

Financial
Report: First
Responder
Network
Authority

Fiscal
Year
2016



FirstNetTM

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Message from the Chief Financial Officer

I am pleased to present the financial condition and operating results of the First Responder Network Authority (FirstNet) for fiscal year (FY) 2016 along with the report of the independent auditors, Harper, Rains, Knight & Company, P.A. This fulfills the statutory requirements established by Section 6209 of Public Law No. 112-96, Title VI, 126 Statute 256, which created FirstNet as an independent authority within the National Telecommunications and Information Administration (NTIA) of the Department of Commerce. For the fourth consecutive year, the auditors provided an unmodified opinion on FirstNet's FY 2016 financial statements.

The auditors considered FirstNet's internal controls over financial reporting and the significant progress made during FY 2016. As a result of the noted enhancements FirstNet made this year to establish compensating controls surrounding the Information Technology (IT) access and change management controls, the previously reported significant deficiency related to our financial services provider's IT and configuration management weaknesses was mitigated and led to the closure of this significant deficiency for FirstNet this year. This means FirstNet was able to provide reasonable assurance of the reliability of FirstNet's financial reporting and operations. Additionally, due to the significant number of policies and procedures established over the last fiscal year, the auditors also closed the management level finding related to the lack of policies and procedures documentation.

FirstNet continued to align financial resources with its enterprise-wide Five Year Strategic Plan for FY 2016 – FY 2020, which provides all of our stakeholders, including the American taxpayer, with the goals and objectives established to accomplish FirstNet's mission. The Office of the Chief Financial Officer created the financial model for and substantially drafted the financial components of the Nationwide Public Safety Broadband Network (NPSBN) comprehensive Request for Proposals (RFP). We developed and distributed comprehensive budget formulation guidance to our business units, facilitating a successful FY 2017 formulation process that earned prompt Board approval of our FY 2017 budget. We will continue to share our budget to provide full transparency into resource utilization in alignment with FirstNet's goals and strategies, as we continue to execute our plans and shape our future.

FirstNet continues the improvement of its financial management policies and processes. We are actively creating an environment that emphasizes sound internal controls and Enterprise Risk Management (ERM) in compliance with the recently revised OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. FirstNet has established a governance structure for ERM known as the Risk Management Committee (RMC). The RMC serves as the executive-level risk governing body responsible for providing consensus-based risk management and policy guidance within FirstNet, ensuring that risks are managed, while creating value and protection for FirstNet and its stakeholders. FirstNet's Senior Assessment Team provides leadership in the definition, implementation, and assessment of FirstNet's Internal Control Program and associated activities. Our Policy and Internal Control division manages FirstNet's Internal Control Program Implementation Plan and ensures internal controls are operating efficiently and effectively.

FirstNet is committed to operational excellence and support of our customer, the public safety community. This document provides insight into FirstNet's financial activities and demonstrates how FirstNet manages taxpayer resources with integrity and accountability. We remain dedicated to being responsible stewards of taxpayer dollars, and we stand firm in our commitment to sound financial management practices in support of the FirstNet mission.



Kim Farington
Chief Financial Officer

Introduction and Background

HISTORY, PURPOSE, AND FIRSTNET MISSION

FirstNet was established by Public Law No. 112-96 (the Act) as an independent authority within Department of Commerce's National Telecommunications and Information Administration. The Act established the governance structure of FirstNet; created related advisory committees; set forth FirstNet's powers, duties and responsibilities; authorized FirstNet's initial funding and subsequent requirement for self-funding; and provided audit and reporting requirements. FirstNet will fulfill a fundamental need of the public safety community and is the last remaining recommendation of the National Commission on Terrorist Attacks Upon the United States (also known as the 9-11 Commission) to be addressed. FirstNet's mission is to ensure the deployment, and operation of a Nationwide Public Safety Broadband Network (NPSBN or network) for public safety entities.

Leveraging Long Term Evolution (LTE) technology standards, up to \$7 billion in funding from successful spectrum auctions, and a nationwide license of 20 MHz of radio frequency spectrum, the FirstNet network is intended to dramatically increase the safety and communication capabilities of all of those who serve in a public safety capacity, and thereby further protect the American people.

Public safety, and thus the American people, will benefit from the availability of a dedicated wireless broadband network prioritized for first responders, the economies of scale afforded by a national, commercial standards-based network, and the force of innovation in mobile applications.

FISCAL YEAR 2016 OVERVIEW

FirstNet's fiscal year runs from October 1 through September 30. Fiscal Year (FY) 2016 was FirstNet's fourth full year of operations. One of our most important efforts in FY 2016 was working to ensure a strong financial condition to help make the FirstNet network sustainable for public safety. As of September 30, 2016, we had a cash balance of \$6.68 billion, which will be used for our ongoing operations and to stand up the FirstNet network.

During this past fiscal year, our most noteworthy accomplishment was the initiation of our acquisition process for the FirstNet network. Our Request for Proposal (RFP) to ultimately identify a successful public-private partner to deploy, operate and maintain the FirstNet network was released in January 2016. Through a collaborative effort between FirstNet, the States, territories and the public safety community, our teams gathered a wide range of data that was utilized to develop the RFP. Our evaluation of the competitive proposals accepted through May 31, 2016, is expected to be completed during 2017.

During FY 2016, FirstNet's CEO and President testified before both chambers of Congress, providing updates on FirstNet's actions throughout the year. As in prior years, FirstNet looks forward to continued interaction with Congress and keeping them well-versed on our progress towards meeting our mission, and all significant achievements in 2017.

We modified our goals and implemented strategic revisions to our organizational structure, starting with our diverse team of dedicated subject matter experts, in order to better leverage their strengths to meet the needs of the public safety community, and all of our stakeholders. We also re-configured our Reston, Virginia office creating a collaborative and open workspace, organized by functional business unit. Furthermore, we opened the Innovation and Test Lab in Boulder, Colorado to support

the exploration and development of innovative technologies and devices for the public safety and first responder communities.

Through the implementation of these initiatives, FirstNet has transitioned away from being an organization focused on planning the execution of our mission, to one that is operating with the purpose of ensuring the implementation and deployment of a secure, reliable nationwide broadband network for the benefit of our first responders and public safety communities. We are confident that through our entrepreneurial approach, commitment to maintaining strong financial stewardship over our resources, and strong support from our stakeholders, FirstNet's nationwide network will soon be available to the public safety communities of our nation.

1.0 Financial Statements

1.1 Balance Sheets

**First Responder Network Authority
Balance Sheets
As of September 30, 2016 and 2015
(In Thousands)**

	<u>FY 2016</u>	<u>FY 2015</u>
ASSETS		
Current Assets		
Cash:		
Cash Available	\$ 6,683,763	\$ 6,411,548
Restricted Cash	-	365,000
Accounts Receivable (Note 3)	127	22
Advances and Prepayments	22,608	13,808
Total Current Assets	<u>6,706,498</u>	<u>6,790,378</u>
Property, Plant, and Equipment, Net (Notes 4 and 10)	6,719	6,449
Other Assets, Net (Note 5)	1,348	1,015
TOTAL ASSETS	<u>\$ 6,714,565</u>	<u>\$ 6,797,842</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 7,571	\$ 7,642
Accrued Payroll and Leave	2,924	1,496
Capital Lease Liabilities (Note 6)	657	689
Total Current Liabilities	<u>11,152</u>	<u>9,827</u>
Non-Current Liabilities		
Capital Lease Liabilities (Note 6)	-	701
TOTAL LIABILITIES	<u>\$ 11,152</u>	<u>\$ 10,528</u>
EQUITY (Note 8)		
Contributed Capital	\$ 6,877,490	\$ 6,877,490
Retained Deficit	(174,077)	(90,176)
TOTAL EQUITY	<u>\$ 6,703,413</u>	<u>\$ 6,787,314</u>
TOTAL LIABILITIES AND TOTAL EQUITY	<u>\$ 6,714,565</u>	<u>\$ 6,797,842</u>

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

1.2 Statements of Operations

First Responder Network Authority
Statements of Operations
For the Years Ended September 30, 2016 and 2015
(In Thousands)

	<u>FY 2016</u>	<u>FY 2015</u>
Operating Revenues	\$ -	\$ -
Operating Expenses		
General and Administrative (Note 2)	82,050	48,656
Depreciation and Amortization Expense	1,949	364
Total Operating Expenses	83,999	49,020
Operating (Deficit)	(83,999)	(49,020)
Other Income	98	63
(Loss)/Gain on Donated Property Received - Non-operating (Note 10)	-	(159)
(Loss)/Gain on Donated Property Transferred Out (Note 10)	-	(1,252)
NET (DEFICIT)	\$ (83,901)	\$ (50,368)

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

1.3 Statements of Cash Flows

First Responder Network Authority
Statements of Cash Flows
For the Years Ended September 30, 2016 and 2015
(In Thousands)

	<u>FY 2016</u>	<u>FY 2015</u>
Cash Flows from Operating Activities		
Net (Deficit)	\$ (83,901)	\$ (50,368)
Adjustments to reconcile Net (Deficit) to net cash used in operations:		
Depreciation and Amortization Expense	1,949	364
Loss/(Gain) on Donated Property Received - Non-operating	-	159
(Increase) in Advances and Prepayments	(8,800)	(12,649)
(Decrease)/Increase in Accounts Payable	(71)	2,433
Increase in Accrued Payroll and Leave	1,428	396
(Increase)/Decrease in Accounts Receivable	(106)	50
Loss on Donated Property Transferred Out	-	1,252
NET CASH USED IN OPERATING ACTIVITIES	(89,501)	(58,363)
Cash Flows from Investing Activities		
Purchases of Other Assets	(630)	(675)
Purchases of Property, Plant, and Equipment	(2,053)	(4,209)
NET CASH USED IN INVESTING ACTIVITIES	(2,683)	(4,884)
Cash Flows from Financing Activities		
Capital Contributions received	-	6,840,508
Payments on Capital Lease Liabilities	(601)	(713)
NET CASH PROVIDED BY FINANCING ACTIVITIES	(601)	6,839,795
Net (Decrease)/ Increase in Cash	(92,785)	6,776,548
Cash Balance, beginning of year	6,776,548	-
CASH, END OF YEAR	6,683,763	6,776,548
Non-Monetary Transactions		
(Loss)/Gain on Donated Property Received - Non-operating	\$ -	\$ (159)
(Loss)/Gain on Donated Property Transferred Out	-	(1,252)
NON-MONETARY TRANSACTIONS	\$ -	\$ (1,411)

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

2.0 Notes to the Financial Statements

(Dollar amounts are presented in thousands)

Note 1. Reporting Entity and Summary of Significant Accounting Policies

1. A - Description of Reporting Entity

The First Responder Network Authority (FirstNet) was established by the *Public Law No. 112-96, Title VI, 126 Stat. 256* (the Act) as an independent authority within the National Telecommunications and Information Administration (NTIA) of the U.S. Department of Commerce (the Department), and functions under the direction and control of a Board of 15 individuals (12 appointed by the Secretary of Commerce, along with the Secretary of Homeland Security, the Attorney General of the United States, and the Director of the Office of Management and Budget). FirstNet's statutory mandate is to ensure the establishment of an interoperable Nationwide Public Safety Broadband Network (NPSBN or Network).

As of September 30, 2016, FirstNet accomplished many of the major tasks necessary to award the contract for the deployment of the Network on behalf of public safety. FirstNet has released a Request for Proposals (RFP) in support of the NPSBN and has made significant progress in evaluating the proposals it received. In doing so, FirstNet is moving closer to a contract award in accordance with the Federal Acquisition Regulation (FAR).

These financial statements cover FirstNet's fiscal years ending September 30, 2016 and 2015.

1. B - Basis of Presentation

FirstNet prepares its financial statements using the accrual basis of accounting under which revenues are recognized when earned and expenses are recognized as incurred, regardless of when cash is exchanged.

FirstNet prepared its financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP), based on accounting standards issued by the Financial Accounting Standards Board (FASB), the private sector standards-setting body. The Federal Accounting Standards Advisory Board (FASAB) has been designated as the standards-setting body for federal financial reporting entities, with respect to the establishment of GAAP. However, FASAB allows certain federal reporting entities, such as FirstNet, to utilize FASB standards for financial statement presentations where the entity can demonstrate that the needs of their primary users would best be met through the application of FASB standards.

FirstNet has been delegated the financial and operational authority to operate in a manner similar to private business enterprises. FirstNet's primary funding is derived from a source other than through annual Federal appropriations; and after an initial infusion of capital, FirstNet will finance its operations through fee income and other revenues earned from selling goods and/or services to sources outside the U.S. government as its principal activity.

In compliance with the Act, FirstNet is to be audited annually by an independent auditor, in accordance with general accounting principles and procedures applicable to commercial corporate transactions. FirstNet, accordingly, has determined that the financial reporting framework established by the FASB is the appropriate source of GAAP for external financial statement reporting purposes.

First Responder Network Authority
Notes to the Financial Statements
For the Years Ended September 30, 2016 and 2015

1. C - Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts in these financial statements. Actual results may differ from those estimates.

1. D - Cash

FirstNet has recorded as Cash the aggregate amount of funds from all sources, including proceeds from the auction of Federal Communications Commission (FCC) spectrum licenses specified by the Act, to implement requirements to build the NPSBN consistent with Section 6206 (e) of the Act. The Cash is held at the U.S. Department of the Treasury (Treasury) in the NTIA Public Safety Trust Fund (PSTF) and NTIA Network Construction Fund (NCF). FirstNet treated auction proceeds sequestered by the Budget Control Act of 2011 as Restricted Cash until such time as the sequestered funds are made available. Funds previously sequestered as of September 30, 2015 were made available for use in operations during FY 2016.

1. E - Accounts Receivable

Accounts Receivable consists of amounts owed to FirstNet by other Federal agencies and the public. Amounts due from Federal agencies are considered fully collectable. Accounts receivable from the public include reimbursements from employees. An allowance for doubtful accounts from the public is established when, based upon a review of outstanding accounts, failure of all collection efforts, and debtor's ability to pay, management determines that collection is unlikely to occur in full or in part.

1. F - Advances and Prepayments

Advances and Prepayments are advance payments for the cost of goods or services to be acquired. Prepaid goods and services are expensed as the goods and services are delivered.

1. G - Property, Plant, and Equipment, Net

Property, Plant, and Equipment (PP&E), Net includes capital assets used in providing goods or services when the estimated useful life is two years or more. PP&E, Net is stated at original cost or fair market value, including all costs related to acquisition, delivery, and installation, less accumulated depreciation and amortization. FirstNet calculates depreciation and amortization expense using the straight-line method over the asset's estimated useful life.

The established single asset capitalization threshold is \$5 thousand and the established personal property bulk capitalization threshold is \$50 thousand.

1. H - Other Assets, Net

Other Assets, Net represent Geographical Mapping Data (Geo-Data) used in the general course of business.

First Responder Network Authority
Notes to the Financial Statements
For the Years Ended September 30, 2016 and 2015

Other Assets, Net are stated at original cost, including all costs related to acquisition, delivery, and installation, less accumulated amortization. FirstNet calculates amortization expense using the straight-line method over the asset's estimated useful life.

1. I - Accrued Payroll and Leave

These categories include salaries, wages, and other compensation earned by employees, but not disbursed as of September 30. Annual and Compensatory Time Earned leave are accrued as liabilities when earned and the accruals are reduced as leave is taken. The balances in these accrued liability accounts reflect salary or wage rates of employees as of the balance sheet date.

Sick leave and other types of non-vested leave are not accrued but are expensed as the leave is taken.

1. J - Capital Lease Liabilities

Capital Lease Liabilities represent network switches, routers, and other equipment necessary to maintain FirstNet's Network Infrastructure. Capital Lease Liabilities are recorded at the present value of the rental payments.

1. K - Contributed Capital

Contributed Capital represents the cumulative NTIA transfers and proceeds from the auction of FCC spectrum licenses specified by the Act to implement FirstNet's responsibilities in deploying the NPSBN.

1. L - Employee Retirement Plans and Postretirement Benefits other than Pensions

FirstNet employees participate in the contributory Civil Service Retirement System (CSRS) or Federal Employees' Retirement System (FERS), to which FirstNet and employees make contributions according to plan requirements. Consistent with reporting under multi-employer pension plans, FirstNet does not report CSRS and FERS assets, accumulated plan benefits or future liabilities, if any, applicable to its employees. This data is reported for plan participants by the U.S. Office of Personnel Management (OPM). Postretirement benefits for FirstNet employees, specifically health care costs and life insurance, are administered and paid by OPM through appropriations received from the U.S. Government. FirstNet does not reimburse OPM for these payments. The FirstNet financial statements do not include the cost of employee retirement plans and employee postretirement benefits paid or to be paid by OPM, or the actuarial liability for such benefits, beyond the required contributions of FirstNet.

1. M - Intangible Asset - Spectrum License

Intangible assets at FirstNet include an FCC spectrum license. The FCC granted FirstNet exclusive rights to the single Public Safety Wireless Network License for use of the 700 megahertz (MHz) D block spectrum; specifically, 22 megahertz of spectrum, including 2 MHz of guard bands and a pre-existing block of public safety broadband spectrum at no cost. Under FASB Accounting Standards Codification (ASC) subtopic 350-30-25, *Intangibles Other than Goodwill*, the spectrum license would be recognized at fair value. As of the reporting date, a fair value cannot be determined. Under current law, the spectrum license is not tradable or exchangeable in any market for fiscal year 2016, and any measure based on potential cash flow

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For the Years Ended September 30, 2016 and 2015

would be purely speculative. Therefore, FirstNet has not recognized, in its financial statements, any value related to the spectrum license granted by FCC.

1. N - Revenue Recognition

Pursuant to the Act, FirstNet will generate revenues through network user fees and leases related to network capacity¹. FirstNet revenues are not recognized until they are realized or realizable and earned, without regard to the receipt or payment of cash. Revenue generally is realized or realizable and earned when all of the following criteria are met: Persuasive evidence of an agreement exists; delivery has occurred or services have been rendered; the seller's price to the buyer is fixed or determinable; and collectability is reasonably assured. No revenue was recognized for FirstNet in FY 2016 and FY 2015 as no revenue generating activities have begun.

1. O - Tax Status

FirstNet is not subject to Federal, state, or local income taxes. Accordingly, no provision for income taxes is recorded and reported in FirstNet's statements of operations; nor does FirstNet recognize any associated income tax interest and penalties.

FirstNet has no uncertain tax positions and, accordingly, it has no unrecognized tax benefits for which liabilities have been established.

1. P - Fair Value Measurements

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value of FirstNet's accounts receivable, advances and prepayments, accounts payable, and accrued payroll and leave are categorized, in accordance with ASC subtopic 820-10-50-1, as Level 1 within the fair value hierarchy, meaning that there are quoted prices accessible to FirstNet in active markets for the sale or transfer of identical assets or liabilities. The fair value of these assets and liabilities approximates their carrying value as of September 30, 2016 and September 30, 2015, respectively.

FirstNet holds no financial instruments that are required by ASC 820-10 to be valued, reported, or disclosed at fair value as of September 30, 2016 and September 30, 2015.

1. Q - Reclassifications

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

¹ See 47 U.S.C. § 1428.

Note 2. Limitation on Administrative Expenses

FirstNet is subject to a statutory limitation of \$100.0 million in total administrative expenses over the first 10 years of operations, beginning on February 22, 2012². Costs attributed to certain oversight and audits are not included under the administrative expenses limitation³. Non-programmatic costs incurred in the course of carrying out activities that directly support the FirstNet organization as a whole are recognized as administrative expenses subject to the limitation.

Statement of Federal Financial Accounting Standards #4, *Managerial Cost Accounting Standards and Concepts* (SFFAS #4), requires reporting entities to report the full costs of outputs in its general purpose financial reports. As encouraged by SFFAS #4, FirstNet refined its cost accounting methodology set forth in the *FirstNet Administrative Expense Policy* (FNP100), effective August 31, 2016. FNP100 defines proper allocation and classification of costs as administrative and programmatic activities relevant to FirstNet programs and activities. As a result of this revised policy, NTIA overhead charges are being allocated more specifically between FirstNet administrative and programmatic activities, in accordance with SFFAS #4.

In previous fiscal years, overhead charges passed through to FirstNet by NTIA were recognized as administrative expenses subject to the limitation. These charges were allocated to NTIA from the Department of Commerce based on full time equivalents (FTEs) or activity, and, in turn, NTIA allocated a portion of these charges to FirstNet using the same methodologies.

Revised administrative expenses subject to the limitation for FY 2015 and FY 2014 were \$5.6 million and \$6.0 million, respectively. This represents a respective reduction of \$1.2 million and \$1.3 million. In FY 2016, FirstNet incurred \$8.9 million in administrative expenses under the limitation. As of September 30, 2016, the total amount of administrative expense limitation available in future periods is \$76.6 million.

Note 3. Accounts Receivable

Receivables – Intragovernmental represents sums due to FirstNet for services rendered by FirstNet personnel in FY 2016 under reimbursable service agreements between FirstNet and NTIA.

Accounts Receivable consists of the following:

As of September 30,	2016		2015	
Receivables - Intragovernmental	\$	116	\$	20
Receivables - Public		11		2
Total Receivables		127		22
Less: Allowance for doubtful accounts		-		-
Accounts Receivable	\$	127	\$	22

² See 47 U.S.C. § 1427(b).

³ Id.

Note 4. Property, Plant and Equipment, Net

The following table summarizes Property, Plant, and Equipment, Net as of September 30, 2016 and 2015:

<u>As of September 30,</u>		<u>2016</u>	<u>2015</u>
	<u>Estimated Useful Life in Years</u>		
Equipment	3 - 10	\$ 1,455	\$ 529
Assets Under Capital Lease	3 - 7	1,971	2,103
Leasehold Improvements	3 - 4	2,177	2,008
Perpetual Software Licenses	3 - 7	251	201
Internal Use Software	3 - 7	51	35
Other Property, Plant, and Equipment	3 - 4	1,662	1,661
Property, Plant, and Equipment, at cost		7,567	6,537
Less: Accumulated depreciation and amortization		1,839	186
Capital Work In Progress - Equipment		991	98
Property, Plant, and Equipment, Net		\$ 6,719	\$ 6,449

Note 5. Other Assets, Net

The following table summarizes Other Assets, Net as of September 30, 2016 and 2015:

<u>As of September 30,</u>		<u>2016</u>	<u>2015</u>
	<u>Estimated Useful Life in Years</u>		
Geographical Mapping Data	3 - 10	\$ 1,942	\$ 1,312
Other Assets, at cost		1,942	1,312
Less: Accumulated amortization		594	297
Other Assets, Net		\$ 1,348	\$ 1,015

Note 6. Leases

Operating Leases

FirstNet leases office facilities under operating leases in Reston, Virginia and Boulder, Colorado. The non-cancelable portion of these leases generally ranges from four to 16 months. FirstNet may relinquish space upon four months' notice at any point after the first twelve months of occupancy. These leases, with few exceptions, provide for automatic renewal options and escalations that are either fixed or based on the

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For the Years Ended September 30, 2016 and 2015

consumer price index. Any rent abatements, along with rent escalations, are included in the computation of rent expense calculated on a straight-line basis over the lease term. The lease term for most FirstNet leases includes the initial non-cancelable term plus at least one renewal period, as the exercise of the related renewal option or options is considered reasonably assured. Total rental expense under operating leases amounted to \$1.1 million and \$868 thousand in FY 2016 and FY 2015, respectively.

As of September 30, 2016, the minimum estimated rental amounts due under operating leases for the periods shown are as follows:

	<u>Total</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022 and thereafter</u>
Operating Leases	\$ 9,257	\$ 1,487	\$ 1,347	\$ 1,012	\$ 752	\$ 796	\$ 3,863
Total	\$ 9,257	\$ 1,487	\$ 1,347	\$ 1,012	\$ 752	\$ 796	\$ 3,863

Capital Leases

FirstNet leased assets in FY 2016 and FY 2015 such as network switches, routers, and other equipment necessary to maintain FirstNet's Network Infrastructure from GovSmart. These capital leases are firm-fixed-price three-year leases with an option to purchase. The contracts are for one year with two one-year options to extend the contract term and include options for increased quantities of materials and installation locations. Once the lease term is complete, the contractor shall assign title of the asset to the Government. It is the intent of FirstNet to exercise each renewal option and to extend the lease until the completion of the full lease term as long as FirstNet has a need for the products or functionally similar products. The leased assets are depreciated over a straight line basis over three years. The interest rate related to the lease obligations is 1.7 percent. Total capital lease liabilities had a balance of \$657 thousand as of September 30, 2016, and \$1.4 million as of September 30, 2015.

Depreciation of capital leases is included in Depreciation and Amortization Expense in the Statement of Operations. FY 2016 depreciation expense related to capital leases is \$461 thousand. The capital leases as of September 30, 2015 were placed into service during September 2015 and did not accumulate depreciation. The gross value of assets recorded as capital leases and accumulated depreciation are as follows:

	<u>FY 2016</u>	<u>FY 2015</u>
Capital Leases	\$ 1,971	\$ 2,103
Less: Accumulated Depreciation	461	-
Total	\$ 1,510	\$ 2,103

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Notes to the Financial Statements
For the Years Ended September 30, 2016 and 2015

As of September, 30, 2016, the minimum future lease payments under capital leases are as follows:

	<u>Total</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022 and thereafter</u>
Capital Leases	\$ 668	\$ 668	\$ -	\$ -	\$ -	\$ -	\$ -
Less: Interest Expense	11	11	-	-	-	-	-
Present Value of minimum lease payments	\$ 657	\$ 657	\$ -	\$ -	\$ -	\$ -	\$ -

Note 7. Commitments and Contingencies

Commitments are preliminary actions that will ultimately result in an obligation to FirstNet if carried through. A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to a possible gain or loss. A contingency is disclosed in the Notes to the Financial Statements if any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have been incurred. A contingency is considered reasonably possible when the chance of the future confirming event or events occurring is more than remote but less than probable.

Pursuant to Section 6206(e)(2)(B) of the Act, a potential commitment exists on the part of FirstNet to NTIA, to fund grants for States, if said States choose to deploy and operate the radio access network portion of the nationwide interoperable broadband network in their State rather than accept FirstNet’s plan for deployment in such State, as detailed in Sections 6302(e)(3)(C)(iii)(I) of the Act.

Litigation, Claims and Assessments

For pending or threatened litigation and unasserted claims, a contingency liability and expense are recognized when a future confirming event or events are likely to occur.

As of March 10, 2017, management was not aware of any threatened litigation, unasserted claims, or contingencies affecting FirstNet.

First Responder Network Authority
Notes to the Financial Statements
For the Years Ended September 30, 2016 and 2015

Note 8. Equity

The following table summarizes Equity as of September 30, 2016 and 2015:

	Retained Deficit	Contributed Capital	Total
Beginning Balance, October 1, 2015	\$ (90,176)	\$ 6,877,490	\$ 6,787,314
Net (Deficit) for the year ended September 30, 2016	(83,901)	-	(83,901)
Contributions for the year ended September 30, 2016	-	-	-
Ending Balance, September 30, 2016	\$ (174,077)	\$6,877,490	\$ 6,703,413

	Retained Deficit	Contributed Capital	Total
Beginning Balance, October 1, 2014	\$ (39,808)	\$ 43,291	\$ 3,483
Net (Deficit) for the year ended September 30, 2015	(50,368)	-	(50,368)
Contributions for the year ended September 30, 2015	-	6,834,199	6,834,199
Ending Balance, September 30, 2015	\$ (90,176)	\$6,877,490	\$ 6,787,314

Note 9. Related Party Transactions

FirstNet considers NTIA, the Department, composed of the Office of the Secretary (OS) and the OS Working Capital Fund, to be related parties.

FirstNet, as a Federal entity within NTIA, is subject to certain nexus and control from NTIA and the Department. NTIA assesses FirstNet a portion of the costs it incurs, exercising its nexus functions and FirstNet's share of certain centralized NTIA and Departmental costs.

In addition, FirstNet has entered into service agreements with NTIA and the Department to provide certain services such as human resources management, legal advice and representation, and acquisition services that cannot be acquired more efficiently from another source.

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For the Years Ended September 30, 2016 and 2015

All related party activity as of and for the years ended September 30, 2016 and 2015 is summarized in the tables below:

As of and for the Year ended September 30, 2016

Related Party	Purchases and Assessments	Other Income	Capital Contributions, Received	Accounts Receivable	Accounts Payable	Advances and Prepayments
NTIA	\$ 2,959	\$ 98	\$ -	\$ 116	\$ 93	\$ -
The Department	\$ 4,215	\$ -	\$ -	\$ -	\$ 1,563	\$ 182

As of and for the Year Ended September 30, 2015

Related Party	Purchases and Assessments	Other Income	Capital Contributions, Received	Accounts Receivable	Accounts Payable	Advances and Prepayments
NTIA	\$ 2,731	\$ 63	\$ 6,840,508	\$ 20	\$ 124	\$ -
The Department	\$ 1,424	\$ -	\$ -	\$ -	\$ 839	\$ 182

Note 10. Donated Property

During FY 2016, there were no transactions related to donated property.

During FY 2015, FirstNet transferred \$1.3 million of donated property to the Department of Energy to support Public Safety Long Term Evolution (LTE) testing at the Idaho National Laboratory. Subsequent to the transfer, FirstNet recognized a loss on donated property of \$159 thousand as a portion of the remaining donated property was determined to be of no value to FirstNet. This is in accordance with ASC Topic 845, Nonmonetary Transactions, in which ASC subtopic 845-10-30-1 states that a transfer of a nonmonetary asset to another entity in a nonreciprocal transfer shall be recorded at the fair value of the asset transferred and a gain or loss shall be recognized on the disposition of the asset.

Note 11. Subsequent Events

FirstNet has evaluated subsequent events through March 10, 2017, the date that the financial statements were available to be issued. There were no material events that required additional accruals or disclosures.

3.0 Independent Auditors' Report



Independent Auditors' Report

Secretary
U. S. Department of Commerce
Board of Directors
First Responder Network Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the First Responder Network Authority ("FirstNet"), which comprise the balance sheets as of September 30, 2016 and 2015, and the related statements of operations and cash flows for the fiscal years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

FirstNet's 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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

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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 auditors' 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 auditors consider 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the First Responder Network Authority as of September 30, 2016 and 2015, and the results of its operations and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The information in the Message from the Chief Financial Officer and Introduction and Background sections of this report are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information 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*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered FirstNet's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FirstNet's internal control. Accordingly, we do not express an opinion on the effectiveness of FirstNet's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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. 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 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

We noted certain additional matters that we will report to management of FirstNet in a separate letter.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether FirstNet's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section 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 FirstNet's internal control or on compliance. Accordingly, this communication is not suitable for any other purpose.

Harper, Rainis, Knight & Company, P.A.

March 10, 2017