

Financial  
Report: First  
Responder  
Network  
Authority

Fiscal Year  
2015



**FirstNet<sup>®</sup>**

# Table of Contents

Message from the Chief Financial Officer ..... i

Introduction and Background..... ii

1.0 Financial Section..... 1

1.1 Balance Sheets..... 1

1.2 Statements of Operations ..... 2

1.3 Statements of Cash Flows ..... 3

2.0 Notes to the Financial Statements..... 4

2.1 Independent Auditors’ Report..... 15

# 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) 2015 along with the report of the independent auditors, Harper, Rains, Knight & Company, P.A.. This fulfills the statutory requirements established by Section 6209 of the *Middle Class Tax Relief and Job Creation Act of 2012*<sup>1</sup>, which created FirstNet as an independent authority within the National Telecommunications and Information Administration (NTIA) of the Department of Commerce. For the third consecutive year, the auditors provided an unmodified opinion on FirstNet's FY 2015 financial statements.

FirstNet continued to more clearly align financial resources with the development of FirstNet's inaugural enterprise-wide Five Year Strategic Plan for FY 2016 – FY 2020. This will contain detailed information on the distribution and focus of FirstNet's resources necessary to accomplish our mission. We will continue to share our budget to provide full transparency into resource utilization in alignment with FirstNet's goals and strategies, as we shape our future.

FirstNet is also improving its financial management by continuing to work with our stakeholders and shared service provider to enhance the current financial policies and processes. We established a formal Policy and Internal Control organization within the Office of the Chief Financial Officer to actively ensure internal controls are operating efficiently and effectively. We also established a Senior Assessment Team to provide leadership in the definition, implementation, and assessment of FirstNet's Internal Control Program and associated activities. Ultimately, the goal of FirstNet's Internal Control Program is to ensure that internal controls are commensurate with identified risks, creating the foundation for an effective program.

FirstNet remains committed to operational excellence and supporting our customer, the public safety community. This document provides a view of FirstNet's financial activities and demonstrates how FirstNet manages taxpayer resources with integrity and accountability. We are dedicated to be responsible stewards of the 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  
March 8, 2016

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<sup>1</sup> Pub. L. No. 112-96, Title VI, 126 Stat. 256 (codified at 47 U.S.C. 1401 *et seq.*)

# Introduction and Background

## HISTORY, PURPOSE, AND FIRSTNET MISSION

FirstNet was established by the *Middle Class Tax Relief and Job Creation Act of 2012*<sup>2</sup> (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 2015 OVERVIEW

FirstNet's fiscal year runs from October 1 through September 30. FY 2015 was FirstNet's third full year of operations. As a result of the successful H block and Advanced Wireless Services spectrum auctions, FirstNet is now fully funded. During FY 2015, FirstNet made tremendous strides toward deploying the NPSBN, including the publication of its final legal interpretations; release of draft Request for Proposal (RFP) documents; publication of a Special Notice on cybersecurity; and completion of initial state and territory consultations.

FirstNet continued to mature its processes, procedures and operations while striving toward deployment of the NPSBN. In the third quarter of FY 2015, FirstNet released draft RFP documents in order to give stakeholders an opportunity to submit questions to FirstNet prior to publication of the RFP and to inform stakeholders of FirstNet's current thinking on its procurement. FirstNet responded to over 650 questions ranging from inquiries about FirstNet processes to complex technical questions.

During FY 2015, FirstNet's President and Board Chairwoman individually testified before Congress, while FirstNet staff met with congressional staff and Members in both chambers of Congress, providing updates on FirstNet's actions throughout the year. FirstNet has made significant progress in FY 2015 and will continue to carry out its mission in an open and transparent process in close coordination with stakeholders.

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<sup>2</sup> Pub. L. No. 112-96, Title VI, 126 Stat. 256 (codified at 47 U.S.C. 1401 *et seq.*)

## KEY OBJECTIVES AND STRATEGIC GOALS

FirstNet uses its key objectives to measure its overall progress and to create strategic goals that will facilitate the successful deployment of the NPSBN. FirstNet's key objectives as it plans and develops the deployment of the NPSBN are to:

- Provide FirstNet services with features – such as reliability, resiliency, coverage, functionality, interoperability, and network-based applications – that are critical to public safety users and differentiate FirstNet services from commercial broadband services.
- Reduce costs for public safety entities by leveraging the value of excess network capacity with partners and enabling pre-emptible demand from other, non-emergency users that place a high value on reliability and other FirstNet features.
- Provide mechanisms for public safety entities (directly or indirectly through states) to benefit from the economies of scale created by FirstNet in terms of purchasing, partnering, and sharing information and data.

In FY 2014, FirstNet released the organization's overarching strategic goals. These goals are FirstNet's foundation, and are reflected in all activities.

FirstNet has developed a five-year forward looking plan that will shape its strategy following the release of the RFP, selection of network partner(s) and the deployment of the network. The FY 2016 – FY 2020 strategic goals that have been adopted by the organization are as follows:

1. Effectively manage resources and partners to acquire, build, deploy, and operate a reliable, self-sustaining, and interoperable nation-wide public safety LTE broadband network.
2. Leverage consultation and communication opportunities to build and maintain strong partnerships with local, state, tribal, and Federal public safety agencies and industry.
3. Serve the 24/365 needs of public safety and be the leader in emerging communication technologies by establishing and sustaining an entrepreneurial culture of innovation and excellence.
4. Meet the needs of public safety by recruiting, hiring, and retaining the best talent and maintaining a high-performance organization dedicated to the achievement of the FirstNet mission.

These goals will guide FirstNet's actions during the years to come. FirstNet has an important and difficult task ahead, but with the support of the public safety community, the private sector, local, state, Federal, and tribal leaders, FirstNet is striving to succeed in accomplishing its mission.

## 1.0 Financial Section

### 1.1 Balance Sheets

**First Responder Network Authority**  
**Balance Sheets**  
**As of September 30, 2015 and 2014**  
**(In Thousands)**

<b>ASSETS</b>	<b>FY 2015</b>	<b>FY 2014</b>
<b>Current Assets</b>		
Cash:		
Cash Available	\$ 6,411,548	\$ -
Restricted Cash	365,000	-
Capital Contributions Receivable	-	6,309
Accounts Receivable (Note 2)	22	72
Advances and Prepayments	13,808	1,159
<b>Total Current Assets</b>	<b>\$ 6,790,378</b>	<b>\$ 7,540</b>
Property, Plant, and Equipment, Net (Notes 3 and 9)	6,449	1,709
Other Assets, Net (Note 4)	1,015	543
<b>TOTAL ASSETS</b>	<b>\$ 6,797,842</b>	<b>\$ 9,792</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 7,642	\$ 5,209
Accrued Payroll and Leave	1,496	1,100
Capital Lease Liabilities (Note 5)	689	-
<b>Total Current Liabilities</b>	<b>\$ 9,827</b>	<b>\$ 6,309</b>
<b>Non-Current Liabilities</b>		
Capital Lease Liabilities (Note 5)	701	-
<b>TOTAL LIABILITIES</b>	<b>\$ 10,528</b>	<b>\$ 6,309</b>
<b>EQUITY</b>		
Contributed Capital (Note 7)	\$ 6,877,490	\$ 43,291
Retained Deficit (Note 7)	(90,176)	(39,808)
<b>TOTAL EQUITY</b>	<b>\$ 6,787,314</b>	<b>\$ 3,483</b>
<b>TOTAL LIABILITIES AND TOTAL EQUITY</b>	<b>\$ 6,797,842</b>	<b>\$ 9,792</b>

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, 2015 and 2014**  
**(In Thousands)**

	FY 2015	FY 2014
<b>Operating Revenues</b>	\$ -	\$ -
<b>Operating Expenses</b>		
General and Administrative	48,656	24,267
Depreciation and Amortization Expense	364	120
<b>Total Operating Expenses</b>	<b>\$ 49,020</b>	<b>\$ 24,387</b>
 <b>Operating (Deficit)</b>	 <b>(49,020)</b>	 <b>(24,387)</b>
 Other Income	 63	 71
Gain/(Loss) on Donated Property Received - Non-operating (Note 9)	(159)	1,510
Gain/(Loss) on Donated Property Transferred Out (Note 9)	(1,252)	-
<b>NET (DEFICIT)</b>	<b>\$ (50,368)</b>	<b>\$ (22,806)</b>

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, 2015 and 2014**  
**(In Thousands)**

	FY 2015	FY 2014
<b>Cash Flows from Operating Activities</b>		
Net (Deficit)	\$ (50,368)	\$ (22,806)
Adjustments to reconcile Net (Deficit) to net cash used in operations:		
Depreciation and Amortization Expense	364	120
Loss/(Gain) on Donated Property Received - Non-operating	159	(1,510)
(Increase) in Advances and Prepayments	(12,649)	(138)
Increase in Accounts Payable	2,433	1,278
Increase in Accrued Payroll and Leave	396	861
Increase in Capital Lease Liabilities	1,390	-
Decrease/(Increase) in Accounts Receivable	50	(72)
Loss on Donated Property Transferred Out	1,252	-
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>\$ (56,973)</b>	<b>\$ (22,267)</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of Other Assets	(675)	(637)
Purchases of Property, Plant, and Equipment	(6,312)	(225)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>\$ (6,987)</b>	<b>\$ (862)</b>
<b>Cash Flows from Financing Activities</b>		
Capital Contributions received	6,840,508	23,129
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>\$ 6,840,508</b>	<b>\$ 23,129</b>
Net Increase/(Decrease) in Cash	6,776,548	-
Cash Balance, beginning of year	-	-
<b>CASH, END OF YEAR</b>	<b>\$ 6,776,548</b>	<b>\$ -</b>
<b>Non-Monetary Transactions</b>		
(Loss)/Gain on Donated Property Received - Non-operating	(159)	1,510
(Loss) on Donated Property Transferred Out	(1,252)	-
<b>NON-MONETARY TRANSACTIONS</b>	<b>\$ (1,411)</b>	<b>\$ 1,510</b>

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



## 2.0 Notes to the Financial Statements

(Dollar amounts in tables 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 *Middle Class Tax Relief and Job Creation Act of 2012*<sup>3</sup> (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 a nationwide, interoperable public safety broadband network. As of September 30, 2015, FirstNet has not commenced planned principal operations.

These financial statements cover FirstNet's fiscal years ending September 30, 2015 and 2014.

#### 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, the 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. 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.

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<sup>3</sup> Pub. L. No. 112-96, Title VI, 126 Stat. 256 (codified at 47 U.S.C. 1401 *et seq.*)

First Responder Network Authority  
Notes to the Financial Statements  
For the Years Ended September 30, 2015 and 2014

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

As of September 30, 2015, FirstNet has recorded as Cash the aggregate amount of funds from all sources, including proceeds from the auction of FCC spectrum licenses specified by the Act, to implement requirements to build the national public safety broadband network 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 Network Construction Fund (NCF). FirstNet treats auction proceeds sequestered by the Budget Control Act of 2011 as Restricted Cash until such time as the sequestered funds are made available. FirstNet is confident that the sequestered funds will be made available for use in operations during the next fiscal year.

As of September 30, 2014, FirstNet recorded as Cash the aggregate amount of funds from all sources, including NTIA borrowings from the Treasury in the NTIA-managed PSTF, which were used to pay liabilities.

1. E - Capital Contributions Receivable

As of September 30, 2015, there were no longer any Capital Contributions Receivable.

As of September 30, 2014, the Capital Contributions Receivable balance represented the additional capital contributions due from NTIA that were required to pay FirstNet liabilities. NTIA borrowings that were committed for the payment of FirstNet's incurred liabilities were recorded as Capital Contributions Receivable until the funds were disbursed and the respective liabilities were liquidated.

1. F - 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. G - 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.

First Responder Network Authority  
Notes to the Financial Statements  
For the Years Ended September 30, 2015 and 2014

1. H - 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. FirstNet calculates depreciation expense using the straight-line method over the asset's estimated useful life. The estimated useful life of all PP&E, Net and Other Assets, Net presented at Notes 3 and 4 has been updated to reflect the estimated useful life of capital and other assets purchased prior to and as of September 30, 2015.

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

1. I - Other Assets, Net

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

In prior fiscal years, FirstNet had classified Geo-Data as PP&E, Net. Following further evaluation, it was decided that it would be more accurate to classify Geo-Data under Other Assets, Net rather than PP&E, Net.

1. J - 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. K - 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. L - Contributed Capital

As of September 30, 2015, Contributed Capital represented the prior NTIA transfers and proceeds from the auction of FCC spectrum licenses specified by the Act to implement FirstNet's responsibilities in building the national public safety broadband network.

First Responder Network Authority  
Notes to the Financial Statements  
For the Years Ended September 30, 2015 and 2014

As of September 30, 2014, Contributed Capital represented cumulative funding transfers and receivables from the NTIA-managed PSTF to pay FirstNet expenses incurred. The transfers and receivables were derived from NTIA borrowings from the Treasury.

1. M - 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 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. N - Intangible Asset - Spectrum License

Intangible assets at FirstNet include a Federal Communications Commission (FCC) spectrum license. 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, and any measure based on potential cash flow would be purely speculative. Therefore, FirstNet has not recognized in its financial statements any value related to the spectrum license granted by FCC.

1. O - Revenue Recognition

Pursuant to the Act, FirstNet will generate revenues through network user fees and leases related to network capacity.<sup>4</sup> 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 2015 and FY 2014 as no revenue generating activities have begun.

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<sup>4</sup> See 47 U.S.C. § 1428.

First Responder Network Authority  
Notes to the Financial Statements  
For the Years Ended September 30, 2015 and 2014

1. P - 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.

1. Q - 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 capital contributions receivable, 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, 2015 and 2014, 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, 2015 and 2014.

1. R - Limitation on Administrative Expenses

FirstNet is subject to a statutory limitation of \$100.0 million in total administrative expenses over the first ten years of operations, beginning on February 22, 2012.<sup>5</sup> Costs attributed to certain oversight and audits are not included under the administrative expenses limitation.<sup>6</sup> 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. In FY 2015 and FY 2014, FirstNet incurred \$6.7 million and \$7.3 million in administrative expenses under the limitation, respectively. As of September 30, 2015, the total amount of administrative expense limitation available in future periods is \$83.1 million.

**Note 2. Accounts Receivable**

Accounts Receivable consists of the following:

<b>As of September 30,</b>	<b>2015</b>	<b>2014</b>
Receivables - Intragovernmental	\$ 20	\$ 71
Receivables - Public	2	1
Total Receivables	22	72
Less: Allowance for doubtful accounts	-	-
<b>Accounts Receivable</b>	<b>\$ 22</b>	<b>\$ 72</b>

<sup>5</sup> See 47 U.S.C. § 1427(b).

<sup>6</sup> Id.

First Responder Network Authority  
Notes to the Financial Statements  
For the Years Ended September 30, 2015 and 2014

**Note 3. Property, Plant and Equipment, Net**

The following table summarizes Property, Plant, and Equipment, Net as of September 30, 2015 and 2014:

<b>As of September 30,</b>		<b>2015</b>	<b>2014</b>
	<u>Estimated Useful Life in Years</u>		
Equipment	3 – 7	\$ 529	\$ 81
Assets Under Capital Lease	3 – 7	2,103	-
Leasehold Improvements	3 – 4	2,008	-
Perpetual Software Licenses	3 – 7	201	119
Internal Use Software	3 – 7	35	25
Other Property, Plant, and Equipment	3 – 4	1,661	-
<b>Property, Plant, and Equipment, at cost</b>		<b>6,537</b>	<b>225</b>
Less: Accumulated depreciation and amortization		186	26
Capital Work In Progress - Equipment		98	1,510
<b>Property, Plant, and Equipment, Net</b>		<b>\$ 6,449</b>	<b>\$ 1,709</b>

**Note 4. Other Assets, Net**

The following table summarizes Other Assets, Net as of September 30, 2015 and 2014:

<b>As of September 30,</b>		<b>2015</b>	<b>2014</b>
	<u>Estimated Useful Life in Years</u>		
Geographical Mapping Data	3 – 10	\$ 1,312	\$ 637
<b>Other Assets, at cost</b>		<b>1,312</b>	<b>637</b>
Less: Accumulated amortization		297	94
<b>Other Assets, Net</b>		<b>\$ 1,015</b>	<b>\$ 543</b>

**Note 5. 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. These leases, with few exceptions, provide for automatic renewal options and escalations that are either fixed or based on the 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, if the non-cancelable term is less than five years, as the exercise of the related renewal option or options is considered reasonably assured. Total rental expense under operating leases amounted to \$868 thousand in FY 2015 and \$737 thousand in FY 2014.

First Responder Network Authority  
Notes to the Financial Statements  
For the Years Ended September 30, 2015 and 2014

As of September 30, 2015, the minimum estimated rental amounts due under operating leases for the periods shown are as follows:

	<b>Total</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020 and thereafter</b>
Operating Leases	\$ 1,456	\$ 638	\$ 327	\$ 327	\$ 164	\$ -
<b>Total</b>	<b>\$ 1,456</b>	<b>\$ 638</b>	<b>\$ 327</b>	<b>\$ 327</b>	<b>\$ 164</b>	<b>\$ -</b>

*Capital Leases*

FirstNet leased assets in fiscal year 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 are 1.7%. Total capital lease liabilities had a balance of \$1.4 million as of September 30, 2015, and \$0 as of September 30, 2014.

Depreciation of capital leases is included in Depreciation and Amortization Expense in the Statement of Operations. 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:

	<b>FY 2015</b>	<b>FY 2014</b>
Capital Leases	\$ 2,103	\$ -
Less: Accumulated Depreciation	-	-
<b>Total</b>	<b>\$ 2,103</b>	<b>\$ -</b>

First Responder Network Authority  
Notes to the Financial Statements  
For the Years Ended September 30, 2015 and 2014

As of September 30, 2015, the minimum future lease payments under capital leases are as follows:

	<b>Total</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018 and thereafter</b>
Capital Leases	\$ 1,426	\$ 713	\$ 713	\$ -
Less: Interest Expense	36	24	12	-
<b>Present Value of minimum lease payments</b>	<b>\$ 1,390</b>	<b>\$ 689</b>	<b>\$ 701</b>	<b>\$ -</b>

**Note 6. 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 8, 2016, management was not aware of any actual or pending legal claims or contingencies affecting FirstNet.



First Responder Network Authority  
Notes to the Financial Statements  
For the Years Ended September 30, 2015 and 2014

**Note 7. Equity**

The following table summarizes Equity as of September 30, 2015 and 2014:

	<b>Retained Deficit</b>	<b>Contributed Capital</b>	<b>Total</b>
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
<b>Ending Balance, September 30, 2015</b>	<b>\$ (90,176)</b>	<b>\$ 6,877,490</b>	<b>\$ 6,787,314</b>

  

	<b>Retained Deficit</b>	<b>Contributed Capital</b>	<b>Total</b>
Beginning Balance, October 1, 2013	\$ (17,002)	\$ 18,023	\$ 1,021
Net (Deficit) for the year ended September 30, 2014	(22,806)	-	(22,806)
Contributions for the year ended September 30, 2014	-	25,268	25,268
<b>Ending Balance, September 30, 2014</b>	<b>\$ (39,808)</b>	<b>\$ 43,291</b>	<b>\$ 3,483</b>

**Note 8. Related Party Transactions**

FirstNet considers NTIA as well as 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 oversight and control from NTIA and the Department. NTIA assesses FirstNet a portion of the costs it incurs, exercising its oversight functions and FirstNet's share of certain centralized NTIA and Departmental costs. These costs are included in the purchases and assessments in the table below.

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. FirstNet's expenses with NTIA and the Department are included in purchases and assessments in the table below.

First Responder Network Authority  
Notes to the Financial Statements  
For the Years Ended September 30, 2015 and 2014

The information in the table below as of and for the year ended September 30, 2014 has been updated for the NTIA purchases and assessments to include the addition of \$1.7 million of accrued unpaid expenses. In addition, the information for the Department has been updated to reflect only data for OS and the OS Working Capital Fund rather than all bureaus under the Department other than NTIA.

All related party activity as of and for the years ended September 30, 2015 and 2014 is summarized in the tables below:

**As of and for the Year Ended September 30, 2015**

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

**As of and for the Year Ended September 30, 2014**

Related Party	Purchases and Assessments	Other Income	Capital Contributions, Received	Capital Contributions, Receivable	Accounts Receivable	Accounts Payable	Advances and Prepayments
NTIA	\$ 5,448	\$ -	\$ 23,129	\$ 6,309	\$ -	\$ 1,762	\$ -
The Department	\$ 3,084	\$ 71	\$ -	\$ -	\$ 71	\$ 334	\$ 380

**Note 9. Donated Property**

During fiscal year 2015, FirstNet transferred \$1.3 million of donated property to the Department of Energy Idaho National Laboratory. This transfer of property was related to a donation received by FirstNet of a microwave and Long-Term Evolution (LTE) equipment from the City of Charlotte, North Carolina in fiscal year 2014. 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.

During fiscal year 2014, FirstNet received a donation of \$1.5 million in microwave and LTE equipment from the City of Charlotte, North Carolina via a non-monetary conveyance agreement and transfer to FirstNet. As of September 30, 2014, FirstNet had not placed the assets into service and, as such, had recorded the assets as Capital Work in Progress - Equipment in the financial statements. In accordance with ASC Topic 845, *Nonmonetary Transactions*, FirstNet had recorded a Gain on Donated Property Received - Non-Operating at fair market value, to recognize the gain realized upon receipt of the donated equipment. Under the transaction agreement, FirstNet did not provide compensation to the City of Charlotte and therefore a non-reciprocal, non-monetary transfer existed.

First Responder Network Authority  
Notes to the Financial Statements  
For the Years Ended September 30, 2015 and 2014

ASC subtopic 845-10-30-1 states that a nonmonetary asset received in a nonreciprocal transfer is measured based on the fair value of the asset received (subject to the commercial substance test); therefore, FirstNet recorded the assets obtained at fair market value and planned to subsequently depreciate those assets when they were placed into service.

**Note 10. Subsequent Events**

FirstNet has evaluated subsequent events through March 8, 2016, the date that the financial statements were available to be issued. There were no material events that required additional accruals or disclosures.

## 2.1 Independent Auditors' Report



### Independent Auditors' Report

Secretary,  
U. S. Department of Commerce  
Board,  
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, 2015 and 2014, 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***

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 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

**Certified Public Accountants • Consultants • [hrkcpa.com](http://hrkcpa.com)**

1052 Highland Colony Parkway, Suite 100  
Ridgeland, MS 39157  
p: 601-605-0722 • f: 601-605-0733

700 12th Street NW, Suite 700  
Washington, DC 20005  
p: 202-558-5162 • f: 601-605-0733

Secretary,  
U. S. Department of Commerce  
Board,  
First Responder Network Authority - Continued

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 including the accompanying notes present fairly, in all material respects, the financial position of the First Responder Network Authority as of September 30, 2015 and 2014, 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

Secretary,  
U. S. Department of Commerce  
Board,  
First Responder Network Authority - Continued

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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in Exhibit I, which we consider to be a significant deficiency.

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*.

### ***FirstNet's Response to Finding***

FirstNet's response to the finding identified in our audit is described in Exhibit I. FirstNet's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### ***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 result of that testing, and not to provide an opinion on the effectiveness of FirstNet's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

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

March 8, 2016

## **1. Significant Deficiency: Service Provider's Information Technology Access and Configuration Management Needs Improvement**

During the audit of the Department of Commerce's (Department) consolidated financial statements, the auditors (KPMG) identified and reported deficiencies in the Independent Auditors' Report dated November 13, 2015 related to fiscal year 2015 general Information Technology ("IT") controls over the Department's primary financial system. Some of those deficiencies impact FirstNet's financial transactions, described below, because FirstNet relies on its accounting service provider, the National Institute of Standards and Technology ("NIST"), and the Department's Commerce Business System Support Center.

- **Access controls:** Specific areas for improvement related to access controls are: 1) improving application, database and operating system password controls, 2) strengthening access administration controls to financial and feeder systems' applications and supporting infrastructure (e.g. databases and networks), 3) restricting logical access to financially significant source code, 4) reviewing used accounts to appropriately disable and recertify access to financial and feeder systems' applications and supporting infrastructure, 5) strengthening software encryption controls, and 6) improving monitoring of audit logs.
- **Configuration management:** These controls should be improved to address configuration and patch management weaknesses identified.

### **Recommendations**

Specific recommendations were provided in a separate limited distribution general IT controls report to the U.S. Department of Commerce, including NIST, as part of the Department's consolidated financial statement audit and were separately communicated to FirstNet for its coordination with NIST and the Department. Additionally, FirstNet should develop compensating controls to periodically review its general ledger transactions, specifically identifying who is entering transactions and if those transactions are reasonable in the circumstances.

### **Management's Response**

This deficiency cites the FY 2015 Department of Commerce (DOC) Consolidated Financial Statement Audit, conducted by KPMG, as the source of a potential IT audit finding for the FirstNet financial statements in FY 2015. However, the scope of the KPMG DOC audit covers the financial statements of the DOC as a whole, which includes multiple bureaus and offices and several distinct financial systems, the outputs of which are consolidated to create the DOC financial statements.

Among others, those distinct financial systems include three independently hosted and operated instances of the Commerce Business Systems (CBS). The financial statements of FirstNet are produced from only one of those CBS instances, specifically that of its

## Significant Deficiency Exhibit I

financial services provider, NIST. While NIST independently hosts and operates its instance of CBS, it does rely on DOC's CBS Solutions Center (CSC) to create and deliver the baseline code at the heart of its CBS instance. Therefore, the scope of any IT review of the financial system supporting and producing the FirstNet financial statements is appropriately limited only to the NIST instance of CBS and the DOC/CSC maintenance of the CBS source code.

The information below summarizes the FY 2015 IT audit findings resulting from KPMG's financial statement audit at NIST and the CSC.

KPMG, in their FY 2015 IT audit report, issued a total of seven findings to NIST, identified as "NIST 2015-01 to NIST 2015-04 and NIST 2015-06 to NIST 2015-8". There is no NIST 2015-5, as those findings were incorporated into NIST 2015-04.

- All of the findings received a "Risk Rating" of medium from KPMG.
- Four of the findings were resolved during the audit or did not require additional corrective actions. In summary, those findings were:
  - KPMG finding # NIST 2015-02: Account lockout duration for the Solaris operating system was not configured to comply with DOC policy. The configuration settings for account lockout were updated and verified during the audit.
  - KPMG finding # NIST 2015-03: The NIST CBS/CFS Configuration Plan did not reflect actual configuration management controls in place over the CBS code. The CBS/CFS Configuration Plan was updated during the audit to include current controls.
  - KPMG finding # NIST 2015-06: KPMG identified issues with maintaining account recertification documentation for WebTA users as required by DOC HR Bulletin #196 (published 11/19/14). NIST did not concur with the finding and no further action was taken.
  - KPMG finding # NIST 2015-07: KPMG identified issues with maintaining account recertification documentation for National Finance Center (NFC) users as required by DOC HR Bulletin #195 (published 11/20/14). NIST did not concur with the finding and no further action was taken.
- Three of the findings generated Plans of Action and Milestones (POAMs) and were entered into the Cyber Security Assessment and Management System (CSAM) as program level POAMs. Program level POAMS are tracked and monitored at the DOC level. In summary, those POAMs were for:
  - POAM # 69084 (NIST 2015-01): A weakness in controls for documenting access permissions to CBS and Oracle. This will be resolved by updating the CBS Security Plan to include a new authorization request process and a new process to review the roles/access of DBAs.
  - POAM # 69085 (NIST 2015-4): NIST has not documented its policy for monitoring, remediating, and accepting vulnerabilities across the organization. This will be resolved by documenting current practices.



Significant Deficiency  
Exhibit I

- POAM #69086 (NIST 2015-08): A weakness in physical access control for Emergency Services personnel was identified. This issue is being resolved by a new onboarding process.
- With respect to the two KPMG findings assigned to the CSC, one was closed during the course of the FY15 audit that dealt with encryption of a server and the second pertains to the established periodic CSC review of CBS code deployed at Census, NIST, and NOAA. The CSC contested the finding and will not pursue additional corrective action.

Based on the information above, it is management's and NIST's opinion that the KPMG findings (for NIST) do not represent significant ineffective information technology controls which could potentially lead to incorrect transactions being recorded in the financial statements, either from error or fraudulent activity for FirstNet accounting activity in FY 2015. Moreover, HRK in the audit did not bring to the attention of management any errors in FirstNet's accounting attributable to an IT deficiency with the NIST systems. We recommend that the HRK statement of fact be changed to reflect this additional information.

In response to the FY 2014 audit, FirstNet management concurred with HRK's similar recommendation regarding the development of compensating controls, and has already developed compensating controls to review our general ledger transactions on a frequent basis which is quite often weekly, but not less than bi-weekly. Expenses and obligations are reviewed several times per week to ensure the accurate processing of payments, to monitor and report on execution against the budget, and ensure that contracts and agreements are accurately obligated. Balance Sheet accounts are reviewed on a monthly basis. Based upon our constant interaction and Service Level Agreement with NIST, FirstNet is fully aware of the personnel within NIST who are entering our general ledger transactions and we are confident that the transactions are reasonable. FirstNet will continue to document the controls that are in place and developed, to ensure communication of and compliance with those controls.

When onboarding new Budget and Finance Division personnel, FirstNet OCFO senior management (either CFO or Deputy CFO) submits a request to NIST specifically requesting and approving the appropriate level of information access to CBS required by each employee to carry out the duties required of the position. Furthermore, when an employee separates from FirstNet, FirstNet OCFO senior management submits a request to NIST to terminate access to the CBS information system for the separating employee, effective the date of separation, which is consistent with the procedures documented on the exit checklist of all separating personnel. As part of the personnel exit protocol, FirstNet's Office of the Chief Information Officer (OCIO) also removes access to all internal systems (email, network access, etc.) that would allow a user to authenticate into the Department's network and gain access to the CBS log-in portal.

As the NIST-controlled financial system being accessed and utilized to record financial

Significant Deficiency  
Exhibit I

transactions is not a FirstNet system and is directly under the Department's purview for support (access and monitoring), our control point within FirstNet's Office of the Chief Information Officer (OCIO) is access control to the internal network and system(s) necessary to authenticate through our Active Directory. This control authenticates that a user is actually authorized to be on our network and allows access to the Department's portal that leads to the CBS financial system being referenced above.

Furthermore, NIST has a control in place whereas, each fiscal year, each Commerce Business Systems (CBS) user's access must be re-authorized by each user's supervisor, via certification submitted by the supervisor to the NIST Customer Interaction Center (cic), confirming the CBS applications to which the employee user is allowed access for the new one year term being re-authorized. If the certified re-authorization is not provided by the supervisor to the cic by the date indicated, the employee's access to CBS is terminated.