

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

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

For the Year ended June 30,2014



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

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2014**

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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, 2014, and the related notes to the 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, 2014, 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) and the Required Supplementary Information on pages 4 through 7 and 20 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 16, 2015 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 16, 2015

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014**

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, 2014. 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 \$34,929,777. Cash and Investments deposited in the County Treasury Pool totaled \$1,000,045.
- Operating revenues totaled \$43,852,097 and mainly consisted of federal and state grants in the amount of \$38,653,057 and contributions from the County of Los Angeles in the amount of \$4,117,121.
- 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, 2014, the Authority had \$31,247,251 in Capital Assets consisting of telecommunication equipment under construction.

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.

We have included the government-wide financial statements for Fiscal Year 2013-2014 to reflect the acquisition of capital assets. The prior year financial statements did not include government-wide financial statements because there were no capital expenditures and the presentation of government-wide and fund based financial statements would have been the same. The acquisition of capital assets are reported as an expenditure in the fund based statements, but as an asset in the government-wide statements, in accordance with Governmental Accounting Standards Board Statement No. 34.

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014**

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 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 2013-2014 are reported under this category.

Business-type Activities – The Authority has no business-type activities during fiscal year 2013-2014.

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 2013-2014.

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.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014**

Financial Statement Analysis

Construction of the Land Mobile Radio (LMR) system began in September 2013. This resulted in expenditures increasing significantly from \$9.0 million in Fiscal Year 2012-2013 to \$43.8 million in Fiscal Year 2013-2014. The majority of the expenditures, \$31.2 million, were for the purchase of telecommunication equipment that will be used in the LMR system. Because the majority of the project is grant funded, operating revenues also increased from \$9.0 million to \$43.8 million. These increases are expected to continue until the completion of the LMR system and the Long Term Evolution (LTE) system.

Capital Assets

During Fiscal Year 2013-2014, the Authority began to build the Long Term Evolution System and purchased equipment that will eventually be used to operate and support the system. As of June 30, 2014, the Authority has capital assets in the form of telecommunication equipment under construction of \$31,247,251.

Debt Administration

The County of Los Angeles has 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, 2014, the Authority has \$1,907,976 in loans payable compared to \$2,313,974 as of June 30, 2013.

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 its proposed public safety broadband network. The grant will continue to be administered by DOC in Fiscal Year 2014-2015.

The following LA-RICS activity is anticipated for Fiscal Year 2014-2015:

- **Status of LMR and LTE systems**

The Land Mobile Radio (LMR) System contract was executed in August 2013 and LMR System work began in September 2013. The System Design Work will be ongoing through the end of Fiscal Year 2014-2015. The Authority anticipates that managing cash flow will be critical through this project. While the majority of the project is grant funded, the grantor requires that expenditures be paid before they are reimbursed.

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For the Year Ended June 30, 2014**

The Long Term Evolution (LTE) Contract was executed on February 2014. The LTE Authority anticipates that work on the LTE System will begin in Fiscal Year 2014-2015. It is anticipated that the LTE system will be primarily grant funded and cash flow will not be a concern, as the LTE grant will be managed on an advance basis. The Project has been released to order equipment for the first batch of 150 sites. The Authority installed its primary Evolved Packet Core (EPC) at LA County Fire Command and Control Facility (FCCF).

- Hiring of Project Staff

The Authority anticipates filling 3 vacancies in Fiscal Year 2014-2015. A portion of their time will be used as a cash match for the BTOP grant.

- Expansion of the Project Management Contract

The Authority anticipates further expanding the Project Management contract to support and perform environmental work for the LTE System.

- Expansion of the Broadband Engineering Contract

The contract for Broadband Engineering services was amended in February 2014. The Authority executed an LTE System contract in February 2014, and thus requires further expanding the Broadband Engineering contract to assist with build-out of the LTE System.

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, 2014

	Governmental Activities
ASSETS	
Cash and investments (Note 3)	\$ 1,000,045
Interest receivable	13,230
Due from other governments (Note 4)	26,187
Accounts receivable (Note 5)	2,643,064
Capital Assets not being depreciated - Telecommunication Equipment (Note 6)	31,247,251
Total Assets	<u>\$ 34,929,777</u>
LIABILITIES	
Accounts payable	\$ 1,039,460
Loans payable (Note 7)	1,907,976
Due to other governments (Note 8)	768,620
Total Liabilities	<u>3,716,056</u>
NET POSITION	
Net investment in capital assets	31,247,251
Unrestricted	(33,530)
Total Net Position	<u>\$ 31,213,721</u>

See accompanying notes to the basic financial statements.

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STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

	Expenses	Program Revenues Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Position Governmental Activities
<u>Functions/Programs</u>			
Governmental activities -			
Interoperable communications and safety programs	\$ 12,587,218	\$ 43,833,399	\$ 31,246,181
Total	\$ 12,587,218	\$ 43,833,399	\$ 31,246,181
		General revenues:	
		Investment income	18,698
		Change in net position	\$ 31,264,879
		Net position, beginning of year	(51,158)
		Net position, end of year	\$ 31,213,721

See accompanying notes to the basic financial statements.

**THE LOS ANGELES REGIONAL
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**BALANCE SHEET
June 30, 2014**

Assets

Cash and investments (Note 3)	\$ 1,000,045
Interest receivable	13,230
Due from other governments (Note 4)	26,187
Accounts receivable (Note 5)	2,643,064
Total assets	<u>\$ 3,682,526</u>

Liabilities and Fund Balance

Accounts payable	\$ 1,039,460
Loans payable (Note 7)	1,907,976
Due to other governments (Note 8)	768,620
Total liabilities	<u>3,716,056</u>
Fund balance – unassigned (Note 2)	<u>(33,530)</u>
Total liabilities and fund balance	<u>\$ 3,682,526</u>

See accompanying notes to the basic financial statements.

**THE LOS ANGELES REGIONAL
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RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION -
GOVERNMENTAL ACTIVITIES

June 30, 2014

Fund balance - Interoperable Communications and Safety Programs (page 10)	\$ (33,530)
Governmental capital assets are not financial resources and, therefore, are not reported in the funds	31,247,251
Net position of governmental activities (page 8)	<u>\$ 31,213,721</u>

See accompanying notes to the basic financial statements

**THE LOS ANGELES REGIONAL
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STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
For the Year Ended June 30, 2014

Revenues

Federal grants	\$ 38,653,057
Contribution from other governmental agencies	4,117,121
Local match (Note 10)	1,063,221
Interest income	18,698
Total revenues	43,852,097

Expenditures

Capital expenditures – telecommunication equipment	31,247,251
Consultants' services	7,543,278
County department services	3,847,580
Donated services (Note 10)	1,063,221
Audit	26,840
Travel and transportation	67,169
Insurance premiums	21,722
Legal services	7,546
Utilities	2,810
Miscellaneous	7,052
Total expenditures	43,834,469

Excess of revenues over expenditures	17,628
Fund balance, beginning of year	(51,158)
Fund balance, end of year	\$ (33,530)

See accompanying notes to the basic financial statements.

**THE LOS ANGELES REGIONAL
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NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

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 Los Angeles County, the City of Los Angeles, and eighty-three (83) 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 Authority is governed by a seventeen (17) member Board of Directors which serves without compensation. The 17 Board members consists 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. City of Los Angeles, City Administrative Officer
6. City of Los Angeles, Fire Chief
7. City of Los Angeles, Police Chief
8. City of Los Angeles, Chief Legislative Analyst
9. Los Angeles Unified School District Police Chief
10. City of Long Beach
11. Los Angeles Area Fire Chief Association
12. Los Angeles County Police Chiefs Association
13. California Contract Cities Association
14. City of Torrance (At Large)
15. City of Culver City, Police Chief (At Large)
16. City of Covina, Police Chief (At Large)
17. City of Burbank Water & Power (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.

**THE LOS ANGELES REGIONAL
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NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Net position is classified into the following three components: 1) net investment in capital assets; 2) restricted and 3) unrestricted. At June 30, 2014, the net investment in capital assets net position balances were \$31,247,251 and the unrestricted net position balances were deficit \$33,530.

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.

**THE LOS ANGELES REGIONAL
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NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances (Continued)

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.

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.

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NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Pronouncements

In March 2012, GASB issued Statement No. 65, “*Items Previously Reported as Assets and Liabilities.*” This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements of deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limits the use of the term deferred in the financial statement presentations. The implementation of GASB 65 for the fiscal year ended June 30, 2014 did not have an impact on the Authority’s financial statements.

NOTE 3 - CASH AND INVESTMENTS

The Authority’s cash and investments are pooled and invested by the County 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 cash and investment balance as of June 30, 2014 is \$1,000,045.

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, 2014. Detailed deposit and investment risk disclosures are included in Note 5 of the County of Los Angeles’ Comprehensive Annual Financial Report.

NOTE 4 – DUE FROM OTHER GOVERNMENTS

Due from other governments as of June 30, 2014 in the amount of \$26,187, represents the Authority’s cash held by the County for year-end activities after June 30, 2014. Any cash increases or decreases in the Authority’s fund are posted in due from/due to other government’s fund during the year end accounting period and then posted to cash at the beginning of new fiscal year.

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2014 in the amount of \$2,643,064, represents a \$2,569,530 receivable from the Department of Commerce for allowable Broadband Technology Opportunities Program (BTOP) expenditures and a \$73,534 receivable from the Department of Homeland Security for allowable State Homeland Security Grant Program expenditures.

**THE LOS ANGELES REGIONAL
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NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 6 – CAPITAL ASSETS

Capital assets as of June 30, 2014 consist of the following:

	Balance at June 30, 2013	Increases	Decreases	Balance at June 30, 2014
Capital assets, not being depreciated -				
Construction in progress-telecommunication equipment	\$ -	\$31,247,251	\$ -	\$31,247,251
Total capital assets, not being depreciated	\$ -	\$31,247,251	\$ -	\$31,247,251

NOTE 7 – 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, 2014 was \$1,907,976.

NOTE 8 – DUE TO OTHER GOVERNMENTS

Due to other governments as of June 30, 2014 in the amount of \$768,620, represents unpaid billings from the LA County Departments for various services extended to the Authority.

NOTE 9 – OFFICE LEASE

The Authority occupies, rent free, 5,093 square feet of space in a building located in Monterey Park, California leased by the Los Angeles County Sheriff’s Department. The lease expense is absorbed by the Los Angeles County Sheriff’s Department.

NOTE 10 – LOCAL MATCH

The BTOP grant requires the Authority to provide, from non-federal sources not less than 20 percent 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 \$1,063,221 for the year ended June 30, 2014.

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NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 11 – COMMITMENTS AND CONTINGENCIES

In May, 2011 the Authority received notification that the Long Term Evolution Activities (LTE) portion of the Broadband Technology Opportunities Program (BTOP) grant was being partially suspended. This was a result of the President of the United States signing into law the “Middle Class Tax Relief and Job Creation Act of 2013” (the Act). Title VI of the Act requires the Federal Communications Commission (FCC) to reallocate the use of the 700 Mhz D block spectrum. However, in July 2014, the Authority was able to execute a spectrum lease agreement for use of the 700 Mhz D block spectrum. The partial suspension was lifted by National Telecommunications and Information Administration on August 9, 2014, extending the performance period of the BTOP award through September 30, 2015.

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 16, 2015, the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

**THE LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	Budget Amounts			Variance with Final Budget
	Original	Final	Actual	
Revenues:				
Federal grants	\$127,560,000	\$128,260,000	\$ 38,653,057	\$ (89,606,943)
Contribution from other governmental agencies	13,174,000	13,174,000	4,117,121	(9,056,879)
Local Match (Note 10)	-	-	1,063,221	1,063,221
Interest income	-	-	18,698	18,698
Total revenue	140,734,000	141,434,000	43,852,097	(97,581,903)
Expenditures:				
Consultant' services	127,976,000	128,676,000	7,543,278	121,132,722
County department services	4,998,000	4,998,000	3,847,580	1,150,420
Donated services (Note 10)	-	-	1,063,221	(1,063,221)
Travel and transportation	200,000	200,000	67,169	132,831
Audit	140,000	140,000	26,840	113,160
Supplies	150,000	150,000	-	150,000
Insurance premiums	-	-	21,722	(21,722)
Legal services	-	-	7,546	(7,546)
Utilities	-	-	2,810	(2,810)
Miscellaneous	120,000	120,000	7,052	112,948
Capital expenditures - Telecomm Equipment	7,150,000	7,150,000	31,247,251	(24,097,251)
Total expenditures	140,734,000	141,434,000	43,834,469	97,599,531
Excess of revenues over expenditures			17,628	17,628
Fund balance, beginning of year			(51,158)	(51,158)
Fund balance, end of year	\$ -	\$ -	\$ (33,530)	\$ (33,530)

See accompanying notes to required supplementary information.

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014

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, 2014 and the related notes to the financial statements and have issued our report thereon dated January 16, 2015.

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.

Restriction on Use

This report is intended solely for the information and use of the Board of Directors, management and others within the Authority, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BCA Watson Rice, LLP

Torrance, California
January 16, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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) Circular A-133 *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, 2014. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

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 OMB Circular A-133, 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 OMB Circular A-133.

Restriction on Use

This report is intended solely for the information and use of the Board of Directors, management and others within the Authority, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties


Torrance, California
January 16, 2015

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014**

Federal Grantor/Pass-Through Grantor / Program Title	CFDA Number	Grant Amount	Grant Period	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*	\$154,640,000	9/1/10 - 8/30/15	\$ 4,182,083
<u>U.S. Department of Homeland Security</u>				
<i>Passed through the County of Los Angeles</i>				
Homeland Security Grant Program - 2010	97.067*	\$ 5,315,000	10/28/10 - 6/10/14	5,133,187
<u>U.S. Department of Homeland Security</u>				
<i>Passed through the City of Los Angeles</i>				
Homeland Security Grant Program – 2009	97.067*	\$ 16,929,838	9/30/09 - 1/31/14	16,929,838
Homeland Security Grant Program – 2010	97.067*	\$ 17,433,736	10/28/10 – 6/10/14	<u>12,407,949</u>
Subtotal				<u>29,337,787</u>
Total Federal Expenditures				<u>\$ 38,653,057</u>

* Major Program

See accompanying notes to schedule of expenditures of federal awards.

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014**

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 requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2014**

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 OMB A-133.510(a)? | No |

**LOS ANGELES REGIONAL
INTEROPERABLE COMMUNICATIONS SYSTEM AUTHORITY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2014**

SECTION 1 – 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 – 2010
97.067	State Homeland Security Grant Program – 2009

5) Dollar threshold used to distinguish between
Type A and Type B programs: \$300,000

6) Auditee qualified as low-risk auditee? No

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.