



# Financial Report

## Fiscal Year 2017



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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 for fiscal year (FY) 2017, 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 156, which created the First Responder Network Authority as an independent authority within the National Telecommunications and Information Administration (NTIA) of the Department of Commerce.

For the fifth consecutive year, the auditors provided an unmodified opinion on the First Responder Network Authority's (FirstNet) FY 2017 financial statements. The auditors considered FirstNet's internal controls over financial reporting and the significant progress made during FY 2017. FirstNet continued to align financial resources with its enterprise-wide Five Year Strategic Plan for FY 2018 – FY 2022, which provides all of our stakeholders, including the American taxpayer, with the goals and objectives established to accomplish FirstNet's mission.

FY 2017 was a pivotal year for the First Responder Network Authority. In FY 2017, our organization moved from planning and preparing for the nation's public safety network to taking major steps toward building the FirstNet network.

**Partner selection.** A vital step toward moving FirstNet from vision to reality was the selection of a network technology partner. On March 30, 2017, at an event held at the Department of Commerce (Commerce) Headquarters in Washington, DC, Commerce Secretary Wilbur Ross and the First Responder Network Authority announced the selection of AT&T to build the first nationwide wireless broadband network dedicated to America's first responders. The broad terms of the 25-year agreement between FirstNet and AT&T included:

- FirstNet will provide the use of 20 MHz of high-value, telecommunications spectrum and success-based payments of \$6.5 billion over the next five years to support the Network buildout – FirstNet's funding was raised from previous FCC spectrum auctions
- AT&T will spend about \$40 billion over the life of the contract to build, deploy, operate and maintain the network, with a focus on ensuring robust coverage for public safety
- Additionally, AT&T will connect FirstNet users to the company's telecommunications network assets, valued at more than \$180 billion

The record-breaking public-private partnership announced that day is a significant investment in the communications infrastructure that public safety desperately needs for day-to-day operations, disaster response and recovery, and securing of large events.

**Establishing the framework for the Investment Review Board.** The legislation that created the First Responder Network Authority was specific about reinvestment in the network from revenues earned. To support reinvestment in the best interest of public safety, creating a framework for an Investment Review Board (IRB) was a key focus in FY 2017. The purpose of the IRB is to ensure that

FirstNet investment decisions are consistent, transparent, and in full compliance with laws and regulations. The roles and responsibilities of the IRB were designed and documented in FY 2017, as were the mechanisms and reporting responsibilities. With its IRB framework in place, FirstNet will be equipped with:

- Increased alignment with its strategic goals and improve return on funds
- Greater efficiency through streamlined portfolio management to properly focus investment evaluations
- Subject matter expertise to focus on FirstNet priorities and use industry best practices
- Risk control through better insight and decision-making – while ensuring strict legal compliance with all investment decisions
- Enhanced transparency across the investment portfolio to better inform executive leadership's decision-making

**Establishment of Treasury Fund.** Another key step taken in FY 2017 was the establishment of the First Responder Network Authority fund with the Department of Treasury. This fund allows FirstNet to accept network user fees, as well as other revenue and collections needed to sustain FirstNet and enhance the Nationwide Public Safety Broadband Network (NPSBN).

FirstNet made significant progress during FY 2017, both in moving forward to build out the NPSBN and in taking needed steps to support FirstNet's mission and vision. FirstNet takes its responsibility to manage the resources with which it has been entrusted very seriously. Our mission is vital to the future of public safety, and we remain committed to operational excellence with the same accountability, integrity, and dedication that our nation's public safety professionals show as they save lives and protect communities across our nation.

  
Kim Farington  
Chief Financial Officer

# Introduction and Background

## HISTORY, PURPOSE, AND FIRSTNET MISSION

The First Responder Network Authority was established by Public Law No. 112-96 (the Act) as an independent authority within the Department of Commerce's National Telecommunications and Information Administration. The Act established the governance structure of the First Responder Network Authority; created related advisory committees; set forth its powers, duties and responsibilities; authorized its initial funding and subsequent requirement for self-funding; and provided audit and reporting requirements. The First Responder Network Authority (FirstNet) is fulfilling 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 the American people they protect and serve, 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 designed and certified for public safety use.

## FISCAL YEAR 2017 OVERVIEW AND 2018 LOOK AHEAD

FirstNet's fiscal year runs from October 1 through September 30. Fiscal Year (FY) 2017 was FirstNet's fifth full year of operations. We continued our efforts in FY 2017 to ensure a strong financial condition to help make the FirstNet network a reality and also sustainable for public safety.

FY 2017 was filled with noteworthy accomplishments for FirstNet. Most significant, was naming AT&T, in March 2017, as our network and technology partner to build out, operate, deploy, and maintain the FirstNet network. AT&T was selected after a rigorous process to evaluate the responses to the First Responder Network Authority's Request for Proposal for the NPSBN.

In June, FirstNet and AT&T delivered customized state plans to U.S. states and territories – three months ahead of schedule. Developed with the input of the states, territories, localities, federal authorities, and public safety community, the state plans outlined the coverage, features and mission-critical capabilities FirstNet and AT&T will bring to first responders and other public safety personnel. Each state had the opportunity to accept the plan and “opt in” to FirstNet or “opt out” and build its own public safety Radio Access Networks (RANs) to connect to the FirstNet Core Network.

In July, at a ceremony held at FirstNet's Reston, VA, headquarters, and attended by public safety professionals from around the region, Governor Terry McAuliffe announced that the Commonwealth of Virginia would be the first to accept its FirstNet plan and opt in to the network. FirstNet ended the



fiscal year with 24 opt-ins; it would later complete the decision period with all 56 states, territories, and the District of Columbia accepting their plans and opting in.

Toward the end of FY 2017, FirstNet and AT&T prepared for the launch of the FirstNet Application Developer Program, which launched within two weeks after the end of the fiscal year. The program encourages public safety-focused innovation by developers to create state-of-the-art communications tools, especially applications purpose-built public safety needs to be included in FirstNet's App Catalogue. The developer program and the FirstNet App Ecosystem will tap into the expertise and creativity of the developer community to provide the lifesaving, modern apps and technologies first responders need to save lives, with the NPSBN providing the connectivity they need to communicate and collaborate.

### **FY 2017 efforts seed FY 2018 successes**

In addition to its achievements in FY2017, FirstNet laid the groundwork for continued success and delivery for public safety in FY 2018 and beyond.

In December 2017, the FirstNet network launched preemption, a network feature that shifts non-emergency subscribers to an alternate network when first responders need a dedicated connection. FirstNet is the first broadband network to offer this feature to first responders. Preemption, along with priority and quality of service, are features for that public safety has long fought for and needs to carry out its life-saving work.

Also in December 2017, after significant work with the National Institute of Standards and Technology (NIST), NTIA, the General Services Administration (GSA) and the Department of Commerce to create a capable and compliant procurement environment, the First Responder Network Authority earned unlimited contracting warrant authority to independently oversee and administer the NPSBN contract and its associated funding, that previously had been under the management of the Department of the Interior. For the first time since its founding, the First Responder Network Authority was in full control of the management of the NPSBN contract.

Another step in making the FirstNet network a reality for public safety was the launch of the FirstNet service brand in late January 2017. To drive the successful adoption of FirstNet, AT&T launched a brand expressly designed to represent FirstNet network products and services. Having a specialized brand and logo helps public safety identify the FirstNet solution and the lifesaving technologies the network offers first responders.

In February 2017, the First Responder Network Authority hosted its first Public Safety Applications Innovation Summit at the Houston Police Department. With about 35 senior public safety leaders from around the nation and across various public safety disciplines in attendance, FirstNet led the discussion about public-safety operational needs that could be addressed by improving existing mobile apps or creating new ones. FirstNet worked with attendees to generate innovative ideas and identify operational needs, including data interoperability and integration between disparate computer-aided dispatch (CAD) systems to better support mutual aid. This session is the first of others planned to determine the innovation needs for public safety and bring those needs to the technology community for consideration and development.

Most recently, in March 2018, FirstNet gave AT&T the green light to deploy Band 14 – the spectrum granted specifically for FirstNet and public safety – across statewide RANs. With this action, FirstNet initiated the implementation of State Plans and the buildout of the network that public safety began

advocating for in the wake of 9/11. The state RANs will be connected to the FirstNet Core, which is on track for delivery this spring. Once the RANs are connected to the core, first responders will have access to the full range of FirstNet features, including end-to-end encryption; advanced security protocols, and 24/7 security monitoring; superior reliability and availability; a local control interface so incident commanders can boost priority when needed to respond in emergencies; and next-generation public safety capabilities such as mission-critical push-to-talk and enhanced location-based services.

Throughout FY 2017 and into FY 2018, FirstNet met key milestones that are enabling us to create public safety's secure, innovative, reliable wireless communications network. FirstNet is more confident than ever, through our entrepreneurial approach, continued commitment to strong financial stewardship, and dedication to the public safety mission, we will deliver on our promise to build the future of public safety communications for the brave public safety professionals our nation calls upon in every emergency.

# 1.0 Financial Statements

## 1.1 Balance Sheets

**First Responder Network Authority**  
**Balance Sheets**  
**As of September 30, 2017 and 2016**  
**(In Thousands)**

	FY 2017	FY 2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 5,608,098	\$ 6,683,763
Accounts Receivable (Note 3)	34	127
Advances and Prepayments	678,975	22,608
<b>Total Current Assets</b>	<b>6,287,107</b>	<b>6,706,498</b>
Property, Plant, and Equipment, Net (Notes 4 and 11)	5,608	6,719
Nationwide Public Safety Broadband Network, Net (Note 5)	288,000	-
Other Assets, Net (Note 6)	1,062	1,348
<b>TOTAL ASSETS</b>	<b>\$ 6,581,777</b>	<b>\$ 6,714,565</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 4,758	\$ 7,571
Accrued Payroll and Leave	3,730	2,924
Grants Payable	4,200	-
Capital Lease Liabilities (Note 7)	-	657
<b>Total Current Liabilities</b>	<b>12,688</b>	<b>11,152</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 12,688</b>	<b>\$ 11,152</b>
<b>EQUITY (Note 9)</b>		
Contributed Capital	\$ 6,877,490	\$ 6,877,490
Retained Deficit	(308,401)	(174,077)
<b>TOTAL EQUITY</b>	<b>\$ 6,569,089</b>	<b>\$ 6,703,413</b>
<b>TOTAL LIABILITIES AND TOTAL EQUITY</b>	<b>\$ 6,581,777</b>	<b>\$ 6,714,565</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, 2017 and 2016**  
**(In Thousands)**

	FY 2017	FY 2016
<b>Operating Revenues</b>	\$ -	\$ -
<b>Operating Expenses</b>		
General and Administrative (Note 2)	131,329	82,050
Depreciation and Amortization Expense	2,895	1,949
<b>Total Operating Expenses</b>	<b>134,224</b>	<b>83,999</b>
<b>Operating (Deficit)</b>	<b>(134,224)</b>	<b>(83,999)</b>
Other Income	-	98
(Loss) on Disposition of Assets	(2)	-
(Loss) on Donated Property Transferred Out (Note 11)	(98)	-
<b>NET (DEFICIT)</b>	<b>\$ (134,324)</b>	<b>\$ (83,901)</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, 2017 and 2016**  
**(In Thousands)**

	FY 2017	FY 2016
<b>Cash Flows from Operating Activities</b>		
Net (Deficit)	\$ (134,324)	\$ (83,901)
Adjustments to reconcile Net (Deficit) to net cash used in operations:		
Depreciation and Amortization Expense	2,895	1,949
(Increase) in Advances and Prepayments	(656,367)	(8,800)
(Decrease) in Accounts Payable	(2,813)	(71)
Increase in Accrued Payroll and Leave	806	1,428
Increase in Grants Accrual Payable	4,200	-
Decrease/(Increase) in Accounts Receivable	93	(106)
Loss on Disposition of Assets	2	-
Loss on Donated Property Transferred Out	98	-
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(785,410)</b>	<b>(89,501)</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of Nationwide Public Safety Broadband Network	(288,000)	-
Purchases of Other Assets	-	(630)
Purchases of Property, Plant, and Equipment	(1,598)	(2,053)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(289,598)</b>	<b>(2,683)</b>
<b>Cash Flows from Financing Activities</b>		
Payments on Capital Lease Liabilities	(657)	(601)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(657)</b>	<b>(601)</b>
Net (Decrease) in Cash	(1,075,665)	(92,785)
Cash Balance, beginning of year	6,683,763	6,776,548
<b>CASH, END OF YEAR</b>	<b>5,608,098</b>	<b>6,683,763</b>
<b>Non-Monetary Transactions</b>		
(Loss) on Disposition of Assets	\$ (2)	\$ -
(Loss) on Donated Property Transferred Out	(98)	-
<b>NON-MONETARY TRANSACTIONS</b>	<b>\$ (100)</b>	<b>\$ -</b>

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 *Public Law No. 112-96, Title VI, 126 Stat. 156* (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).

In March 2017, FirstNet awarded a contract to AT&T to design, build, implement, and sustain the NPSBN. FirstNet will provide access to spectrum capacity for the 25 year contract term. Additionally, FirstNet will contribute success-based payments to support network buildout. Once in place, both the public safety community and first responders will use the new network. (Refer to Note 5 for additional information regarding the NPSBN assets).

These financial statements cover FirstNet's fiscal years ending September 30, 2017, and September 30, 2016.

#### 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 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.

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).

1. E - Accounts Receivable

Accounts Receivable consist 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.

Advances were primarily issued to another federal agency to manage acquisition activities on behalf of FirstNet. These funds represent the majority of the advances and prepayments amounts stated on the Balance Sheets.

During FY 2017, FirstNet entered into an interagency agreement with the U.S. Department of the Interior (DOI) to provide assisted acquisition services. As defined in Federal Acquisition Regulation subsection 2.101, assisted acquisitions are a type of interagency acquisition where a servicing agency with the necessary contracting warrant authority, performs acquisition activities on a requesting agency's behalf, such as awarding and administering a contract, task order, or delivery order. Assisted acquisition is a subset of interagency agreements entered into for the primary purpose of procuring services or products from contractors. These agreements also require the full amount of the contract be advanced to the servicing activity, in this case DOI, before any acquisition services can be provided to the requesting agency.

The majority of the advances and prepayments reported on FirstNet's September 30, 2017 Balance Sheet were related to Task Orders of the NPSBN contract awarded to AT&T in March 2017. During FY 2017 a total of \$1 billion dollars was advanced to DOI to administer the NPSBN contract. That advance had a remaining balance of \$672 million as of September 30, 2017.

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, less any accumulated amortization. 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 of each year. Annual Leave and Compensatory Time Earned leave categories 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

FirstNet does not have Capital Lease Liabilities as of September 30, 2017. FirstNet made the final lease payment in June 2017 and exercised the option to purchase the equipment, which includes network switches, routers and other equipment necessary to maintain FirstNet's internal network infrastructure. Capital Lease Liabilities are recorded at the present value of the rental payments.

1. K - Contributed Capital

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 deploying the NPSBN.

1. L - Employee Retirement Plans and Post-Retirement 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). Post-retirement benefits for FirstNet employees, specifically healthcare 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 post-retirement 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 will continue to be recognized at carrying value of \$0, unless there is a change in accounting principle, identification of an error, acquisition, sale, or disposal. Therefore, FirstNet has not recognized in its financial statements any value related to the spectrum license granted by the FCC.

1. N - Revenue Recognition

Pursuant to the Act, FirstNet may generate revenues through network user fees, leases related to network capacity, and lease fees related to network equipment and infrastructure<sup>1</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 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 2017 or FY 2016, because no revenue-generating activities had begun by then.

1. O - Tax Status

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

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

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<sup>1</sup> See 47 U.S.C. § 1428.

1. P - Fair Value Measurements

FirstNet held no financial instruments that were required by ASC Topic 820, *Fair Value Measurements and Disclosures*, to be valued, reported, or disclosed at fair value as of September 30, 2017, and September 30, 2016.

**Note 2. Limitation on Administrative Expenses**

Administrative expenses for FirstNet may not exceed \$100.0 million during the 10-year period beginning on February 22, 2012<sup>2</sup>. Costs attributed to certain oversight and audits were not included under the administrative expenses limitation<sup>3</sup>. Non-programmatic costs incurred in the course of carrying out activities that directly support the FirstNet organization as a whole were recognized as administrative expenses subject to the limitation.

In FY 2017, FirstNet incurred \$8.6 million in administrative expenses under the limitation. In FY 2016, FirstNet incurred \$8.9 million in administrative expenses under the limitation. As of September 30, 2017, the total amount of administrative expense limitation available in future periods was \$68.0 million.

**Note 3. Accounts Receivable**

Receivables – Intragovernmental represents sums due to FirstNet for services rendered by FirstNet personnel in FY 2017 under reimbursable service agreements between FirstNet and NTIA.

Accounts Receivable consists of the following:

<b>As of September 30,</b>	<b>2017</b>	<b>2016</b>
Receivables - Intragovernmental	\$ -	\$ 116
Receivables - Public	34	11
<b>Total Receivables</b>	<b>34</b>	<b>127</b>
Less: Allowance for doubtful accounts	-	-
<b>Accounts Receivable</b>	<b>\$ 34</b>	<b>\$ 127</b>

<sup>2</sup> See 47 U.S.C. § 1427(b).

<sup>3</sup> Id.



#### Note 4. Property, Plant and Equipment, Net

The following table summarizes Property, Plant, and Equipment, Net as of September 30, 2017 and 2016:

As of September 30,			2017	2016
	<u>Estimated Useful</u> <u>Life in Years</u>			
Equipment	3 - 10	\$	4,424	\$ 1,455
Assets Under Capital Lease	3 - 7		-	1,971
Leasehold Improvements	3 - 4		3,135	2,177
Perpetual Software Licenses	3 - 7		251	251
Internal Use Software	3 - 7		234	51
Other Property, Plant, and Equipment	3 - 4		1,983	1,662
<b>Property, Plant, and Equipment, at cost</b>			<b>10,027</b>	<b>7,567</b>
Less: Accumulated depreciation and amortization			4,447	1,839
Capital Work In Progress - Equipment			28	991
<b>Property, Plant, and Equipment, Net</b>		<b>\$</b>	<b>5,608</b>	<b>\$ 6,719</b>

#### Note 5. Nationwide Public Safety Broadband Network, Net

During FY 2017, FirstNet entered into a contract with AT&T to build and deploy the NPSBN, and procure network goods and services throughout a 25 year period of performance. Consistent with accrual accounting under GAAP, as a contract milestone completion was achieved by AT&T's delivery of core network initial operating capabilities (IOC) to FirstNet \$288 million was capitalized as of September 30, 2017. Amortization of the intangible assets associated with the NPSBN will begin during FY 2018, after inspection and acceptance by FirstNet.

As FirstNet's exclusive partner in the delivery of the NPSBN network, AT&T will have use of FirstNet's spectrum and can allow commercial subscribers to secondarily utilize network capacity, when it is not in use by public safety subscribers. Under the contract with AT&T, public safety and first responder subscribers are granted primary user preemptive services on the network at no additional charge. Preemptive rights extends exclusive and swift connection to the network to primary subscribers in cases of emergency, while non-emergency subscribers will be shifted to an alternate network.

First Responder Network Authority  
Notes to the Financial Statements  
For the Years Ended September 30, 2017 and 2016

The following table summarizes Nationwide Public Safety Broadband Network, Net as of September 30, 2017 and 2016:

<b>As of September 30,</b>		<b>2017</b>	<b>2016</b>
	<b><u>Estimated Useful Life in Years</u></b>		
Nationwide Public Safety Broadband Network	19 - 25	288,000	-
<b>Nationwide Public Safety Broadband Network, at cost</b>		<b>288,000</b>	<b>-</b>
<b>Nationwide Public Safety Broadband Network, Net</b>		<b>\$ 288,000</b>	<b>\$ -</b>

**Note 6. Other Assets, Net**

The following table summarizes Other Assets, Net as of September 30, 2017 and 2016:

<b>As of September 30,</b>		<b>2017</b>	<b>2016</b>
	<b><u>Estimated Useful Life in Years</u></b>		
Geographical Mapping Data	3 - 10	\$ 1,942	\$ 1,942
<b>Other Assets, at cost</b>		<b>1,942</b>	<b>1,942</b>
Less: Geographical Mapping Data Accumulated amortization		880	594
<b>Other Assets, Net</b>		<b>\$ 1,062</b>	<b>\$ 1,348</b>

**Note 7. 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 12 months of occupancy. 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, were 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 \$1.5 million and \$1.1 million in FY 2017 and FY 2016, respectively.

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As of September 30, 2017, the minimum estimated rental amounts due under operating leases for the periods shown are as follows:

	<b>Total</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023 and thereafter</b>
Operating Leases	\$ 7,770	\$ 1,347	\$ 1,012	\$ 752	\$ 796	\$ 841	\$ 3,022
<b>Total</b>	<b>\$ 7,770</b>	<b>\$ 1,347</b>	<b>\$ 1,012</b>	<b>\$ 752</b>	<b>\$ 796</b>	<b>\$ 841</b>	<b>\$ 3,022</b>

### *Capital Leases*

FirstNet leased assets in FY 2017 and FY 2016, such as network switches, routers, and other equipment necessary to maintain FirstNet's Network Infrastructure from GovSmart. These capital leases were firm-fixed-price, three-year leases with an option to purchase. The contracts were for one year with two one-year options to extend the contract term and included options for increased quantities of materials and installation locations. Once the lease term was completed during FY 2017, the contractor assigned title of the assets to FirstNet. The leased assets were depreciated over a straight-line basis over three years. The interest rate related to the lease obligations was 1.7%. Total capital lease liabilities had a balance of \$0 as of September 30, 2017, and \$657 thousand as of September 30, 2016.

Depreciation of capital leases is included in Depreciation and Amortization Expense in the Statement of Operations. The final capital lease payment was processed in FY 2017 and FirstNet subsequently purchased and capitalized that equipment. Therefore, FY 2017 depreciation expense related to capital leases was \$0. FY 2016 depreciation expense related to capital leases was \$461 thousand. The gross value of assets recorded as capital leases and accumulated depreciation were as follows:

	<b>FY 2017</b>	<b>FY 2016</b>
Assets under Capital Lease	\$ -	\$ 1,971
Less: Accumulated Depreciation	-	461
<b>Assets under Capital Lease, Net</b>	<b>\$ -</b>	<b>\$ 1,510</b>

### **Note 8. Commitments and Contingencies**

Commitments are preliminary actions that 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 were not met and there was 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.

First Responder Network Authority  
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Pursuant to Section 6206(e)(2)(B) of the Act, a potential commitment existed on the part of FirstNet to NTIA, to fund grants for States, if said States chose 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 9, 2018, management was not aware of any actual or pending legal claims or contingencies affecting FirstNet.

**Note 9. Equity**

The following table summarizes Equity as of September 30, 2017 and 2016:

	<b>Retained Deficit</b>	<b>Contributed Capital</b>	<b>Total</b>
Beginning Balance, October 1, 2016	\$ (174,077)	\$ 6,877,490	\$ 6,703,413
Net (Deficit) for the year ended September 30, 2017	(134,324)	-	(134,324)
<b>Ending Balance, September 30, 2017</b>	<b>\$ (308,401)</b>	<b>\$ 6,877,490</b>	<b>\$ 6,569,089</b>

  

	<b>Retained Deficit</b>	<b>Contributed Capital</b>	<b>Total</b>
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)
<b>Ending Balance, September 30, 2016</b>	<b>\$ (174,077)</b>	<b>\$ 6,877,490</b>	<b>\$ 6,703,413</b>

**Note 10. 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 an independent authority 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.

First Responder Network Authority  
Notes to the Financial Statements  
For the Years Ended September 30, 2017 and 2016

All related party activity as of and for the years ended September 30, 2017 and 2016 is summarized in the tables below:

**As of and for the Year Ended September 30, 2017**

<b>Related Party</b>	<b>Purchases and Assessments</b>	<b>Other Income</b>	<b>Accounts Receivable</b>	<b>Accounts Payable</b>	<b>Advances and Prepayments</b>
NTIA	\$ 2,769	\$ -	\$ -	\$ 190	\$ -
The Department	\$ 2,979	\$ -	\$ -	\$ 3	\$ 1

**As of and for the Year Ended September 30, 2016**

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

**Note 11. Donated Property**

During FY 2017, FirstNet transferred \$98 thousand of donated property to the Department of Energy to support Public Safety Long Term Evolution (LTE) testing at the Idaho National Laboratory.

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

**Note 12. Subsequent Events**

Due to the delegation of unlimited contracting warrant authority to FirstNet's Chief Procurement Office, on December 14, 2017 FirstNet successfully transferred the NPSBN AT&T contract from the DOI Acquisition Services Directorate, to FirstNet's Chief Procurement Office and its internal contract management system.

As a result of the NPSBN AT&T contract transfer to FirstNet, DOI refunded to FirstNet the remaining \$672 million advanced payment that was reported as the primary advances and prepayments balance on FirstNet's Balance Sheet as of September 30, 2017.

Subsequent events were evaluated by FirstNet through March 9, 2018, which is the date the financial statements were available to be issued.

### 3.0 Independent Auditors' Report



#### Independent Auditors' Report

Secretary, U. S. Department of Commerce  
FirstNet Board

#### **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, 2017 and 2016, 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 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

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***Auditors' Responsibility (continued)***

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, 2017 and 2016, 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.

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



***Internal Control over Financial Reporting (continued)***

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. However, material weaknesses may exist that have not been identified.

***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, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

March 9, 2018