

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

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

For the Year ended June 30,2019



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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, 2019**

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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, 2019, 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, 2019, 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 7) and the Required Supplementary Information (page 22) 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 February 18, 2020 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
February 18, 2020

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2019**

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, 2019. 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 \$112,826,415. Cash and Investments deposited in the County Treasury Pool totaled \$5,325,083.
- Program revenues totaled \$25,902,534 and mainly consisted of federal grants in the amount of \$24,511,409, communication services of \$811,033, and local match grant contributions in the amount of \$570,967.
- The Authority has a cash operating loan balance totaling \$12,141,685 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, 2019, the Authority had \$94,908,044 in Capital Assets consisting of telecommunication equipment under construction valued at \$93,438,584, telecommunications equipment valued at \$1,387,807, and office furniture valued at \$81,653.

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 giving rise to the changes occur, regardless of the timing of related cash flows. Therefore, revenues and

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2019**

expenses are reported in these statements for some items that affect cash flows in future periods, i.e. 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 2018-2019 are reported under this category.

Business-type Activities – The Authority has no business-type activities during fiscal year 2018-2019.

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 2018-2019.

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.

Financial Statement Analysis

During fiscal year 2018-2019, operating revenues decreased by \$7.34 million and operating expenditures increased by \$0.83 million. Federal grant revenue increased by \$5.87 million and

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2019**

contributions from local governments decreased by \$7.77 million. During the fiscal year ended June 30, 2019, no contributions were received from local governments.

Capital Assets

During fiscal year 2018-2019, the Authority continued building the Land Mobile Radio (LMR) system and purchased equipment that will eventually be used to operate and support the LMR system. As of June 30, 2019, the Authority had capital assets in the form of telecommunication equipment under construction valued at \$93,438,584, telecommunication equipment valued at \$1,387,806 and office furniture valued at \$81,654.

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, 2019, the Authority had \$12,141,685 in loans payable compared to \$5,141,685 loans payable as of June 30, 2018.

Economic Factors

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 2019-2020.

The following LA-RICS activity is anticipated for fiscal year 2019-2020:

- **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.

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 Authority is working with member agencies to finalize router selection and acceptance and with AT&T to finalize payment of \$2.5 million in services. The Business Agreement contains two payment triggers, \$6 million paid at the successful transfer of assets from PSBN Round 1, with another \$3 million payable at the delivery of 13 out of 26 sites from Round 2 as approved by NTIA and the NOAA and the final \$3 million payable at the delivery of the final 13 out of 26 sites with grantor approval. The \$6 million was received during fiscal year 2017-2018.

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For the Year Ended June 30, 2019**

With the successful transfer of Round 1 assets to AT&T, the focus of LTE-related activities is on the deployment of Round 2. On February 15, 2019, the Authority submitted the PSBN Round 2 Project Implementation Plan (PIP) to NTIA and NOAA for consideration. On June 25, 2019 NTIA and NOAA approved two PIP objectives for a total of \$32 million in grant revenue. The BTOP grant has a 20% match requirement which will be satisfied with land value/in-kind match. The LTE grant will continue to be managed on an advance basis. The LA-RICS Authority continues to work with AT&T to transition the sites from Round 1 asset transfer to the FirstNet Core.

On December 11, 2019, the Authority submitted a request for funding augmentation to NTIA and NOAA requesting \$3,506,048 in additional funding to support completion of the construction of the 26 sites. This request for funding augmentation captures funds required to complete the 26 site deployment within a compressed timeframe. It is expected that formal approval of grant fund augmentation is forthcoming.

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
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STATEMENT OF NET POSITION
June 30, 2019

	Governmental Activities
ASSETS	
Cash and investments (Note 3)	\$ 5,325,083
Interest receivable	24,309
Accounts receivable (Note 4)	12,490,210
Prepaid expenses	78,769
Capital assets (Note 5)	94,908,044
Total Assets	<u>\$ 112,826,415</u>
 LIABILITIES	
Accounts payable (Note 6)	\$ 2,456,364
Loans payable (Note 7)	12,141,685
Deferred revenue (Note 8)	6,534,308
Total Liabilities	<u>21,132,357</u>
 NET POSITION	
Net investment in capital assets	94,908,044
Unrestricted	(3,213,986)
Total Net Position	<u>\$ 91,694,058</u>

See accompanying notes to the basic financial statements.

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STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

	Expenses	Program Revenues <u>Capital Grants and Contributions</u>	Net (Expense) Revenue and Change in Net Position <u>Governmental Activities</u>
<u>Functions/Programs</u>			
Governmental activities -			
Interoperable communications and safety programs	\$ 17,037,007	\$ 25,902,534	\$ 8,865,527
Total	\$ 17,037,007	\$ 25,902,534	8,865,527
		General revenues:	
		Investment income	149,809
		Change in net position	<u>9,015,336</u>
		Net position, beginning of year	<u>82,678,722</u>
		Net position, end of year	<u><u>\$ 91,694,058</u></u>

See accompanying notes to the basic financial statements.

**THE LOS ANGELES REGIONAL
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BALANCE SHEET
June 30, 2019

ASSETS

Cash and investments (Note 3)	\$ 5,325,083
Interest receivable	24,309
Accounts receivable (Note 4)	12,490,210
Prepaid expenses	78,769
Total Assets	<u>\$ 17,918,371</u>

LIABILITIES

Accounts payable (Note 6)	\$ 2,456,364
Loans payable (Note 7)	12,141,685
Deferred revenue (Note 8)	6,534,308
Total Liabilities	<u>21,132,357</u>

NET POSITION

Unrestricted	<u>(3,213,986)</u>
Total Net Position	<u>(3,213,986)</u>
Total Liabilities and Fund Balance	<u>\$ 17,918,371</u>

See accompanying notes to the basic financial statements.

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RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION

June 30, 2019

Fund balance - Governmental Funds (page 10) \$ (3,213,986)

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.

94,908,044

Net Position of Governmental Activities (page 8)

\$ 91,694,058

See accompanying notes to the basic financial statements.

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STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
For the Year Ended June 30, 2019

Revenues

Federal grants	\$ 24,511,409
Communication services	811,033
Local match (Note 10)	570,967
Interest income	149,809
Others	9,125
Total revenues	<u>26,052,343</u>

Expenditures

Capital expenditures - telecommunication equipment	15,003,696
Consultants' services	10,705,525
County department services	4,557,675
Donated services (Note 10)	570,967
Security services	208,219
Rentals	200,665
Permit and license fees	182,670
Insurance	86,386
Utilities	66,711
Travel and transportation	40,159
Professional fees	29,700
Miscellaneous	15,995
Total expenditures	<u>31,668,368</u>
Deficit of revenues over expenditures	(5,616,025)
Fund balance, beginning of year	<u>2,402,039</u>
Fund balance, end of year	<u>\$ (3,213,986)</u>

See accompanying notes to the basic financial statements.

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RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE
GOVERNMENTAL STATEMENT OF ACTIVITIES
June 30, 2019

Net Change in Fund Balance – Governmental Funds (page 12) \$ (5,616,025)

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 \$15,003,696 for the current period. 15,003,696

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. (372,335)

Change in Net Position of Governmental Activities (page 9) \$ 9,015,336

See accompanying notes to the basic financial statements.

**THE LOS ANGELES REGIONAL
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NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2019

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 2018-2019, 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
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NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2019

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, 2019, the net investment in capital assets balance was \$94,908,044 and the unrestricted net position was negative \$3,213,986. There was no restricted net position balance at June 30, 2019.

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 reported at acquisition value rather than estimated fair market value at the date of donation.

**THE LOS ANGELES REGIONAL
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NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2019

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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2019

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, 2019 and their impact, if any, on the basic financial statements:

In November 2016, GASB issued **Statement No. 83**, “*Certain Asset Retirement Obligations*” – The primary purpose of this Statement is to address accounting and financial reporting for certain asset retirement obligations (AROs). This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This statement requires that recognition occur when the liability is both incurred and reasonably estimable. This statement did not have a material impact on the Authority’s financial statements.

In April 2018, GASB issued **Statement No. 88**, “*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*”. The objective of this Statement is to improve the information that is disclosed in the notes to the governmental financial statements related to debt, including direct borrowings and direct placements, and requires additional essential information related to debt be disclosed in notes to financial statements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The implementation of GASB Statement No. 88 did not have an impact on the Authority’s financial statements.

**THE LOS ANGELES REGIONAL
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NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2019

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, 2019 is \$5,325,083.

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, 2019. 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, 2019 in the amount of \$12,490,210, represents \$913,910 receivable from the Department of Commerce for allowable Broadband Technology Opportunities Program (BTOP) expenditures, receivable from the Department of Homeland Security for allowable Urban Areas Security Initiative (UASI) Program expenditures of \$11,261,056, and receivable from AT&T for reimbursement of expenditures of the Business Services Agreement in the amount \$315,244.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

NOTE 5 – CAPITAL ASSETS

Capital assets as of June 30, 2019 consist of the following:

Governmental activities:	Balance at June 30, 2018	Increases	Decreases	Balance at June 30, 2019
Capital assets, being depreciated:				
Telecommunication Equipment	\$ 2,081,707	\$ -	\$ -	\$ 2,081,707
Office furniture and fixture	193,683	-	-	193,683
Total	2,275,390			2,275,390
Lesss accumulated depreciation	(433,595)	(372,335)	-	(805,930)
Total capital assets, being depreciated	1,841,795	(372,335)	-	1,469,460
Capital assets, not being depreciated:				
Construction in progress-telecommunication equipment	78,434,888	15,003,696	-	93,438,584
Total capital assets, not being depreciated	78,434,888	15,003,696	-	93,438,584
Governmental activities capital assets, net	\$ 80,276,683	\$ 14,631,361	\$ -	\$ 94,908,044

Depreciation expense for the government activities during fiscal year 2018-2019 was \$372,335.

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable as of June 30, 2019 in the amount of \$2,456,364, consists of \$1,930,909 accruals of vendors' invoices not yet paid as of that date and \$525,455 settlement claimed by Southern California Edison Company (SCE). The claim was for fiber services and related taxes and fees provided to cell on wheels (COWS) units stationed at nine SCE sites. The 9 COWS were deployed to SCE sites as part of the Round 1 Public Safety Broadband Network buildout by the Authority.

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, 2019 was \$12,141,685.

NOTE 8 – DEFERRED REVENUE

Deferred revenue as of June 30, 2019 in the amount of \$6,534,308 represents UASI program expenditures. These program expenditures have not yet been submitted for reimbursement with the funding agency.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

NOTE 9 – 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 2018-2019 was \$200,665.

As of June 30, 2019, future minimum payments of the operating lease are as follows:

Fiscal Year Ending June 30:	
2020	206,938
2021	213,146
2022	62,700
	\$ 482,784

NOTE 10 – 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 \$570,967 for the year ended June 30, 2019.

NOTE 11 – 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 12 – SUBSEQUENT EVENTS

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through February 18, 2020, the date the financial statements were issued.

The Business Agreement with AT&T contains two payment triggers. The first payment, \$6 million, was paid at the successful transfer of assets from PSBN Round 1. Another \$3 million will be payable at the delivery of 13 out of 26 sites from Round 2 as approved by NTIA and the NOAA and the final \$3 million will be payable at the delivery of the final 13 out of 26 sites with grantor approval.

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, 2019

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Federal grants	\$ 75,118,000	\$ 75,118,000	\$ 24,511,409	\$ (50,606,591)
Contribution from other governmental agencies	3,000,000	3,000,000	-	(3,000,000)
Communication services	2,500,000	2,500,000	811,033	(1,688,967)
Local match	-	-	570,967	570,967
Interest income	-	-	149,809	149,809
Others	-	-	9,125	9,125
Total revenue	<u>80,618,000</u>	<u>80,618,000</u>	<u>26,052,343</u>	<u>(54,565,657)</u>
Expenditures:				
Consultant' services	69,081,289	69,081,289	10,705,525	58,375,764
County department services	9,400,011	9,400,011	4,557,675	4,842,336
Donated services	-	-	570,967	(570,967)
Building rentals	241,614	241,614	200,665	40,949
Travel and transportation	350,500	350,500	40,159	310,341
Insurance premiums	444,000	444,000	86,386	357,614
Professional fees	29,700	29,700	29,700	-
Supplies	120,000	120,000	-	120,000
Miscellaneous	930,886	930,886	473,595	457,291
Capital expenditures -Furnitures	20,000	20,000	-	20,000
Capital expenditures -Telecommunication Equipment	-	-	15,003,696	(15,003,696)
Total expenditures	<u>80,618,000</u>	<u>80,618,000</u>	<u>31,668,368</u>	<u>48,949,632</u>
Excess of revenues over expenditures	-	-	(5,616,025)	(5,616,025)
Fund balance, beginning of year	-	-	2,402,039	2,402,039
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,213,986)</u>	<u>\$ (3,213,986)</u>

See accompanying notes to the required supplementary information.

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019

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, 2019 and the related notes to the financial statements and have issued our report thereon dated February 18, 2020.

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
February 18, 2020

**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, 2019. 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, 2019.

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, 2019, and have issued our report thereon dated February 18, 2020, 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
February 18, 2020

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2019

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	\$ 5,877,860
<u>U.S. Department of Homeland Security</u>			
<i>Passed through the City of Los Angeles</i>			
Homeland Security Grant Program – 2016	97.067*	C-130810	3,821,788
Homeland Security Grant Program – 2017	97.067*	C-131396	14,811,761
Subtotal			<u>18,633,549</u>
Total Federal Expenditures			<u>\$ 24,511,409</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, 2019

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, 2019.

NOTE 3 – RELATIONSHIP TO THE BASIC FINANCIAL STATEMENTS

Amounts reported in the accompanying Schedule agree to amounts reported within the Authority's basic financial statements.

NOTE 4 – CONTINGENCIES

Under the terms of federal grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2019**

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, 2019**

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 - 2017
97.067	State Homeland Security Grant Program - 2016

5) Dollar threshold used to distinguish between
Type A and Type B programs: \$750,000

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.