Financial Report: First Responder Network Authority

Fiscal Year 2014

FirstNet®

Table of Contents

Message from the Chief Financial Officer

I am pleased to present the Financial Report of the First Responder Network Authority (FirstNet) for fiscal year (FY) 2014. This report provides detailed financial and high-level performance information to facilitate FirstNet's stakeholders' understanding and evaluation of FirstNet's achievements relative to its mission and resources. FirstNet is deeply committed to operational excellence and providing outstanding service to our customers, the public safety community, while exercising effective stewardship over taxpayer resources.

The audit of this Financial Report fulfills the statutory requirements established by Section 6209 of the Middle Class Tax Relief and Job Creation Act of 2012, Public Law No. 112-96 (the "Act"), which created FirstNet as an independent authority within the National Telecommunications and Information Administration (NTIA) of the Department of Commerce. For the audit of FY 2014, its second fiscal year of operations, FirstNet received an unmodified audit opinion on its financial statements, from independent auditors Harper, Rains, Knight & Company, P.A.

FirstNet continued to operate pre-revenue in FY 2014. Operations were financed by NTIA capital contributions of $25.3 million. Before depreciation, total operating expenses during the year were $24.2 million and FirstNet paid $0.9 million to acquire capitalized assets. The operating expenses increased 43 percent over the prior year, reflecting the increase in personnel and activities to execute the Strategic Roadmap and create the internal capability required to support FirstNet's mission. Contractor support costs also increased as FirstNet expanded its use of outside experts in engineering, program management and communications to support the Comprehensive Network Solution request for proposals (RFP) development process as well as consultation and outreach activities.

Until FirstNet deploys the network and earns revenues, the organization will operate as a startup. During this phase, FirstNet's only sources of funding are NTIA's authority to borrow up to $2 billion in initial capital from the U.S. Department of the Treasury (the "Treasury") and designated proceeds from Federal Communications Commission (FCC) auctions in excess of the amounts NTIA borrows, up to an additional $5 billion.

FirstNet's continuing execution of the Strategic Roadmap, development of the Comprehensive Network Solution RFP, and consultation and outreach efforts all aim to ensure the quality of service delivery to our customers and the achievement of our mission.

Kim Farington

Kim S. Farington
Acting Chief Financial Officer
July 22, 2015

Introduction and Background

HISTORY, PURPOSE, AND FIRSTNET MISSION

FirstNet was established by the Middle Class Tax Relief and Job Creation Act of 2012, Public Law No. 112-96 (the "Act") as an independent authority within NTIA. 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 (network) for public safety entities.

Leveraging Long Term Evolution (LTE) technology standards, up to $7 billion in funding from 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 2014 OVERVIEW

FirstNet's fiscal year runs from October 1 through September 30. FY 2014 was FirstNet's second year of operation. During FY 2014, FirstNet began formal state consultations to understand public safety's unique needs within each state and territory for the nationwide network. In addition, a public notice was published that sought input on key legal interpretations of the Act. A comprehensive network draft Statement of Objectives (SOO) and Request for Information (RFI) were released and the FirstNet Board (Board) Committee charters for efficient and transparent Board and management operations were also adopted. FirstNet created and formally adopted a Strategic Program Roadmap (Strategic Roadmap), while growing from a fledgling organization to robust startup. FirstNet staff increased from 8 to 75 full-time equivalent (FTE) employees, which included the hiring of key senior management positions throughout the organization.

In March 2014, the Board adopted a Strategic Roadmap outlining the milestones that FirstNet planned to accomplish in the following year, including:

- Begin formal in-person state consultations;
- Initiate a public notice and comment process on certain program procedures, policies, and statutory interpretations;
- Release a draft comprehensive network RFP for comment; and
- Release for comment draft requests for certain network and equipment services proposals.

The first two of these milestones, related to initiating state consultations and the public notice and comment process, were achieved in FY 2014, and significant progress continues on the draft comprehensive network RFP.

With these foundational efforts underway, FirstNet is focusing on the consultative, technical, procurement, and financial aspects of the program. FirstNet made tremendous progress in FY 2014, yet more remains to be accomplished.

OBJECTIVES AND STRATEGIC GOALS

FirstNet's objectives as it plans and develops the deployment of the nationwide network 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 information/data.

Each of these points is reflected in the four overarching strategic goals that have been adopted by the FirstNet organization:

1. Explore and build strong partnerships with local, state, tribal, and Federal jurisdictions.
2. Staff and establish a high-performance organization and a culture of excellence.
3. Ensure all resources are used efficiently to accomplish FirstNet's mission and demonstrate leadership towards self-sustainability to all external stakeholders.
4. Ensure the deployment and operation of a reliable, interoperable, and survivable nationwide LTE broadband network for public safety.

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, and 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, 2014 and 2013
(Dollars in Thousands)

	FY 2014		FY 2013	
ASSETS				
Current Assets				
Cash	$	-	$	-
Capital Receivables		6,309		4,170
Accounts Receivable (Note 2)		72		-
Advances and Prepayments		1,159		1,021
Total Current Assets		**7,540**		**5,191**
Property, Plant and Equipment, Net (Notes 3 and 7)		2,252		-
TOTAL ASSETS	**$**	**9,792**	**$**	**5,191**
LIABILITIES				
Current Liabilities				
Accounts Payable		5,209		3,931
Accrued Payroll and Leave		1,100		239
Total Current Liabilities		**6,309**		**4,170**
Non-Current Liabilities		-		-
TOTAL LIABILITIES	**$**	**6,309**	**$**	**4,170**
Commitments and Contingencies (Note 6)				
NET POSITION				
Contributed Capital (Note 4)		43,291		18,023
Cumulative Results of Operations (Note 4)		(39,808)		(17,002)
TOTAL NET POSITION	**$**	**3,483**	**$**	**1,021**
TOTAL LIABILITIES AND NET POSITION	**$**	**9,792**	**$**	**5,191**

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, 2014 and 2013
(Dollars in Thousands)

	FY 2014	FY 2013
Operating Revenues	$ -	$ -
Operating Expenses		
Depreciation and Amortization Expense	120	-
General and Administrative	24,196	17,002
Total Operating Expenses	**$ 24,316**	**$ 17,002**
Operating (Deficit)	**$ (24,316)**	**$ (17,002)**
Gain on Donated Property Received - Non-operating	1,510	-
NET (DEFICIT)	**$ (22,806)**	**$ (17,002)**

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, 2014 and 2013
(Dollars in Thousands)

	FY 2014		FY 2013	
Cash Flows from Operating Activities				
Net (Deficit)	$	(22,806)	$	(17,002)
Adjustments to reconcile Net (Deficit) to net cash used in operations:				
Depreciation and Amortization Expense		120		-
Gain on Donated Property Received - Non-operating		(1,510)		-
(Increase) in Advances and Prepayments		(138)		(1,021)
Increase in Accounts Payable		1,278		3,931
Increase in Accrued Funded Payroll and Leave		861		239
(Increase) in Accounts Receivable		(72)		-
NET CASH USED IN OPERATING ACTIVITIES	$	(22,267)	$	(13,853)
Cash Flows from Investing Activities				
Purchases of Property, Plant and Equipment		(862)		-
NET CASH USED IN INVESTING ACTIVITIES	$	(862)	$	-
Cash Flows from Financing Activities				
Capital Contributions received		23,129		13,853
NET CASH PROVIDED BY FINANCING ACTIVITIES	$	23,129	$	13,853
Net increase (decrease) in cash		-		-
Cash Balance at beginning of year		-		-
CASH, END OF YEAR	$	**-**	$	**-**
Non-Monetary Transactions				
Capital Work in Progress - Donated Equipment		1,510		-
NON-MONETARY TRANSACTIONS	$	1,510	$	**-**

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

Description of Reporting Entity

The First Responder Network Authority (FirstNet) was established by the *Middle Class Tax Relief and Job Creation Act of 2012* (Public Law 112-96) (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.

These financial statements cover FirstNet's fiscal years ending September 30, 2014 and 2013.

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 it external 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.

Because 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 has determined that the financial reporting framework established by the FASB is the appropriate source of GAAP for external financial statement reporting purposes.

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.

Cash

FirstNet records as Cash the aggregate amount of funds from all sources, including NTIA borrowings from the U.S. Department of the Treasury (Treasury) in the NTIA-managed Public Safety Trust Fund (PSTF), which are used to pay liabilities.

Capital Receivables

The Capital Receivables balance represents additional capital contributions due from NTIA that are required to pay FirstNet liabilities. NTIA borrowings that are committed for the payment of FirstNet's incurred liabilities are recorded as Capital Receivables until the funds are disbursed and the respective liabilities are liquidated.

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 uncollectable accounts receivable from the public is established when, based upon a review of outstanding accounts and failure of all collection efforts, management determines that collection is unlikely to occur considering the debtor's ability to pay.

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.

Property, Plant, and Equipment, Net

Property, Plant, and Equipment (PP&E) includes capital assets used in providing goods or services when the estimated useful life is two years or more. PP&E is stated at full cost or fair market value, including all costs related to acquisition, delivery, and installation, less accumulated depreciation calculated on a straight-line basis over the useful life.

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.

Contributed Capital

Capital contributions represent funding transfers from the NTIA-managed PSTF to pay FirstNet expenses incurred. The transfers are derived from NTIA borrowings from the Treasury. Capital contributions are recognized at such time as FirstNet incurs a liability as NTIA is responsible for funding all FirstNet obligations.

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 postretirement benefits paid by OPM, or the actuarial liability for such benefits.

Intangible Assets and Goodwill

FirstNet has one class of intangible asset: a Federal Communications Commission (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 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 can not be determined. Under current law, the spectrum license is not tradable or exchange able 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 the FCC.

Revenue Recognition

Under the Act, FirstNet will generate revenues through network user fees and leases related to network capacity. 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 arrangement 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.

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 statement of operations.

Fair Value Measurements

FASB Accounting Standards Codification (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 receivables, accounts payable, accrued liabilities, and advance payments approximate their carrying value as of September 30, 2014 and 2013.

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, 2014 and 2013.

Limitation on Administrative Expenses

FirstNet is subject to a statutory limitation of $100,000 in total administrative expenses over the first 10 years of operations, beginning on February 22, 2012. Costs attributed to certain oversight and audits are not included under the administrative expenses limitation. 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 2014, FirstNet incurred $7,286 in administrative expenses under the limitation. As of September 30, 2014, the total amount of administrative expense limitation available in future periods is $89,886.

Note 2. Accounts Receivable

Accounts Receivable consists of the following:

As of September 30,	**2014**	**2013**
Receivables - Intragovernmental	$71	$ -
Receivables – Public	1	-
	72	-
Less allowance for doubtful accounts	-	-
Accounts Receivable	**$72**	**$ -**

Note 3. Property, Plant and Equipment, Net

The following table summarizes property and equipment, net as of September 30, 2014 and 2013:

As of September 30,	Estimated Life in Years	2014	2013
Geographic Mapping Data (Geo-Data)	3 - 4	$637	$ -
Perpetual Software Licenses	3 - 7	119	-
Equipment	3 - 5	81	-
Internal Use Software	3 - 5	25	-
Property, Plant and Equipment, at cost		**862**	**-**
Less: Accumulated depreciation and amortization		120	-
Capital Work in Progress - Equipment (Note 7)		1,510	-
Property, Plant and Equipment, net		**$2,252**	**$ -**

Note 4. Net Position

The following tables present the change in Net Position for the years ended September 30, 2014 and 2013.

	Cumulative Results of Operations	Contributed Capital	Total
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
Ending Balance, September 30, 2014	**$ (39,808)**	**$ 43,291**	**$ 3,483**

	Cumulative Results of Operations	Contributed Capital	Total
Beginning Balance, October 1, 2012	$ –	$ –	$ –
Net (Deficit) for the year ended September 30, 2013	(17,002)	–	(17,002)
Contributions for the year ended September 30, 2013	–	18,023	18,023
Ending Balance, September 30, 2013	**$ (17,002)**	**$ 18,023**	**$ 1,021**

Note 5. Related-Party Transactions

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. 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.

All related party activity as of and for the years ended September 30, 2014 and 2013 is summarized in the tables below:

As of September 30, 2014

Related Party	Purchases and Assessments	Capital Contributions, Received	Capital Contributions, Receivable	Accounts Payable	Advances and Prepayments
NTIA	$3,760	$23,129	$6,309	$1,762	$ –
The Department	$4,800	$ –	$ –	$914	$1,159

As of September 30, 2013

Related Party	Purchases and Assessments	Capital Contributions, Received	Capital Contributions, Receivable	Accounts Payable	Advances and Prepayments
NTIA	$3,254	$13,853	$4,170	$47	$ –
The Department	$637	$ –	$ –	$14	$1,021

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 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.

Litigation, Claims and Assessments

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

As of July 22, 2015, management was not aware of any actual or pending legal claims or contingencies affecting FirstNet.

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 reasonably assured. Total rental expense under operating leases amounted to $737 in FY 2014 and $92 in FY 2013.

Future Minimum Commitments

As of September 30, 2014, the minimum estimated rental amounts due under operating leases for the periods shown are as follows:

	Total	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020 and thereafter**
Operating Leases	$2,324	$868	$638	$327	$327	$164	$ –
Total	**$2,324**	**$868**	**$638**	**$327**	**$327**	**$164**	**$ –**

Note 7. Donated Property Received

During fiscal year 2014, FirstNet received a donation of microwave and Long-Term Evolution (LTE) equipment from the City of Charlotte, North Carolina via a non-monetary conveyance agreement and transfer to FirstNet. FirstNet has not placed the assets into service and, as such, has recorded the assets as Capital Work in Progress – Equipment in the financial statements. In accordance with ASC Topic 845,*Nonmonetary Transactions*, FirstNet has 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 is not providing compensation to the City of Charlotte and therefore a non-reciprocal, non-monetary transfer exists. 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 has recorded the assets obtained at fair market value and subsequently will depreciate those assets when they are placed into service.

Note 8. Subsequent Events

FirstNet has evaluated subsequent events through July 22, 2015, 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

HARPER, RAINS, KNIGHT & COMPANY

Certified Public Accountants
A Professional Association

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

Report on the Financial Statements

We have audited the accompanying financial statements of the First Responder Network Authority ("FirstNet"), which comprise the balance sheet as of September 30, 2014, and the related statements of operations and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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, 2014, and the results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of FirstNet, as of and for the year ended September 30, 2013, were audited by other auditors whose report dated July 24, 2014 expressed an unmodified opinion on those statements.

Other Information

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

Other Reporting Required by Government Auditing Standards – continued

Internal Control over Financial Reporting – continued

internal control. Accordingly, we do not express an opinion on the effectiveness of FirstNet's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982.*

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

Our consideration of internal control 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*.

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

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, Rains, Knight & Company, P.A.

July 22, 2015

Significant Deficiency
Exhibit I

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 14, 2014 related to fiscal year 2014 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, NIST, and the Department's Commerce Business System Support Center.

- **Access controls:** Specific areas for improvement related to access controls are: 1) reviewing user accounts to appropriately disable and recertify financial system, database and operating system accounts, 2) strengthening password controls, 3) ensuring compliance with audit log review requirements, 4) enforcing multi-factor authentication, and 5) improving incident response reporting.
- **Configuration management:** Specific areas for improvement related to configuration management are: 1) enhancing policy and procedures for the review of certain code files over key financial statement areas, and 2) addressing patch and configuration management vulnerabilities.
- **Segregation of duties:** Specific areas for improvement related to segregation of duties are: 1) segregating duties among major operating and programming activities, including those duties performed by users, application programmers, and data center staff and 2) documenting, communicating, and enforcing policies outlining individual responsibilities.

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. 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

FirstNet's management concurs with the recommendations provided to the Department and NIST, and fully supports the corrective actions that are underway within the Department and at NIST. FirstNet will proactively adopt, execute and monitor all corrective actions developed by the Department in response to the deficiencies identified and reported by KPMG during the Department's FY 2014 Financial Statement audit.

Management's Response – continued

FirstNet's management has identified existing compensating controls that are in place to periodically review its general ledger transactions, specifically identifying which individual has prepared and entered general ledger transactions and has verified that those transactions are reasonable and supported in all circumstances. FirstNet's Office of the Chief Financial Officer's (OCFO) personnel review cost and transactional data on a monthly basis and conduct reviews of general ledger transactions and source data for reasonableness on a quarterly, if not more frequent, basis.

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 the Commerce Business Systems (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 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. Once a user is logged into the financial system, FirstNet's OCIO cannot monitor what the individual does inside the system and has no means to authenticate beyond the initial access referenced.