



Marin Emergency Radio Authority [MERA]

**FINANCIAL STATEMENTS AND AUDITORS' REPORT
YEAR ENDED JUNE 30, 2013**

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INDEPENDENT AUDITORS' REPORT

To the Governing Board Members and Alternates of
Marin Emergency Radio Authority

We have audited the accompanying financial statements of the Marin Emergency Radio Authority (the Authority) as of and for the year ended June 30, 2013, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity'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 entity'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authorities basic financial statements. The budgetary comparison schedules, schedule of member operating and service payments, and schedule of future debt service requirements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedules, schedule of member operating and service payments, and schedule of future debt service requirements (the Schedules) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The Schedules have 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 them.

November X, 2013

MARIN EMERGENCY RADIO AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis provides an overview of the Marin Emergency Radio Authority (MERA) financial activities for the fiscal year ended June 30, 2013. Please read it along with the Authority's financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

The Authority's net position decreased by \$1,544,000 during the year. Total revenues increased by \$72,000 and total operating expenses increased by \$1,467,000 (see Note 9 to the financial statements) and non-operating expenses decreased by \$24,000 as compared to fiscal year 2011-12.

Budgetary comparison schedules are included in the supplemental information section. Below is a summary of variances when comparing actual activity with budgeted activity:

	Revenue Variance Positive (Negative)	Expenditure and transfer Variance Positive (Negative)	Net Variance Positive (Negative)
Operating Fund (70030)	\$ 1,422	\$ 175,729	\$ 177,151
New Project Financing Fund (70032)	\$ 501	\$ 18,512	\$ 19,013
Refunding Revenue Bonds Fund (70035)	\$ 7,573	\$ 23,181	\$ 30,754
Replacement Fund (70036)	\$ 1,425	\$ 56,160	\$ 57,585
Emergency Fund (70037)	\$ 647	\$ -	\$ 647

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to MERA's basic financial statements. MERA's basic financial statements comprise two components: (1) government-wide financial statements and (2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The Statement of Net Position presents information on all of MERA's assets, deferred outflows of resources, and liabilities, with the difference between assets, deferred outflows of resources, and liabilities reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of MERA is improving or deteriorating.

MARIN EMERGENCY RADIO AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

The Statement of Revenues, Expenses and Changes in Fund Net Position presents information showing how MERA's net position changed during the fiscal year. All changes in net position are recognized at the date the underlying event that gives rise to the change occurs, regardless of the timing of the related cash flows.

The Statement of Cash Flows presents information about MERA's cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities. This statement shows the sources and uses of cash, as well as the change in the cash balances during the fiscal years.

Management of MERA is a single-purpose entity that has elected to account for its activity as a proprietary fund type under governmental accounting standards. Accordingly, MERA presents only government-wide financial statements.

Changes in MERA's net position follows:

	<u>2013</u>	<u>2012</u>	<u>Increase (decrease)</u>
Current assets	\$ 4,335,053	\$ 4,246,513	\$ 88,540
Capital assets	14,742,746	17,983,584	(3,240,838)
Restricted assets	1,588,000	1,737,500	(149,500)
Total assets	<u>20,665,799</u>	<u>23,967,597</u>	<u>(3,301,798)</u>
Deferred outflows of resources	81,069	397,111	(316,042)
Current liabilities	2,030,908	1,994,792	36,116
Long-term debt	16,153,792	17,972,201	(1,818,409)
Total liabilities	<u>18,184,700</u>	<u>19,966,993</u>	<u>(1,782,293)</u>
Net position:			
Invested in capital assets, net of debt	91,618	1,692,052	(1,600,434)
Restricted bond debt service	526,450	374,048	152,402
Unrestricted	1,944,100	2,040,336	(96,236)
Total net position	<u>\$ 2,562,168</u>	<u>\$ 4,106,436</u>	<u>\$ (1,544,268)</u>

Depreciation of capital assets resulting in a reduction of capital assets (net of depreciation) more than offset the cost of additions to the radio system. The largest component of current liabilities is debt payable due within one year. Long-term debt decreased as the scheduled payment for the bonds issued in 2010 was made during 2012-13. The 2012 amount for invested in capital assets, net of debt has been adjusted due to a prior period adjustment described in Note 10 to the financial statements.

MARIN EMERGENCY RADIO AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Changes in MERA's revenues and expenses were as follows:

	<u>2013</u>	<u>2012</u>	<u>Increase (decrease)</u>
Revenues:			
Operating revenues			
Member operating payments	\$ 1,591,930	\$ 1,499,631	\$ 92,299
Nonoperating revenues			
Member service payments	2,347,375	2,344,750	2,625
Investment income	11,568	34,386	(22,818)
Total revenues	<u>3,950,873</u>	<u>3,878,767</u>	<u>72,106</u>
Expenses:			
Operating expenses	4,949,498	3,482,479	1,467,019
Non-operating expenses			
Interest expense	545,643	569,571	(23,928)
Total expenses	<u>5,495,141</u>	<u>4,052,050</u>	<u>1,443,091</u>
Increase (decrease) in net position	<u>\$ (1,544,268)</u>	<u>\$ (173,283)</u>	<u>\$ (1,370,985)</u>

Member operating payments increased from 2011-12 as indicated in the budget. Investment earnings decreased from the prior year due primarily to a downward adjustment in the fair market value of investments at year end. The increase in operating expenses is due primarily to larger annual depreciation resulting from shortening the estimated remaining useful life of the system's equipment, as described in the Note 9 to the financial statements. Interest expense held fairly constant after a lower effective interest rate was obtained as a result of our 2010 refinance of the 1999 Revenue Bonds. The 2012 amount for amortization has been adjusted to be consistent with the accounting treatment change described in Note 10 to the financial statements.

CAPITAL ASSET AND DEBT ADMINISTRATION

MERA owns various communication systems and equipment. More information about capital assets is shown in note 3 to the financial statements.

As scheduled, MERA paid bond principal of \$1,495,000 and bond interest of approximately \$606,000. Principal and interest related to our loan from Citizen's Bank amounted to \$135,000 and \$73,000, respectively. The statement of revenues, expenses and changes in net position report the interest payments adjusted for accruals and amortization.

MARIN EMERGENCY RADIO AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

THE FUTURE OF THE AUTHORITY

The MERA Governing Board, per its strategic plan, authorized the gathering of individual member feedback and input on the replacement and financing of its emergency communications system. A project budget was developed, public polling conducted and a parcel tax study commissioned to guide the development of its project financing plan for the estimated \$40 million replacement system. The authority is seeking public support and grants for system capital costs and continued member support for its maintenance and operations.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the Authority's finances and to demonstrate MERA's accountability for the funds under its stewardship.

Please address any questions about this report or requests for additional financial information to 95 Rowland Way, Novato, CA 94945.

Respectively submitted,

Maureen Cassingham

Executive Officer

BASIC FINANCIAL STATEMENTS

DRAFT

MARIN EMERGENCY RADIO AUTHORITY

**STATEMENT OF NET POSITION
AS OF JUNE 30, 2013**

ASSETS

Current assets:

Cash in Marin County Treasury	\$ 2,041,082
Interest receivable	2,252
Prepaid expenses	12,255
Investments with fiscal agent	2,279,464

Total current assets 4,335,053

Capital assets, net of \$17,884,218 accumulated depreciation 14,742,746

Restricted assets:

Investments with fiscal agent	1,588,000
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Total assets 20,665,799

DEFERRED OUTLOWS OF RESOURCES

Bond redemption premium, less accumulated amortization of \$109,281	81,069
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TOTAL ASSETS AND DEFERRED OUTLOWS OF RESOURCES 20,746,868

LIABILITIES

Current liabilities:

Accounts payable	109,237
Accrued interest	245,522
Note principal payable within one year	141,149
Bond principal payable within one year	1,535,000

Total current liabilities 2,030,908

Noncurrent liabilities

Note payable after one year	1,379,178
Bond payable after one year	14,774,614

Total noncurrent liabilities 16,153,792

Total liabilities 18,184,700

NET POSITION

Invested in capital assets, net of related debt	91,618
Restricted bond debt service	526,450
Unrestricted	1,944,100

TOTAL NET POSITION \$ 2,562,168

The accompanying notes are an integral part of these financial statements.

MARIN EMERGENCY RADIO AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
YEAR ENDED JUNE 30, 2013

OPERATING REVENUES:

Member operating payments	\$ 1,591,930
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OPERATING EXPENSES:

Contract services	311,482
County system maintenance	462,740
County technical services	222,803
County communication engineer	164,479
Site rentals and leases	336,094
Site utilities	73,661
Site maintenance	8,615
Insurance	36,470
Audit services	14,200
Legal services	15,065
Miscellaneous expenses	4,836
Depreciation	<u>3,299,053</u>

Total operating expense	<u>4,949,498</u>
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Operating income (loss)	(3,357,568)
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NONOPERATING REVENUES (EXPENSES):

Member service payments	2,347,375
Investment income	11,568
Interest expense	<u>(545,643)</u>

Total nonoperating revenues (expenses)	<u>1,813,300</u>
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INCREASE (DECREASE) IN NET POSITION	(1,544,268)
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Net position at beginning of the year (restated)	<u>4,106,436</u>
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Net position at end of the year	<u><u>\$ 2,562,168</u></u>
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MARIN EMERGENCY RADIO AUTHORITY

**STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013**

CASH FLOWS FROM OPERATING ACTIVITIES:

Member contributions	\$ 1,591,930
Operating expenses	<u>(1,646,943)</u>
Net cash provided by (used for) operating activities	<u>(55,013)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Member service payments	225,000
Additions (reductions) to capital assets	(58,215)
Note principal payments	(135,160)
Interest payments	<u>(73,339)</u>
Net cash (used) by capital activities and related financing activities	<u>(41,714)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income	<u>3,993</u>
Net increase (decrease) in cash and cash equivalents	(92,734)
Cash and cash equivalents at beginning of year	<u>2,133,816</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,041,082</u></u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income (loss)	\$ (3,357,568)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation, an expense not requiring the use of cash	3,299,053
(Increase) decrease in prepaid expenses	(2,887)
Increase (decrease) in accounts payable	<u>6,389</u>
Net cash provided by operating activities	<u><u>\$ (55,013)</u></u>

NONCASH CAPITAL, RELATED FINANCING AND INVESTING ACTIVITIES:

Member service payments related to bonds are made directly to the bond trustee who makes the debt service payments	
Member service revenue	\$ 2,122,375
Interest and dividend income	\$ 54,272
Bond principal payments	\$ 1,495,000
Bond interest payments	\$ 606,063

MARIN EMERGENCY RADIO AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Marin Emergency Radio Authority (MERA) is a joint powers authority created on February 28, 1998 by and among the County of Marin and certain public agencies within the County (collectively, the “Members”). MERA was formed to plan, finance, implement, manage, own and operate a multi-jurisdictional and countywide public safety and emergency radio system. This radio system will be used by member agencies in the law enforcement, fire management, emergency medical, road maintenance, transit, public works, local government and other county-based entities in Marin County. MERA is governed by a Governing Board comprised of one appointed official from each participating member

INTRODUCTION

MERA’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations.). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements.

MERA has implemented Governmental Accounting Standards Board Statements No. 63, *Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*.

BASIS OF ACCOUNTING

The Authority’s operations are accounted for as a governmental enterprise fund. GAAP requires that enterprise funds use the accrual basis of accounting – similar to business enterprises. Accordingly, revenues are recognized when they are earned and expenses are recognized at the time liabilities are incurred.

MARIN EMERGENCY RADIO AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BASIS OF ACCOUNTING (continued)

The Authority distinguishes between operating and nonoperating activities. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an entities principal ongoing operation. The principal operating revenues of the Authority are budgeted member payments. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition, including member contributions made to service debt (service payments), are reported as non-operating revenues and expenses.

FINANCIAL STATEMENT AMOUNTS

CASH AND CASH EQUIVALENTS:

For purpose of the statement of cash flows, MERA has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments within the County of Marin Treasurer's Pooled Investment Fund.

Investments:

Investments with fiscal agents are stated at fair value. These investments consist of cash and debt securities held by Bank of New York Mellon Trust Company in connection with the Marin Emergency Radio Authority 2010 Revenue Bonds (see Note 4).

Capital Assets:

MERA capitalized all costs directly associated with the acquisition, development and construction of the public safety and emergency radio system (the "Project"). Costs include the backbone system, user equipment, fire station alerting equipment, improvements to communications centers and construction-period interest and other project development costs. Depreciation is computed on the straight-line basis over estimated useful lives of the assets, depending on the nature of the assets.

MARIN EMERGENCY RADIO AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL STATEMENT AMOUNTS (continued)

Member payments:

Each member agrees to pay the cost of financing the acquisition of certain public safety radio equipment (“Service Payments”) and the cost of annual operations (“Operating Payments”) in an amount determined by the MERA Board for each operating period. All service payments have been assigned by MERA to the trustee in trust; pursuant to its bond indenture (see Note 4).

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. CASH AND INVESTMENTS

MERA maintains most of its cash in the County of Marin pooled investment fund for the purpose of increasing interest earnings through pooled investment activities. Interest earned on the investment pool is allocated quarterly to the participating funds using the daily cash balance of each fund. This pool, which is available for use by all funds, is displayed in the financial statements as “Cash.”

The County Pool includes both voluntary and involuntary participation from external entities. The State of California statutes require certain special districts and other governmental entities to maintain their cash surplus with the County Treasurer.

The County’s investment pool is not registered with the Securities and Exchange Commission as an investment company. Investments made by the Treasurer are regulated by the California Government Code and by the County’s investment policy. The objectives of the policy are in order of priority, safety, liquidity, yield, and public trust. The County has established a treasury oversight committee to monitor and review the management of public funds maintained in the investment pool in accordance with Article 6 Section 27131 of the California Government Code. The oversight committee and the Board of Supervisors review and approve the investment policy annually. The County Treasurer prepares and submits a comprehensive investment report to the members of the oversight committee and the investment pool participants every month. The report covers the types of investments in the pool, maturity dates, par value, actual costs and fair value.

MARIN EMERGENCY RADIO AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

2. CASH AND INVESTMENTS (continued)

Under MERA's investment policy, and in accordance with Section 53601 of the California Government Code, MERA may invest in the following:

- Securities of the U.S. government or its agencies
- Bankers acceptances
- Commercial paper
- Medium term corporate notes
- California Local Agency Investment Fund ("LAIF")
- Passbook savings account demand deposits
- Guaranteed investment contracts
- Mutual funds
- Repurchase agreements (not to exceed 30 days)
- Collateralized mortgage obligations

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted average time to receive a bond's coupon and principal payments. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates. MERA has not adopted a policy to manage interest rate risk.

In accordance with its investment policy, the County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment pool to 540 days, or 1.5 years. At June 30, 2013, the County's investment pool had a weighted average maturity of 178 days.

For purposes of computing weighted average maturity, the maturity date of variable rate notes is the length of time until the next reset date rather than the stated maturity date.

MARIN EMERGENCY RADIO AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

2. CASH AND INVESTMENTS (continued)

CREDIT RISK

State law and the County's Investment Policy limits investments in commercial paper, corporate bonds, and medium term notes to the rating of "A" or higher as provided by Moody's Investors Service or Standard & Poor's Corporation. The County's Investment Policy limits investments purchased by Financial Institution Investment Accounts, a type of mutual fund, to United States Treasury and Agency obligations with a credit quality rating of "AAA."

MERA has cash and investments held by Bank of New York Mellon Trust Company (BoNY) as trustee relating to its outstanding bonds. Investments include money market funds and an obligation of the Federal National Mortgage Association (FNMA) that matures in December 2013 and bears interest at fixed rate of 2.875%.

As of June 30, 2013, investments held by BoNY (including \$1,588,000 restricted for debt service) were as follows:

	<u>Cost</u>	<u>Market</u>
FNMA obligation	\$ 1,942,049	\$ 1,903,049
Money market funds	1,964,415	1,964,415
Total	<u>\$ 3,906,464</u>	<u>\$ 3,867,464</u>

CONCENTRATION OF CREDIT RISK

This is the risk of loss attributed to the concentration of MERA's investment in a single issuer.

Following is a summary of the concentration of credit risk by investment type of the Marin County Investment Pool as a percentage of fair value at June 30, 2013.

<u>Investments in Investment Pool</u>	<u>Percent of Portfolio</u>
Federal agency issues - coupon	17%
Federal agency issues - discount	81%
Money market funds	<u>2%</u>
	100%

MARIN EMERGENCY RADIO AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

2. CASH AND INVESTMENTS (continued)

CUSTODIAL CREDIT RISK

Custodial credit risk for deposits is the risk that in the event of a financial institution's failure, MERA would not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. MERA's deposits are not exposed to custodial credit risk as its deposits are eligible for and covered by "pass-through insurance" in accordance with applicable law and FDIC rules and regulations.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, MERA would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in MERA's name, and held by the counterparty. MERA's investment securities are not exposed to custodial credit risk because all securities are held by MERA's custodial bank in MERA's name.

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning balance	Additions	Ending Balance
Nondepreciable assets:			
Land	\$ 160,000	-	\$ 160,000
Depreciable capital assets:			
Motorola communications system	\$ 25,255,701	-	\$ 25,255,701
Other capitalized services	3,254,314	-	3,254,314
Equipment	195,437	\$ 58,215	253,652
Radio frequencies	562,500	-	562,500
Capitalized interest costs, net	3,140,797	-	3,140,797
Totals at historical cost	<u>32,408,749</u>	<u>58,215</u>	<u>32,466,964</u>
Less: Accumulated depreciation			
Motorola communications system	11,937,804	2,594,649	14,532,453
Other capitalized services	1,275,159	329,861	1,605,020
Equipment	59,632	32,338	91,970
Radio frequencies	56,250	28,125	84,375
Capitalized interest costs, net	1,256,320	314,080	1,570,400
Total accumulated depreciation	<u>14,585,165</u>	<u>3,299,053</u>	<u>17,884,218</u>
Depreciable capital assets, net	<u>\$ 17,823,584</u>	<u>\$ (3,240,838)</u>	<u>\$ 14,582,746</u>

MARIN EMERGENCY RADIO AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

4. BONDS PAYABLE

MERA's debt issues and transactions for the year ended June 30, 2013 are summarized below and discussed in detail subsequently:

	Beginning Balance	Additions	Reductions	Ending Balance
2010 Revenue Bonds	17,375,000		\$ (1,495,000)	15,880,000
Unamortized premium	571,875		(142,261)	429,614
	17,946,875	-	(1,637,261)	16,309,614
Less current portion	1,495,000	1,535,000	1,495,000	1,535,000
Bonds payable after one year	<u>\$ 16,451,875</u>	<u>\$ (1,535,000)</u>	<u>\$ (3,132,261)</u>	<u>\$ 14,774,614</u>

In February 2010 MERA re-financed its 1999 Revenue Bonds (Bonds) that were originally issued to finance the acquisition public safety radio equipment. The 2010 bonds were issued at a premium of \$934,382 above their nominal value of \$18,575,000. Issuance and related costs totaled \$409,249. These serial bonds mature annually from 2012 to 2021 and bear interest from 2.0% to 4.0%.

Principal payments are payable annually on August 15th. Interest is payable semiannually on August 15 and February 15. Bonds maturing after August 15, 2021 may be early redeemed at face value after August 2020. The Bonds are special obligations of MERA and are secured by the Members' Service Payments (see Note 1) which are remitted directly from members to the bond trustee (Bank of New York Mellon Trust Company). The annual schedule for debt service payments is as follows: Member agency Service Payments are due by August 1 of each year. The Trustee holds the Service Payments until payments are due for interest on the following February 15 and principal and interest the following August 15.

In accordance with the bond indenture agreement, the Trustee holds \$1,588,000 to satisfy a reserve requirement until all bonds are retired.

MARIN EMERGENCY RADIO AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

4. BONDS PAYABLE (continued)

Minimum future obligations for debt service for bonds are as follows:

	Principal	Interest	Total
Year ended June 30,			
2014	\$ 1,535,000	\$ 564,350	\$ 2,099,350
2015	1,580,000	521,575	2,101,575
2016	1,620,000	469,425	2,089,425
2017	1,685,000	403,325	2,088,325
2018	1,755,000	338,913	2,093,913
2019-2022	7,705,000	631,300	8,336,300
	<u>\$15,880,000</u>	<u>\$ 2,928,888</u>	<u>\$18,808,888</u>

The premium and issuance costs of the 2010 bonds will be amortized over the term of the 2010 bonds. The unamortized premium and discounts of the 1999 bonds will be amortized over remaining term of the original 1999 bond issue.

5. NOTE PAYABLE

On February 1, 2007, the Authority borrowed \$2,250,000 from Citizens Business Bank. The note is being amortized over 14 ½ years at an interest rate of 4.43% per year. Interest is due each February and August and principal is due in February of each year. The loan agreement provides that early payment of the note, in part or in whole, may be made at par commencing August 15, 2011. Debt service payments will be funded by member operating payments.

Changes during the year were as follows:

Balance as of June 30, 2012	\$ 1,655,487
Principal paid	<u>(135,160)</u>
Balance as of June 30, 2013	1,520,327
Less current portion	<u>141,149</u>
Note payable due after one year	<u>\$ 1,379,178</u>

MARIN EMERGENCY RADIO AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

5. NOTE PAYABLE (continued)

Minimum future obligations for debt service for notes payable are as follows:

Year ended June 30,	Principal	Interest	Total
2014	\$ 141,149	\$ 67,350	\$ 208,499
2015	147,401	61,098	208,499
2016	153,931	54,568	208,499
2017	160,751	47,748	208,499
2018	167,872	40,628	208,500
2019-2022	749,223	84,772	833,995
	<u>\$ 1,520,327</u>	<u>\$ 356,164</u>	<u>\$ 1,876,491</u>

6. RISK MANAGEMENT

MERA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. During the year, MERA purchased liability and property insurance as part of a group of municipalities. Coverage for general liability, errors and omissions and non-owned automobile was \$4,000,000 after a \$50,000 deductible. Property coverage was purchased for values of \$15,504,000, with automatic coverage of up to \$50,000,000 of additional property if added. A sublimit of \$1,000,000 applied to fire damage liability.

MARIN EMERGENCY RADIO AUTHORITY

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

7. COMMITMENTS AND CONTINGENCIES

At June 30, 2013, MERA has lease commitments for various site communication facilities. The leases have terms ranging from five to twenty years and provide for various rental payment requirements including some at little or no cost. Certain of the leases contain options to extend for additional five year periods. Certain lessors that are Members of MERA have waived any lease fees under their agreements. Rental expense was \$336,000 for 2013.

Future minimum lease payments under the leases are as follows:

Year ended June 30,	
2014	\$ 280,577
2015	212,602
2016	170,657
2017	177,982
2018	185,691
2019-2023	974,267
2024-2028	551,737
2029-2033	150,000
2034-2038	92,500
	<u>\$ 2,796,013</u>

In addition to the lease commitments above, MERA has the following commitments:

<u>Contractor</u>	<u>Purpose</u>	<u>Amount</u>
County of Marin	Maintenance Agreement - 2 years	\$ 814,860
County of Marin	Technical Services	286,000
County of Marin	System Analysis Agreement - 2 years	100,000
County of Marin	Communications Engineer	170,200
Various	Professional Services	554,980
		<u>\$ 1,926,040</u>

MARIN EMERGENCY RADIO AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2013

8. RELATED PARTY TRANSACTIONS

The County of Marin, which is a member of MERA, was paid \$912,000 for maintenance and technical services. Additionally, the Novato Fire Protection District, which is also a member of MERA, was paid \$61,000 for administrative services.

9. CHANGE IN ACCOUNTING ESTIMATE

During the year ending June 30, 2013, management revised its estimate on the useful life of the radio system. Previously, management estimated the useful life of the radio system to be 20 years, commencing in 2005. Management now estimates that the radio system will remain reliably operational no later than the year ending June 30, 2018. As a result of this change in accounting estimate, depreciation expense for the year ending June 30, 2013 has increased from approximately \$2,011,000 to \$3,299,000. Depreciation expense is expected to increase approximately \$1,288,000 each year through June 30, 2018 over the previous depreciation expense estimate.

10. PRIOR PERIOD ADJUSTMENT

In March 2012, the Governmental Accounting Standards Board (GASB) issued Statement of Governmental Accounting Standards No. 65, *Items Previously Reported as Assets and Liabilities*. An objective of this Statement is to recognize certain items that were previously reported as assets as outflows of resources (expenses or expenditures). The Statement requires that debt issuance costs should be recognized as an expense in the period incurred. MERA has elected to adopt this Statement effective for the year ended June 30, 2013. As required, accounting changes adopted to conform to the provisions of the Statement should be applied retroactively by restating financial statements. The unamortized amount of debt issuance costs as of June 30, 2012 was \$291,279 and has been reported as a restatement of beginning net position. The actual amount of debt issuance amortization expense recorded in fiscal year 2011-12 was \$50,953, and after implementing this new statement amortization expense would have been zero for that year.

SUPPLEMENTAL INFORMATION

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MARIN EMERGENCY RADIO AUTHORITY

**BUDGETARY COMPARISON SCHEDULE
OPERATING FUND (70030)
YEAR ENDED JUNE 30, 2013**

	Original and Final Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Member contributions	\$1,591,930	\$1,591,930	\$1,591,930	\$ -
Interest			1,422	1,422
Total revenues	<u>1,591,930</u>	<u>1,591,930</u>	<u>1,593,352</u>	<u>1,422</u>
EXPENDITURES				
Current:				
Contract services	154,500	154,500	153,819	681
County system maintenance	483,930	483,930	442,478	41,452
County technical services	281,000	281,000	180,446	100,554
County communications engineer	165,000	165,000	164,479	521
Site rentals and leases	337,000	337,000	336,094	906
Site utilities	81,000	81,000	73,661	7,339
Site maintenance	10,000	10,000	8,615	1,385
Insurance	37,000	37,000	36,470	530
Auditing services	14,500	14,500	14,200	300
Legal services	7,000	7,000	5,162	1,838
Miscellaneous expenses	1,000	1,000	789	211
General contingencies	20,000	20,000	0	20,000
Total expenditures	<u>1,591,930</u>	<u>1,591,930</u>	<u>1,416,213</u>	<u>175,717</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>177,139</u>	<u>177,139</u>
OTHER FINANCING SOURCES (USES)				
Transfers to other funds	<u>-</u>	<u>(100,000)</u>	<u>(100,012)</u>	<u>12</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (100,000)</u>	<u>77,127</u>	<u>\$ 177,151</u>
Fund balance at beginning of year			<u>132,214</u>	
Fund balance at end of year			<u>\$ 209,341</u>	

MARIN EMERGENCY RADIO AUTHORITY

**BUDGETARY COMPARISON SCHEDULE
NEW PROJECT FINANCING – 2007 BANK NOTE FUND (70032)
YEAR ENDED JUNE 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Member contributions	\$ 225,000	\$ 225,000	\$ 225,000	\$ -
Interest			501	501
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	225,000	225,000	225,501	501
EXPENDITURES				
Contract services		33,575	15,142	18,433
Capital outlay	16,501	22,000	21,922	78
Debt service	208,499	208,500	208,499	1
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	225,000	264,075	245,563	18,512
Excess of revenues over (under) expenditures	<hr/>	<hr/>	<hr/>	<hr/>
	-	(39,075)	(20,062)	19,013
Fund balance at beginning of year			<hr/>	
Fund balance at end of year			265,570	
			<hr/>	
			\$ 245,508	
			<hr/> <hr/>	

MARIN EMERGENCY RADIO AUTHORITY

**BUDGETARY COMPARISON SCHEDULE
2010 REFUNDING REVENUE BONDS FUND (70035)
YEAR ENDED JUNE 30, 2013**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Member contributions	\$ 2,122,375	\$ 2,122,375	\$ -
Interest income	-	7,573	7,573
Total revenues	<u>2,122,375</u>	<u>2,129,948</u>	<u>7,573</u>
EXPENDITURES			
Debt service	<u>2,122,375</u>	<u>2,101,063</u>	<u>21,312</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>28,885</u>	<u>28,885</u>
OTHER FINANCING SOURCES (USES)			
Transfer from other funds	<u>-</u>	<u>1,869</u>	<u>1,869</u>
Net change in fund balance	<u><u>\$ -</u></u>	<u><u>30,754</u></u>	<u><u>\$ 30,754</u></u>
Fund balance at beginning of year		<u>3,838,960</u>	
Fund balance at end of year		<u><u>\$ 3,869,714</u></u>	

MARIN EMERGENCY RADIO AUTHORITY

**BUDGETARY COMPARISON SCHEDULE
REPLACEMENT FUND (70036)
YEAR ENDED JUNE 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
REVENUES				
Interest	\$ -	\$ -	\$ 1,425	\$ 1,425
EXPENDITURES				
Current				
Contract services	25,000	223,900	167,566	56,334
Capital outlay	6,000	42,000	36,293	5,707
County system maintenance		25,000	20,262	4,738
County technical services *		20,000	27,215	(7,215)
Miscellaneous	2,500	2,500	4,047	(1,547)
Total expenditures	<u>33,500</u>	<u>313,400</u>	<u>255,383</u>	<u>58,017</u>
Excess of revenues over (under) expenditures	(33,500)	(313,400)	(253,958)	59,442
OTHER FINANCING SOURCES (USES)				
Transfer from other funds, net		100,000	98,143	(1,857)
Net change in fund balance	<u>\$ (33,500)</u>	<u>\$ (213,400)</u>	(155,815)	<u>\$ 57,585</u>
Fund balance at beginning of year			<u>1,140,253</u>	
Fund balance at end of year			<u>\$ 984,438</u>	

* Expenditures in excess of County technical services budget were approved by the executive board after the year end.

MARIN EMERGENCY RADIO AUTHORITY

**BUDGETARY COMPARISON SCHEDULE
EMERGENCY FUND (70037)
YEAR ENDED JUNE 30, 2013**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Interest	<u>\$ -</u>	\$ 647	<u>\$ 647</u>
Fund balance at beginning of year		<u>504,167</u>	
Fund balance at end of year		<u>\$ 504,814</u>	

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MARIN EMERGENCY RADIO AUTHORITY

NOTES TO SUPPLEMENTAL INFORMATION YEAR ENDED JUNE 30, 2013

BUDGETS

The budget included in these financial statements represents the original budget and amendments/additional allocations approved by the Board of Directors. The budgetary basis is the modified accrual basis of accounting. Various reclassifications have been made to the actual amounts to conform to classifications included in the approved budgets.

DESIGNATIONS AND RESERVES

The New Project Financing – 2007 Bank Note Fund is used to fund additional project costs and pay interest and principal on the loan with Citizens Business Bank.

The 2010 Refunding Revenue Bonds Fund is used to pay interest and principal on the bond related to the acquisition of the public safety radio equipment.

The Replacement Fund is designated for repairing, improving or replacing the MERA communications system or any component thereof.

The Emergency Fund is designated to immediately address any emergency conditions causing or likely to cause system service interruptions before insurance is available, for underinsured or uninsured losses and to self-insure liability and property insurance deductibles.

MARIN EMERGENCY RADIO AUTHORITY

**SCHEDULE OF MEMBER OPERATING AND SERVICE PAYMENTS
YEAR ENDED JUNE 30, 2013**

	Member	Member "Service" Payments	
	Operating	Bonds	Note
	Payments		
City of Belvedere	\$ 15,311	\$ 16,384	\$ 2,164
Bolinas Fire Protection District	9,368	12,754	1,324
College of Marin	5,753	*	813
Town of Corte Madera	22,676	33,426	3,205
Town of Fairfax	31,871	42,658	4,505
Inverness Public Utility District	7,931	11,990	1,121
Kentfield Fire Protection District	12,922	14,410	1,826
City of Larkspur	27,077	39,752	3,827
County of Marin	555,199	746,036	78,471
Marin County Transit District	15,871	25,044	2,243
Marinwood Community Services District	14,117	18,167	1,995
City of Mill Valley	72,372	90,646	10,229
Marin Municipal Water District	6,646	20,311	939
Novato Fire Protection District	85,196	103,869	12,041
City of Novato	179,793	221,406	25,412
Town of Ross	15,069	17,255	2,130
Ross Valley Fire Department	28,166	34,255	3,981
Town of San Anselmo	47,690	64,159	6,740
City of San Rafael	236,672	358,957	33,451
City of Sausalito	43,410	60,042	6,136
Skywalker Ranch	5,784	*	817
Southern Marin Fire Protection District	27,244	35,168	3,851
Stinson Beach Fire Projection District	8,445	13,062	1,194
Tiburon Fire Protection District	18,972	23,134	2,681
Town of Tiburon	35,909	39,243	5,075
Twin Cities Police Department	62,466	80,247	8,829
	<u>\$ 1,591,930</u>	<u>\$ 2,122,375</u>	<u>\$ 225,000</u>

* Not required to pay service payments or previously paid

MARIN EMERGENCY RADIO AUTHORITY

SCHEDULE OF FUTURE DEBT SERVICE REQUIREMENTS

Date	Bonds			Note Payable			Total
	Principal	Interest	Bond	Principal	Interest	Note	
August 15, 2013	1,535,000	293,688	1,828,688		33,675	33,675	1,862,363
February 15, 2014		270,663	270,663	141,149	33,675	174,824	445,487
August 15, 2014	1,580,000	270,663	1,850,663		30,549	30,549	1,881,212
February 15, 2015		250,913	250,913	147,401	30,549	177,950	428,863
August 15, 2015	1,620,000	250,913	1,870,913		27,284	27,284	1,898,197
February 15, 2016		218,513	218,513	153,931	27,284	181,215	399,728
August 15, 2016	1,685,000	218,513	1,903,513		23,874	23,874	1,927,387
February 15, 2017		184,813	184,813	160,751	23,874	184,625	369,438
August 15, 2017	1,755,000	184,813	1,939,813		20,314	20,314	1,960,127
February 15, 2018		154,100	154,100	167,872	20,314	188,186	342,286
August 15, 2018	1,815,000	154,100	1,969,100		16,595	16,595	1,985,695
February 15, 2019		117,800	117,800	175,309	16,595	191,904	309,704
August 15, 2019	1,890,000	117,800	2,007,800		12,712	12,712	2,020,512
February 15, 2020		80,000	80,000	183,075	12,712	195,787	275,787
August 15, 2020	1,960,000	80,000	2,040,000		8,657	8,657	2,048,657
February 15, 2021		40,800	40,800	191,184	8,657	199,841	240,641
August 15, 2021	2,040,000	40,800	2,080,800		4,422	4,422	2,085,222
February 15, 2022				199,654	4,422	204,076	204,076
	\$ 15,880,000	\$ 2,928,888	\$ 18,808,888	\$ 1,520,326	\$ 356,164	\$ 1,876,490	\$ 20,685,378