that are financed primarily by user charges and use 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 Governmental Accounting Standards 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.

C. Cash 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.

The County follows the practice of pooling cash and investments of all funds with the County Treasurer, except for certain restricted funds, which are generally held by outside custodians and classified as "Cash and investments with fiscal agents" within its financial statements. The fair value of the Treasurer's pool is determined on a quarterly basis. The adjustment to the cash balance of all participants in the pool is based on the cash balance at the valuation date. The change in the fair value of the investments is recognized in the year in which the change occurred.

BAY AREA REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEMS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

D. Capital Assets

Capital assets, which include land, construction in progress, structures and improvements, machinery and equipment, software, and infrastructure, are valued at historical cost. The Authority capitalizes equipment and computer software with minimum cost of \$5,000 and \$250,000, respectively, and an estimated useful life in excess of one year. Structures and improvements and infrastructure with a value of at least \$250,000 are capitalized. Donated capital assets are recorded at estimated fair value at the date of donation. The Authority has no capital assets as of June 30, 2014.

E. Net Position

Net Investment in Capital Assets

This category of net position groups all capital assets into one component. Accumulated depreciation and the outstanding balances of debt, excluding unexpended bond proceeds, related to the acquisition, construction, or improvement of the capital assets reduce the balance in this category. The Authority has no net investment in capital assets as of June 30, 2014.

Restricted Net Position

Restricted net position are those assets, net of their related liabilities, that have constraints placed on their use by creditors, grantors, contributors, or by enabling legislation. Accordingly, restricted assets may include unspent grant revenues, certain fees and charges and restricted tax revenues. The Authority has no restricted net position as of June 30, 2014.

The Authority first applies restricted resources when an expense is incurred for which both restricted and unrestricted net position are available.

F. Cash Flows

A statement of cash flows is presented for proprietary fund types. Cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less. Pooled cash and investments in the County's Treasury represent monies in a cash management pool. Such accounts are similar in nature to demand deposits.

G. Use of Estimates

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

BAY AREA REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEMS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

H. New Accounting Standards Implemented

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

As of July 1, 2013, the Authority adopted the above standard, which did not have a significant impact on its financial statements.

NOTE 3: CASH AND INVESTMENTS

As of June 30, 2014 the Authority's cash and investments were as follows:

Cash in county treasury	\$ <u>401,764</u>
Total	\$ <u><u>401,764</u></u>

Custodial Credit Risk – Deposits

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 Authority's investment policy requires that deposits in banks must meet the requirements of the California Government Code. As required by California Government Code Section 53652, the market value of the pledged securities must equal at least 110 percent of the Authority's deposits, with the exception of mortgage-backed securities, which must equal at least 150 percent.

County of Alameda Treasurer's Investments

The Authority is considered to be a voluntary participant in an external investment pool as the Authority deposits all receipts and collections, except those required to be deposited with the trustee, with the County of Alameda Treasurer.

BAY AREA REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEMS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Funds with the County Treasurer are invested pursuant to the annual investment policy established by the Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses the soundness of financial institution in which the County deposits funds, the types of investment instruments and the percentage of the portfolio, which may be invested in certain instruments, as permitted by Section 53600 et seq. of the Government Code of the State of California. Authorized instruments in which the Treasurer can invest include U.S. Treasury securities, banker's acceptances, federal, state and local government securities, commercial paper, medium-term corporate notes, negotiable certificates of deposit, local agency investment fund, money market funds, mutual funds that invest in authorized securities, and mortgage-backed securities. Information regarding the characteristics of the entire investment pool can be found in the County's June 30, 2014 comprehensive annual financial report. A copy of that report may be obtained by contacting the County's Auditor-Controller Agency, 1221 Oak Street, Room 220, Oakland, CA 94612.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rate will affect the fair value of an investment. In accordance with the investment policy, the County Treasurer manages the risk exposure by limiting the weighted average maturity of its investment portfolio to not more than two years at any time.

NOTE 4: 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 Alliant Insurance Services, Inc. government crime policy. The policy provides for coverage for faithful performance/employee dishonesty, money and securities, forgery or alteration, computer fraud, robbery and safe burglary, and money order and counterfeit paper currency. The Authority's deductibles and maximum coverage as of June 30, 2014 are as follows:

<u>Coverage Description</u>	<u>Deductible</u>	<u>Insurance Coverage</u>
Government Crime	\$ 2,500	\$ 15,000,000

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.

BAY AREA REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEMS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 5: GRANTS RECEIVABLE

Grants receivable represents the amount receivable from Bay Area Urban Areas Security Initiative grant as of June 30, 2014.

NOTE 6: ACCOUNTS PAYABLE

Accounts payable as of June 30, 2014, was comprised of the following amounts payable for:

Maintenance services	\$ 25,708
Other professional services	<u>12,300</u>
	\$ <u>38,008</u>

NOTE 7: UNEARNED REVENUE

Unearned revenue as of June 30, 2014, was comprised of the following:

<u>Member</u>	<u>Amount</u>
City of San Jose	\$ 7,000
City of Santa Clara	1,750
County of Alameda	7,000
County of Santa Clara	7,000
County of Sonoma	7,000
EBRCSA (East Bay Hub)	<u>7,000</u>
	\$ <u>36,750</u>

These represent the membership fee received in advance.

BAY AREA REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEMS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 8: MAINTENANCE AGREEMENT

On February 15, 2013, the Authority has entered into a maintenance agreement with Aviat U.S., Inc. for the Bayloop Digital Microwave System by which Aviat U.S., Inc. shall provide maintenance and remote monitoring services including: technical support, repair services, onsite corrective maintenance, preventative maintenance and advanced network operations center services. These services are provided on certain covered equipment held by the Authority and its member agencies.

NOTE 9: ADMINISTRATIVE SERVICES AGREEMENT

The Authority has entered into an agreement with Alameda County Sheriff's Office (ACSO) under which ACSO provides the Authority with management services by providing staff for the general manager position, necessary office and meeting space, equipment supplies, technical assistance, and access to ACSO telephone system and voicemail. For these services, the Authority reimburses ACSO the actual costs up to an amount not exceeding \$230,483. This agreement is for a period of one year from June 1, 2013 to May 31, 2014 with two options to extend the term of the agreement for up to one year each extension.

NOTE 10: RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

On February 15, 2013 the Authority signed a maintenance agreement with Aviat U.S., Inc. to maintain and monitor the digital microwave BAYLOOP system. The costs incurred from the maintenance agreement were to be offset by Homeland Security federal grants from the Bay Area Urban Areas Security Initiative. For the year ended June 30, 2013, the maintenance expense incurred was \$82,373 and accordingly, grant revenue for the same amount was earned. However, these expenses and revenue were not recorded for the year ended June 30, 2013. As a result, the Authority has restated the maintenance expense and grant revenue account balances for the same period. The adjustment had no impact on the Authority's net position as of July 1, 2013.

	Business type activities
Net Position, July 1, 2013	\$ 378,903
Adjustment:	
Accrual of grant receivable	82,373
Accrual of accounts payable	(82,373)
Net position, July 1, 2013 as restated	\$ <u>378,903</u>

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

The Board of Directors
Bay Area Regional Interoperable Communications Systems
Oakland, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and major fund of Bay Area Regional Interoperable Communications Systems as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Bay Area Regional Interoperable Communications Systems's basic financial statements, and have issued our report thereon dated February 11, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bay Area Regional Interoperable Communications Systems's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bay Area Regional Interoperable Communications Systems's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bay Area Regional Interoperable Communications Systems's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Bay Area Regional Interoperable Communications Systems's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bay Area Regional Interoperable Communications Systems's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Palmieri & Associates LLP
Oakland, California
February 11, 2015

**BAY AREA REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEMS
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014**

No matters were reported.

**BAY AREA REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEMS
STATUS OF PRIOR YEAR FINDINGS
JUNE 30, 2014**

There were no findings in the prior year.