

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS
SYSTEM AUTHORITY**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

For the Year ended June 30, 2017



21250 Hawthorne Blvd. Suite 150 Torrance, CA 90503
t: (310) 792-4640 f: (310) 792-4140

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2017**

TABLE OF CONTENTS

	Page
Independent Auditor's Report.....	1
Management's Discussion and Analysis (Unaudited)	4
Basic Financial Statements	
Governmental Activities Financial Statements:	
Statement of Net Position.....	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet	11
Reconciliation of the Governmental Fund Balance Sheet to the Governmental Activities Statement of Net Position	12
Statement of Revenues, Expenditures and Changes in Fund Balance.....	13
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Governmental Statement of Activities	14
Notes to the Basic Financial Statements	15
Required Supplementary Information	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.....	25
Notes to the Required Supplementary Information.....	26
Audit of Federal Awards Programs	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	28
Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance.....	30

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2017**

TABLE OF CONTENTS
(Continued)

	Page
Schedule of Expenditures of Federal Awards	33
Notes to the Schedule of Expenditures of Federal Awards	34
Schedule of Findings and Questioned Costs	35

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Los Angeles Regional Interoperable Communications System Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the Los Angeles Regional Interoperable Communications System Authority (Authority) as of and for the year ended June 30, 2017, and the related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Authority'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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Authority as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) (pages 4 through 8) and the Required Supplementary Information (page 25) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BCA Watson Rice, LLP

Torrance, California

January 29, 2018

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2017**

The Management's Discussion and Analysis (MD&A) of the financial activities of the Los Angeles Regional Interoperable Communications System Authority (Authority) provides a narrative overview of the Authority's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the accompanying basic financial statements, footnotes and supplementary information.

Financial Highlights

- During the current year, the Authority's assets totaled \$159,243,349. Cash and Investments deposited in the County Treasury Pool totaled \$1,001,381.
- Program revenues totaled \$45,672,015 and mainly consisted of federal grants in the amount of \$38,714,027, contributions from the County of Los Angeles in the amount of \$2,668,396, and local match grant contributions in the amount of \$4,289,592.
- The Authority has a cash operating loan from the County of Los Angeles for the funding of start-up and operational costs. The loan bears no interest and has no definite repayment schedule.
- As of June 30, 2017, the Authority had \$149,812,487 in Capital Assets consisting of telecommunication equipment under construction valued at \$149,680,064 and office furniture valued at \$132,423.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements, which are comprised of the following three components:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

This report also includes other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all Authority assets reduced by liabilities, which represent net position. Over time, increases and decreases in net position may serve as an indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Activities presents information that indicates how the Authority's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying events

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – (Continued)
For the Year Ended June 30, 2017

giving rise to the changes occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that affect cash flows in future periods, for example, accrued but unpaid contract and professional fees.

The government-wide financial statements report the following different types of programs or activities:

Governmental Activities – All of the Authority's programs during fiscal year 2016-2017 are reported under this category.

Business-type Activities – The Authority has no business-type activities during fiscal year 2016-2017.

Fund Financial Statements

The fund financial statements contain information regarding major individual funds. A fund is a fiscal and accounting entity with a balanced set of accounts. The Authority uses separate funds to ensure compliance with fiscal and legal requirements. The Authority's funds are all classified as governmental funds during fiscal year 2016-2017.

Governmental Funds - These funds are used to account for essentially the same services that were previously described as governmental activities above. However, the fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Authority's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary schedules in the format of the basic financial statements, showing the activity for each fund.

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – (Continued)
For the Year Ended June 30, 2017

Financial Statement Analysis

Construction of the Land Mobile Radio (LMR) system is continuing. The Long Term Evolution (LTE) system has been operational since the end of 2015 resulting in a decrease in revenues and expenditures during fiscal year 2016-2017 as the operational phase has begun. Operating revenues decreased by \$33.93 million and expenditures decreased by \$39.70 million.

Capital Assets

During fiscal year 2016-2017, the Authority continued building the LMR system and purchased equipment that will eventually be used to operate and support the LMR system. As of June 30, 2017, the Authority has capital assets in the form of telecommunication equipment under construction valued at \$149,680,064 and office furniture valued at \$132,423.

Debt Administration

The County of Los Angeles provided the Authority a cash operating loan for the funding of start-up and operational costs until a long term funding plan is adopted by the Authority members. This loan bears no interest and has no definite repayment schedule. As of June 30, 2017, the Authority has \$7,113,271 in loans payable compared to \$1,808,667 loans payable as of June 30, 2016.

Economic Factors

The Authority was established to engage in regional and cooperative planning and coordination of governmental services to establish a wide-area interoperable public safety communications network (commonly referred to as the “Los Angeles Regional Interoperable Communication Systems (LA-RICS)”). The Authority is a collaborative effort of local government, law enforcement, fire service, and health professionals with elected and appointed officials working towards the common goal to develop LA-RICS.

The Authority is the recipient of the Broadband Technology Opportunity Program (BTOP) grant administered by the Department of Commerce (DOC) to fund the LTE system, its proposed public safety broadband network (also known as the “PSBN”). The grant will continue to be administered by the DOC in fiscal year 2017-2018.

The following LA-RICS activity is anticipated for fiscal year 2017-2018:

- Status of LMR and LTE Systems

The LMR System contract was executed in August 2013 with Motorola Solutions, Inc. (Motorola) and work began in September 2013. System design and construction activities continue and it is anticipated that the LMR system will be completed and tested in 2020. The Authority anticipates that managing cash flow will be critical through this project. While the majority of the project is grant funded, the grantors require that expenditures be paid before they are reimbursed.

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – (Continued)
For the Year Ended June 30, 2017

The LTE contract was executed in March 2014. The work on the LTE system began in fiscal year 2014-2015. As Round 1 of the LTE deployment comes to an end, it has been primarily grant funded with cash flow being sufficient through closeout of Round 1 activities, as the LTE grant will continue to be managed on an advance basis. The LTE, or Public Safety Broadband Network (PSBN), has been operational since the end of 2015. Motorola and the Authority spent more than a year in the no-cost Warranty period and in May 2017, the LA-RICS Board of Directors approved an Amendment to the LTE Agreement with Motorola, which contemplated among other things, exercising the first one-year option term for Maintenance Work commencing on June 1, 2017 and expiring on May 31, 2018. The Authority is preparing to submit a PSBN Round 2 plan for augmentation to the Round 1 PSBN deployment, which includes a request to spend an additional \$34 million in remaining BTOP grant funds. If approved by the DOC, it is anticipated the grant augmentation will occur prior to the end of FY 17-18.

On February 22, 2012, Congress enacted the Middle Class Tax Relief and Job Creation Act of 2012 (Act) (HR 3630) which, among other things, assigned to public safety a 20 MHz section of spectrum known as the "D-Block" and mandated the creation of a nationwide public safety broadband network (NPSBN). The Act also created the First Responder Network Authority (FirstNet), an independent authority within the Department of Commerce's NTIA, charged to build, deploy, and operate the NPSBN in consultation with state, local, tribal and territorial entities. Effective July 1, 2013, the Authority and FirstNet executed the Spectrum Manager Lease Agreement (SMLA) for spectrum usage rights for the Authority to operate the PSBN on the 700 MHz public safety broadband spectrum. Unless an extension is executed, the SMLA expires on June 30, 2018 with the license to operate on the spectrum returning to FirstNet. On March 30, 2017, FirstNet announced the award of a contract to AT&T to build and operate the FirstNet NPSBN, which utilizes a priority and preemption solution over AT&T's network.

On September 30, 2015, the expenditure deadline for the BTOP grant was extended through fiscal year 2019-2020. The Authority requested the remaining \$37 million, of which \$2.9 million was awarded via grant augmentation for certain objectives, while other objectives were held for approval pending activities relating to action taken at the federal level in accordance with law enacted via HR 3630. Due to uncertainties of AT&T's plans for the National PSBN, the grantor felt it could not approve all objectives for use of the remaining \$37 million in BTOP funds. Thus, they only approved certain objectives which were not contingent upon AT&T's next steps in the amount of \$2.9 million.

With the \$2.9 million in grant augmentation, the BTOP award requirements were restored to the match requirement of 20%. The Authority has demonstrated that the match requirement can be met. Given the FirstNet contract award to AT&T and Governor Brown's announcement of California opting in to the FirstNet NPSBN, the Authority re-submitted its request for the remaining \$34 million augmentation, returning the award to the original \$154 million. If the additional award is approved, the Authority will be able to also meet the 20% match requirement.

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – (Continued)
For the Year Ended June 30, 2017

On December 14, 2017, the LA-RICS Board of Directors approved an Asset Transfer Agreement and corresponding Business Agreement with AT&T Corp. (AT&T) for the transfer and assignment of the Authority's right, title, and interest in the LA-RICS PSBN Round 1 deployment for use in the FirstNet NPSBN. The Business Agreement allows the Authority to accept \$12 million in connection with the Asset Transfer Agreement and contemplates the replacement of up to 3,300 routers and/or devices at the discretion of the Authority in the event the that the current routers or devices utilized by the Authority and its users are not compatible (e.g. do not provide full functionality with redundant SIM slots) with the FirstNet NPSBN. As an added measure, AT&T will also provide the Authority with an additional \$2.5 million in services to pay for replacement and installation services should the routers and SIM cards require replacement. The Business Agreement is conditioned on the review and approval of the asset transfer by the NTIA and the NOAA Grants Office, the State of California opting into the NPSBN (which occurred on December 28, 2017), and NTIA and the NOAA Grants Office approving the expansion of the LA-RICS PSBN Project (Round 2).

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens and other interested parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the County of Los Angeles, Department of Auditor-Controller, 500 West Temple Street, Room 525, Los Angeles, CA 90012.

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities
ASSETS	
Cash and investments (Note 3)	\$ 1,001,381
Interest receivable	11,711
Accounts receivable (Note 4)	8,341,484
Prepaid expenses (Note 5)	76,286
Capital assets (Note 6)	<u>149,812,487</u>
Total Assets	<u>\$ 159,243,349</u>
LIABILITIES	
Accounts payable (Note 7)	\$ 2,001,685
Loans payable (Note 8)	7,113,271
Deferred revenue (Note 9)	<u>422,165</u>
Total Liabilities	<u>9,537,121</u>
NET POSITION	
Net investment in capital assets	149,812,487
Unrestricted	(106,259)
Total Net Position	<u>\$ 149,706,228</u>

See accompanying notes to the basic financial statements.

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

<u>Functions/Programs</u>	Net (Expense) Revenue and	Change in	Net Position
	Program Revenues	Governmental	Activities
	Capital Grants and Contributions	Governmental	Activities
Governmental activities -			
Interoperable communications and safety programs	\$ 19,837,150	\$ 45,672,015	\$ 25,834,865
Total	\$ 19,837,150	\$ 45,672,015	25,834,865
 General revenues:			
Investment income	27,154		
Change in net position	25,862,019		
 Net position, beginning of year	123,844,209		
 Net position, end of year	\$ 149,706,228		

See accompanying notes to the basic financial statements.

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

BALANCE SHEET
June 30, 2017

ASSETS

Cash and investments (Note 3)	\$ 1,001,381
Interest receivable	11,711
Accounts receivable (Note 4)	8,341,484
Prepaid expense (Note 5)	76,286
Total Assets	<u>\$ 9,430,862</u>

LIABILITIES

Accounts payable (Note 7)	\$ 2,001,685
Loans payable (Note 8)	7,113,271
Deferred revenue (Note 9)	422,165
Total Liabilities	<u>9,537,121</u>

FUND BALANCE

Unassigned	(106,259)
Total Fund Balance	<u>(106,259)</u>
Total Liabilities and Fund Balance	<u>\$ 9,430,862</u>

See accompanying notes to the basic financial statements.

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION**
June 30, 2017

Fund balance - Interoperable Communications and Safety Programs (page 11) \$ (106,259)

Amounts reported for governmental activities in the statement of net position
are different because:

Capital assets used in governmental activities are not current financial resources
and therefore are not reported in the governmental balance sheet. 149,812,487

Net Position of Governmental Activities (page 9) \$ 149,706,228

See accompanying notes to the basic financial statements.

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
For the Year Ended June 30, 2017**

Revenues

Federal grants	\$ 38,714,027
Contribution from other governmental agencies	2,668,396
Local match (Note 11)	4,289,592
Interest income	27,154
Total revenues	<u>45,699,169</u>

Expenditures

Capital expenditures - telecommunication equipment	23,692,222
Consultants' services	8,591,949
County department services	4,616,834
Donated services (Note 11)	4,289,592
Insurance	1,721,160
Rentals	189,396
Utilities	171,960
Travel and transportation	146,312
Security services	32,138
Professional fees	29,050
Miscellaneous	23,375
Total expenditures	<u>43,503,988</u>
Excess of revenues over expenditures	2,195,181
Fund balance, beginning of year	<u>(2,301,440)</u>
Fund balance, end of year	<u>\$ (106,259)</u>

See accompanying notes to the basic financial statements.

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE
GOVERNMENTAL STATEMENT OF ACTIVITIES**
June 30, 2017

Net Change in Fund Balance – Governmental Funds (page 13)	\$ 2,195,181
---	--------------

Amounts reported for governmental statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the governmental statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Additions to capital assets amounted to \$23,692,222 in the current period.

23,692,222

Depreciation expense on capital assets is reported in the governmental statement of activities, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds.

(25,384)

Change in Net Position of Governmental Activities (page 10)	<u>\$ 25,862,019</u>
---	----------------------

See accompanying notes to the basic financial statements.

THE LOS ANGELES REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS June 30, 2017

NOTE 1 – REPORTING ENTITY

The Los Angeles Regional Interoperable Communications System Authority (Authority), a separate public entity, was created in May 2009 through a Joint Powers Agreement (JPA) between the County of Los Angeles, the City of Los Angeles, and eighty-five (85) other public agencies located in the greater Los Angeles Area. The Authority was created to exercise the powers shared in common by its members to engage in regional and cooperative planning and coordination of the governmental services to establish a wide-area interoperable public safety communications network.

The composition of the JPA has changed since inception. During fiscal year 2016-2017, the Authority was governed by a ten (10) member Board of Directors which served without compensation. The 10 Board members consisted of the following:

1. County of Los Angeles, Chief Executive Officer
2. County of Los Angeles, Fire Chief
3. County of Los Angeles, Sheriff
4. County of Los Angeles, Department of Health Services Director
5. Los Angeles Area Fire Chief Association
6. Los Angeles County Police Chiefs Association
7. California Contract Cities Association
8. City of Inglewood (At Large)
9. City of Covina, Police Chief (At Large)
10. City of Signal Hill (At Large)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basic Financial Statements

In accordance with Governmental Accounting Standards Board (GASB) 34, the basic financial statements consist of the following:

- Government-wide financial statements;
- Fund financial statements; and
- Notes to the basic financial statements.

Government-wide Financial Statements

The statement of net position and statement of activities display the financial activities of the Authority. These statements present the governmental activities of the Authority.

The statement of activities presents a comparison between direct expenses and program revenues for the Authority's governmental activities. Direct expenses are those that are specifically associated with a program and, therefore, are clearly identifiable to a particular program. Program revenues include capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented instead as general revenues.

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Financial Statements (Continued)

Net position is classified into the following three components: 1) net investment in capital assets; 2) restricted, and 3) unrestricted. At June 30, 2017, the net investment in capital assets balance was \$149,812,487 and the unrestricted net deficit was \$106,259. There was no restricted net position balance at June 30, 2017.

Fund Financial Statements

The accounts of the Authority are organized on the basis of funds. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related liabilities, obligations, reserves and equity segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Government resources are allocated to and for individual funds based on the purpose for which they are spent and means by which spending activities are controlled.

The Authority's General Fund is available for any authorized purpose and is used to account for and report all financial resources not accounted for and reported in another fund. Funding comes primarily from federal grants through the Department of Commerce, Broadband Technology Opportunities Program (BTOP) and the Department of Homeland Security, State Homeland Security Grant Program and contributions from the County of Los Angeles.

Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

The General Fund is accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred.

Capital Assets

Capital assets, consisting primarily of telecommunication equipment, are defined as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed. Costs include labor, materials, interest during construction, retirement plan contribution and other fringe benefits. Donated assets are recorded at estimated fair market value at the date of donation.

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Capital assets other than land are depreciated using the straight-line method over the estimated useful lives of the assets.

Fund Balances

In the fund financial statements, the governmental funds report the classification of fund balance in accordance with GASB Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions.” The reported fund balances are categorized as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the Authority is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable Fund Balance – amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories and long-term notes receivable.

Restricted Fund Balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Restrictions may effectively be changed or lifted only by changing the condition of the constraint.

Committed Fund Balance – amounts that can only be used for the specific purposes determined by a formal action of the Authority’s highest level of decision-making authority, the Authority’s Board. Commitments may be changed or lifted only by the Authority taking the same formal action that imposed the constraint originally. The underlying action that imposed the limitation needs to occur no later than the close of the fiscal year.

Assigned Fund Balance – amounts intended to be used by the Authority for specific purposes that are neither restricted nor committed. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose.

Unassigned Fund Balance – the residual classification for the Authority’s General Fund that includes amounts not contained in other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The Authority’s Board establishes, modifies, or rescinds fund balance commitments and assignments through the adoption of the budget and subsequent amendments that occur throughout the fiscal year.

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances (Continued)

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

Revenue

Recognition of revenues arising from non-exchange transactions, which include revenues from grants and contributions, is based on the primary characteristic from which the revenues are received by the Authority. Grant funds are considered earned to the extent of expenditures made under the provisions of the grants.

Deferred inflow of resources arises when potential revenues do not meet both the measurable and availability criteria for recognition in the current period. Deferred inflow of resources also arises when the Authority receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualified expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Authority has a legal claim to the resources, the liability for deferred inflow of resources is removed from the balance sheet and revenue is recognized.

Use of Estimates

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

New Pronouncements Issued and Implemented

The following summarizes recent GASB pronouncements issued and implemented during fiscal year ended June 30, 2017 and their impact, if any, on the basic financial statements:

In June 2015, GASB issued Statement No. 73, “*Accounting and Financial Reporting for Pensions Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.*” This Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The provisions of this Statement are effective for financial statements for reporting periods beginning after June 15, 2016. Implementation of the GASB Statement No. 73 did not have an impact on the Authority’s financial statements for the fiscal year ended June 30, 2017.

In June 2015, GASB issued Statement No. 74, “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*” This Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, “*Financial Reporting*

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Pronouncements Issued and Implemented (Continued)

for Postemployment Benefit Plans Other Than Pension Plans", as amended, and No. 57, "*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*". It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No 25, "*Financial Reporting for Defined Pension Plans and Note Disclosure for Defined Contribution Plans*", as amended, Statement 43, and Statement. 50, "*Pension Disclosures*". The provisions of this Statement are effective for financial statements for reporting periods beginning after June 15, 2016. Implementation of the GASB Statement No. 74 did not have an impact on the Authority's financial statements for the fiscal year ended June 30, 2017.

In August 2015, GASB issued Statement No. 77, "*Tax Abatement Disclosures*." This Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosures of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users, and the users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on government's financial position and economic condition. The provisions of this Statement are effective for financial statements for reporting periods beginning after December 15, 2015. The provisions of the GASB Statement No. 77 did not have an impact on the Authority's financial statements for the fiscal year ended June 30, 2017.

In December 2015, GASB issued Statement No. 78, "*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*." This Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, "*Accounting and Financial Reporting for Pensions*". This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided by employees of state or local government employers through a cost-sharing multiple-employer defined benefit pension plant that (1) is not a state or local government pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The provisions of this Statement are effective for financial statements for reporting periods beginning after December 15, 2015. The provisions of the GASB Statement No. 78 did not have an impact on the Authority's financial statements for the fiscal year ended June 30, 2017.

In January 2016, GASB issued Statement No. 80, "*Blending Requirements for Certain Component Units – An amendment of GASB Statement No. 14*". The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain components units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The provisions of this Statement are effective for reporting periods beginning after June 15, 2016. The provisions of the GASB Statement No. 80 did not have an impact on the Authority's financial statements for the fiscal year ended June 30, 2017.

THE LOS ANGELES REGIONAL INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Pronouncements Issued and Implemented (Continued)

In March 2016, GASB issued Statement No. 82. “*Pension Issues-An amendment of GASB Statements No. 67, No. 68, and No. 73*”. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pensions*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The provisions of the GASB Statement No. 82 did not have an impact on the Authority’s financial statements for the fiscal year ended June 30, 2017.

NOTE 3 - CASH AND INVESTMENTS

The Authority’s cash and investments are pooled and invested by the County of Los Angeles Treasurer and Tax Collector (Treasurer) and are subject to withdrawal from the pool upon demand. The Authority’s share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income earned by the pooled investments is allocated to the various funds based on the fund’s average cash and investment balance, as provided by the California Government Code Section 53647. The Authority’s cash and investment balance as of June 30, 2017 is \$1,001,381.

Investments are stated at fair value and are valued on a monthly basis. The Treasurer categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Securities classified in Level 2 of the fair value hierarchy are valued using other observable inputs such as matrix pricing techniques or based on quoted prices for assets in markets that are not active. Matrix Pricing is used to value securities based on the securities’ relationship to benchmark quoted prices. Level 3 inputs are significant unobservable inputs. Securities classified in Level 3 are valued using the income approach such as discounted cash flow techniques. Investment in an external government investment pool is not subject to reporting within the level hierarchy.

Investment policies and associated risk factors applicable to the Authority are included in the County of Los Angeles’ Comprehensive Annual Financial Report for the year ended June 30, 2017. Detailed deposit and investment risk disclosures are included in Note 5 of the County of Los Angeles’ Comprehensive Annual Financial Report.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2017 in the amount of \$8,341,484, represent \$1,291,983 receivable from the Department of Commerce for allowable Broadband Technology Opportunities Program (BTOP) expenditures, and receivable from the Department of Homeland Security for allowable State Homeland Security Grant Program (SHSGP) expenditures of \$700,000 and Urban Areas Security Initiative (UASI) Program expenditures of \$6,349,501, respectively.

NOTE 5 – PREPAID EXPENSES

Prepaid expenses as of June 30, 2017 in the amount of \$76,286, represent prepaid office rental of \$63,792 and unexpired insurance premiums of \$12,494.

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 6 – CAPITAL ASSETS

Capital assets as of June 30, 2017 consist of the following:

Governmental activities:	Balance at			Balance at
	June 30, 2016	Increases	Decreases	
Capital assets, not being depreciated:				
Construction in progress-telecommunication equipment	\$ 125,987,842	\$ 23,692,222	\$ -	\$ 149,680,064
Total capital assets, not being depreciated	<u>125,987,842</u>	<u>23,692,222</u>	<u>-</u>	<u>149,680,064</u>
Capital assets, being depreciated:				
Office furniture and fixture	193,683	-	-	193,683
Less accumulated depreciation	(35,876)	(25,384)	-	(61,260)
Total capital assets, being depreciated	<u>157,807</u>	<u>(25,384)</u>	<u>-</u>	<u>132,423</u>
Governmental activities capital assets, net	<u><u>\$ 126,145,649</u></u>	<u><u>\$ 23,666,838</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 149,812,487</u></u>

Depreciation expense for the government activities during fiscal year 2016-2017 was \$25,384.

NOTE 7 – ACCOUNTS PAYABLE

Accounts payable as of June 30, 2017 in the amount of \$2,001,685, represents accruals of vendors' invoices not yet paid as of that date.

NOTE 8 – LOANS PAYABLE

The initial funding of the Authority's start-up and operational costs was provided through a cash operating loan from the County of Los Angeles. This loan bears no interest and has no definite repayment schedule. The balance of this loan as of June 30, 2017 was \$7,113,271.

NOTE 9 – DEFERRED REVENUE

Deferred revenue as of June 30, 2017 in the amount of \$422,165, represents BTOP and UASI program expenditures of \$36,214 and \$385,951, respectively. These program expenditures have not yet been submitted for reimbursement with the funding agencies.

NOTE 10 – OFFICE LEASE

The Authority leases 8,335 square feet of office space in a building located in Monterey Park, California. The operating lease agreement is for seven (7) years commencing on October 15, 2014. Rent expense under this operating lease during fiscal year 2016-2017 was \$189,396.

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 – OFFICE LEASE (Continued)

As of June 30, 2017, future minimum payments of the operating lease are as follows:

Fiscal Year Ending June 30:

2018	\$ 195,059
2019	200,911
2020	206,938
2021	213,146
2022	<u>62,700</u>
	<u>\$ 878,754</u>

NOTE 11 – LOCAL MATCH

The BTOP grant requires the Authority to provide, from non-federal sources not less than 20% of the total project cost. Matching funds can be in the form of either cash or in-kind contributions. The Authority has recorded the in-kind contributions and donated services in the amount of \$4,289,592 for the year ended June 30, 2017.

NOTE 12 – CONTINGENT LIABILITIES

The Authority is aware of potential claims that may be filed against them. The outcome of these matters is not presently determinable, but the resolution of these matters is not expected to have a significant impact on the financial condition of the Authority.

NOTE 13 – SUBSEQUENT EVENTS

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through January 29, 2018, the date the financial statements were issued.

On February 22, 2012, Congress enacted the Middle Class Tax Relief and Job Creation Act of 2012 (Act) (HR 3630) which, among other things, assigned to public safety a 20 MHz section of spectrum known as the "D-Block" and mandated the creation of a nationwide public safety broadband network (NPSBN). The Act also created the First Responder Network Authority (FirstNet), an independent authority within the Department of Commerce's NTIA, charged to build, deploy, and operate the NPSBN in consultation with state, local, tribal and territorial entities. Effective July 1, 2013, the Authority and FirstNet executed the Spectrum Manager Lease Agreement (SMLA) for spectrum usage rights for the Authority to operate the PSBN on the 700 MHz public safety broadband spectrum. Unless an extension is executed, the SMLA expires on June 30, 2018 with the license to operate on the spectrum returning to FirstNet. On March 30, 2017, FirstNet announced the award of a contract to AT&T to build and operate the FirstNet NPSBN, which utilizes a priority and preemption solution over AT&T's network.

On September 30, 2015, the expenditure deadline for the BTOP grant was extended through fiscal year 2019-2020. The Authority requested the remaining \$37 million, of which \$2.9 million was awarded via grant augmentation for certain objectives, while other objectives were held for approval pending activities

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 13 – SUBSEQUENT EVENTS (Continued)

relating to action taken at the federal level in accordance with law enacted via HR 3630. Due to uncertainties of AT&T's plans for the FirstNet PSBN, the grantor felt it could not approve all objectives for use of the remaining \$37 million in BTOP funds. Thus, they only approved certain objectives which were not contingent upon AT&Ts next steps in the amount of \$2.9 million.

With the \$2.9 million in grant augmentation, the award was restored to the match requirement of 20%. The Authority has demonstrated that the match requirement can be met. Given the FirstNet contract award to AT&T and Governor Brown's announcement of California opting in to the FirstNet solution, the Authority re-submitted its request for the remaining \$34 million augmentation, returning the award to the original \$154 million. If the additional award is approved, the Authority will be able to meet the 20% match requirement.

On December 14, 2017, the LA-RICS Board of Directors approved an Asset Transfer Agreement and corresponding Business Agreement with AT&T Corp. (AT&T) for the transfer and assignment of the Authority's right, title, and interest in the LA-RICS PSBN Round 1 deployment for use in the FirstNet NPSBN. The Business Agreement allows the Authority to accept \$12 million in connection with the Asset Transfer Agreement and contemplates the replacement of

up to 3,300 routers and/or devices at the discretion of the Authority in the event that the current routers or devices utilized by the Authority and its users are not compatible (e.g. do not provide full functionality with redundant SIM slots) with the resultant FirstNet NPSBN. As an added measure, AT&T will also provide the Authority with an additional \$2.5 million in services to pay for replacement and installation services should the routers and SIM cards require replacement. The Business Agreement is conditioned on the review and approval of the asset transfer by the NTIA and the NOAA Grants Office, the State of California opting into the NPSBN (which occurred on December 28, 2018), and NTIA and the NOAA Grants Office approving the expansion of the LA-RICS PSBN Project (Round 2).

With respect to the LMR system, the Authority has also been notified that the State has contracted for an audit of the Authority's management of the UASI grants. Further details are unknown at this time.

REQUIRED SUPPLEMENTARY INFORMATION

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2017**

	Budget Amounts			Variance with Final Budget
	Original	Final	Actual	
Revenues:				
Federal grants	\$ 100,935,000	\$ 100,935,000	\$ 38,714,027	\$ (62,220,973)
Contribution from other governmental agencies	5,406,000	5,406,000	2,668,396	(2,737,604)
Local match (Note 11)	-	-	4,289,592	4,289,592
Interest income	-	-	27,154	27,154
Total revenue	106,341,000	106,341,000	45,699,169	(60,641,831)
Expenditures:				
Consultant' services	96,223,000	96,223,000	8,591,949	87,631,051
Donated services (Note 11)	-	-	4,289,592	(4,289,592)
County department services	8,643,000	8,643,000	4,616,834	4,026,166
Building rentals	230,000	230,000	189,396	40,604
Travel and transportation	90,000	90,000	146,312	(56,312)
Utilities	-	-	171,960	(171,960)
Security services	-	-	32,138	(32,138)
Professional fees	65,000	65,000	29,050	35,950
Supplies	130,000	130,000	-	130,000
Insurance premiums	560,000	560,000	1,721,160	(1,161,160)
Miscellaneous	350,000	350,000	23,375	326,625
Capital expenditures	50,000	50,000	23,692,222	(23,642,222)
Total expenditures	106,341,000	106,341,000	43,503,988	62,837,012
Excess of revenues over expenditures	-		2,195,181	2,195,181
Fund balance, beginning of year			(2,301,440)	(2,301,440)
Fund balance, end of year	\$ -	\$ -	\$ (106,259)	\$ (106,259)

See accompanying notes to the required supplementary information.

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

BUDGETARY DATA

The Authority adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America and utilizes an encumbrance system as a management control technique to assist in controlling expenditures and enforcing revenue provisions. Under this system, the current year expenditures are charged against appropriations. Accordingly, actual revenues and expenditures can be compared with related budget amounts without any significant reconciling items.

AUDIT OF FEDERAL AWARDS PROGRAMS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of
The Los Angeles Regional Interoperable Communications System Authority

We have audited, 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, the financial statements of the Los Angeles Regional Interoperable Communications System Authority (Authority) as of and for the year ended June 30, 2017 and the related notes to the financial statements and have issued our report thereon dated January 29, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 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. 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 the Authority'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 this Report

The purpose of this report 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 the entity'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 Authority's internal control and compliance.

BCA Watson Rice, LLP

Torrance, California

January 29, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY UNIFORM GUIDANCE**

To the Board of Directors of
The Los Angeles Regional Interoperable Communications System Authority

Report on Compliance for Each Major Federal Program

We have audited the Los Angeles Regional Interoperable Communications System Authority's (Authority) compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2017. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Authority as of and for the year ended June 30, 2017, and have issued our report thereon dated January 29, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

BCA Watson Rice, LLP

Torrance, CA
January 29, 2018

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017**

Federal Grantor/Pass-Through Grantor / Program Title	CFDA Number	Award/ Pass-through Identification Number	Total Expenditures
FEDERAL			
<u>U.S. Department of Commerce/National Telecommunications and Information Administration</u>			
<i>Direct Program</i>			
Broadband Technology Opportunities Program (BTOP) – ARRA	11.557*	NT10BIX5570158	\$ 13,902,959
<u>U.S. Department of Homeland Security</u>			
<i>Passed through the County of Los Angeles</i>			
Homeland Security Grant Program - 2015	97.067*	EMS-2015-SS-0078	700,000
<u>U.S. Department of Homeland Security</u>			
<i>Passed through the City of Los Angeles</i>			
Homeland Security Grant Program – 2012	97.067*	C-128089	18,147,518
Homeland Security Grant Program – 2013	97.067*	C-128868	966,006
Homeland Security Grant Program – 2014	97.067*	C-128870	4,997,544
			<u>24,111,068</u>
Total Federal Expenditures			<u>\$ 38,714,027</u>

* Major Program

See accompanying notes to the schedule of expenditures of federal awards.

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Los Angeles Regional Interoperable Communications System Authority and is presented using the modified accrual basis of accounting. The information in this schedule is presented in accordance with the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Authority has elected not to use the 10% de minimis indirect cost rate as covered in §200.414 Indirect (F&A) costs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 – SUBRECIPIENTS

The Authority has no sub-recipients for the year ended June 30, 2017.

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

A - Financial Statements

1) Type of auditor’s report issued:	Unmodified
2) Internal control over financial reporting:	
a) Material weakness (es) identified?	No
b) Significant deficiency (ies) identified not considered to be material weaknesses?	None reported
3) Noncompliance material to financial statements noted?	No

B - Federal Awards

1) Type of auditor’s report issued on compliance for major programs:	Unmodified
2) Internal control over major programs:	
a) Material weakness(es) identified?	No
b) Significant deficiency(ies) identified not considered material weakness(es)?	None reported
3) Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

**LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS (Continued)

B - Federal Awards (Continued)

4) Identification of major program:

CFDA Number(s)	Name of Federal Program
11.557	Broadband Technology Opportunities Program (BTOP) – ARRA
97.067	State Homeland Security Grant Program - 2015
97.067	State Homeland Security Grant Program - 2014
97.067	State Homeland Security Grant Program - 2013
97.067	State Homeland Security Grant Program - 2012

5) Dollar threshold used to distinguish between
Type A and Type B programs: \$1,161,421

6) Auditee qualified as low-risk auditee? Yes

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None reported.