NORTH NET TRAINING AUTHORITY

Basic Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

NORTH NET TRAINING AUTHORITY

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KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

Independent Auditors' Report

The Board of Directors
North Net Training Authority:

We have audited the accompanying financial statements of North Net Training Authority (the Authority), as of and for the years ended June 30, 2016 and 2015, 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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 North Net Training Authority as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG

Other Matter

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

KPMG LLP

Irvine, California
December 20, 2016

NORTH NET TRAINING AUTHORITY

Statements of Net Position

June 30, 2016 and 2015

Assets		**2016**	**2015**
Current assets:			
Investments	$	343,735	255,154
Accounts receivable		18,000	31,478
Interest receivable		854	1,205
Total current assets		362,589	287,837
Noncurrent assets:			
Capital assets:			
Land		202,730	202,730
Building, structures, and improvements		1,826,540	1,826,540
Machinery and equipment		162,662	150,174
Construction in progress		—	12,488
Total capital assets		2,191,932	2,191,932
Less accumulated depreciation		(900,327)	(807,825)
Capital assets, net		1,291,605	1,384,107
Total noncurrent assets		1,291,605	1,384,107
Total assets		1,654,194	1,671,944
Liabilities			
Current liabilities:			
Accounts payable		35,087	66,718
Accrued payroll		2,003	1,476
Unearned revenues		12,785	—
Total current liabilities		49,875	68,194
Net Position			
Net investment in capital assets		1,291,605	1,384,107
Unrestricted		312,714	219,643
Total net position	$	1,604,319	1,603,750

See accompanying notes to basic financial statements.

NORTH NET TRAINING AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2016 and 2015

		2016	2015
Operating revenue:			
Member agency contributions	$	548,245	386,045
Fire training fees		86,131	80,324
Other revenue		23,976	23,798
Total operating revenue		658,352	490,167
Operating expenses:			
Salaries and wages reimbursements		244,078	118,263
Instructional training		144,366	79,308
Administration and overhead		53,383	36,005
Office supplies and maintenance		102,747	74,805
Other operating		98,084	85,594
Depreciation		92,502	44,704
Total operating expenses		735,160	438,679
Operating income (loss)		(76,808)	51,488
Nonoperating revenue:			
Interest income		3,510	3,559
Grant		73,867	6,000
Total nonoperating revenue		77,377	9,559
Change in net position		569	61,047
Net position at beginning of year		1,603,750	1,542,703
Net position at ending of year	$	1,604,319	1,603,750

See accompanying notes to basic financial statements.

NORTH NET TRAINING AUTHORITY

Statements of Cash Flows

Years ended June 30, 2016 and 2015

		2016	2015
Cash flows from operating activities:			
Receipts from member agencies	$	548,245	386,045
Receipts from users for training		108,826	70,414
Receipts from other revenue		27,544	2,230
Payments to suppliers for goods and services		(376,828)	(231,459)
Payments for wages and other benefits reimbursements		(243,551)	(117,317)
Payments to City of Anaheim for administration and overhead		(53,383)	(36,005)
Net cash provided by operating activities		10,853	73,908
Cash flows from noncapital financing activities:			
Grant receipts		73,867	—
Net cash provided by noncapital financing activities		73,867	—
Cash flows from capital and related financing activities:			
Capital purchases		—	(656,632)
Capital grant		—	6,000
Net cash used in capital and related financing activities		—	(650,632)
Cash flows from investing activities:			
Purchase of investment securities		(187,285)	—
Proceeds from sale and maturity of investment securities		100,000	570,428
Interest received		2,565	6,296
Net cash provided by (used in) investing activities		(84,720)	576,724
Change in cash		—	—
Cash at beginning of year		—	—
Cash at end of year	$	—	—
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	$	(76,808)	51,488
Adjustment to reconcile operating (loss) to net cash provided by operating activities:			
Depreciation		92,502	44,704
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable		13,478	(31,478)
Accounts payable		(31,631)	8,248
Wages payable		527	946
Unearned revenues		12,785	—
Net cash provided by operating activities	$	10,853	73,908
Schedule of noncash investing activity:			
Increase in fair value of investments	$	1,296	1,687

See accompanying notes to basic financial statements.

(1) Summary of Accounting Policies

(a) Organization

On October 5, 1976, the North Net Training Authority (the Authority) was created by a Joint Exercise of Powers Agreement (JPA) to construct, operate, and maintain a joint use of a consolidated Training Center and Training Center Equipment. The Authority commenced operation in August 1978.

The following entities are members of the Authority: City of Anaheim (the City), City of Garden Grove, and the City of Orange. Members of the Board of Directors (the Board) consist of one voting Board member from each city and an alternate appointed by each city's respective governing body.

Public entities within the County of Orange, California (the County) may receive services from the authority by executing an agreement and paying a "fair share" contribution determined annually. Each year the Board adopts a budget in order to determine the cost of services to the participating agencies.

All personnel of the Authority are employees of the City. The Authority and the City have entered into an agreement whereby the Authority is responsible for all costs relating to the City employees that are personnel of the Authority. In addition to salary costs, the Authority is contractually responsible for the cost of benefits for the City employees who work with the Authority. For the years ended June 30, 2016 and 2015, the Authority paid the City $35,046 and $16,563 for pension, $2,264 and $2,545 for workers' compensation costs, respectively.

(b) Basis of Presentation

The Authority's financial statements are prepared in conformity with U.S. generally accepted accounting principles. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

The financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the statement of net position. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recognized when incurred.

Operating revenue is those revenues that are generated from the Authority's primary operations. All other revenue is reported as nonoperating revenues. Operating expenses are those expenses that are essential to the Authority's primary operations. All other expenses are reported as nonoperating expenses.

(c) Fair Value Measurements

The Authority uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine the fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for the Authority's various financial instruments. In cases where quoted market prices are not available, fair

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values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The Authority groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability. This valuation is accomplished using management's best estimate of fair value, with inputs into the determination of fair value that require significant management judgment or estimation. The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

(d) Investments

The Authority participates in investment pool managed by the City, which is an external investment pool and is not Security Exchange Commission-registered. The Authority's investment in the pool is carried at fair value based on the value of each participating unit and are accordingly not leveled in the fair value hierarchy.

(e) Capital Assets

Capital assets are defined as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated assets are valued at fair value on the date, which they were contributed. The costs of normal maintenance and repairs that do not add value to the assets or materially extend the useful life are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Building, structures, and improvements	5–85 years
Machinery, equipment, and software	5–10 years

(f) Net Position

Net position represents the difference between all other elements in the statement of net position and should be displayed in the following three components:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

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Unrestricted – This component of net position is the amount the assets, liabilities, and that are not included in the determination of net investment in capital assets or the restricted component of net position.

At June 30, 2016 and 2015, there was no restricted net position for the Authority. When both restricted and unrestricted resources are available for use, generally it is the Authority’s policy to use restricted resources first, and then unrestricted resources when they are needed.

(g) Use of Estimates

The preparation of the basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

(2) Investments

The Authority’s investment policy allows all funds to be invested with the City. As of June 30, 2016 and 2015, the Authority had $343,735 and $255,154 invested in the City’s pooled investment fund, respectively. The City’s investment policy limits the permitted investments in the investment pool to the following: Obligations of the U.S. government, federal agencies, and government-sponsored enterprises; medium-term corporate notes; certificates of deposit; bankers’ acceptances; commercial paper; LAIF, repurchase agreements; reverse repurchase agreements; and money market mutual funds. As of June 30, 2016 and 2015, the City’s pooled investment fund has been reviewed by Standard and Poor’s Corporation and received a credit rating of AAf/S1 for both years and has a weighted average maturity of 1.54 years and 1.55 years, respectively.

(3) Accounts Receivable

Accounts receivable at June 30, 2016 and 2015 consisted of the following:

		2016	2015
Orange City Fire Department for training center assessment	$	18,000	18,000
Various – Fire training fees		—	9,910
Various – Facility rental		—	1,295
Various – miscellaneous reimbursements		—	2,273
Total	$	18,000	31,478

(4) Member Agency Contributions

The Authority collects fair share contributions from its member agencies. The Members' "Fair Share Percentage" will be determined every calendar year on January 1. The percentage is calculated by dividing the total number of sworn firefighter positions of all Members by the number of sworn firefighter positions of each Member as same existed on January 1 of each calendar year. Once determined for any fiscal year, the member fair share percentage shall remain unchanged. The City of Anaheim bills Member agencies on a quarterly basis beginning July 1 of each year. The percentages and amounts of the member agency contributions consisted of the following for the fiscal years ended June 30, 2016 and 2015:

	2016		2015	
	Amount	**Percentage**	**Amount**	**Percentage**
Fair share contributions:				
City of Anaheim	$ 245,451	49.60%	$ 173,620	49.60%
City of Garden Grove	108,870	22.00	77,009	22.00
City of Orange	140,541	28.40	99,412	28.40
	494,862	100.00%	350,041	100.00%
Administrative fees:				
City of Anaheim	26,478		17,858	
City of Garden Grove	11,744		7,921	
City of Orange	15,161		10,225	
Total fair share contributions	$ 548,245		$ 386,045	

(5) Fire Training Fees

The Authority collects fire training fees from nonsubscribing agencies for training services provided. Fire training fees were $86,131 and $80,324 for the fiscal years ended June 30, 2016 and 2015, respectively.

(6) Other Revenues

Other revenues consisted of facility rental and other miscellaneous revenues. Other revenues was $23,976 and $23,798 for the fiscal years ended June 30, 2016 and 2015, respectively.

(7) Grant Revenues

The Authority received $73,867 reimbursements for grant-funded training classes for fiscal year ended June 30, 2016 and $6,000 for equipment purchase for fiscal year ended June 30, 2015.

(8) Capital Assets

Capital asset activities for the year ended June 30, 2016 were as follows:

	Beginning balance	Additions	Transfers	Ending balance
Nondepreciable assets:				
Land	$ 202,730	—	—	202,730
Construction in progress	12,488	—	(12,488)	—
Total	215,218	—	(12,488)	202,730
Depreciable assets:				
Building, structures, and improvements	1,826,540	—	—	1,826,540
Machinery and equipment	150,174	—	12,488	162,662
Total	1,976,714	—	12,488	1,989,202
Accumulated depreciation:				
Building, structures, and improvements	(737,890)	(84,740)	—	(822,630)
Machinery and equipment	(69,935)	(7,762)	—	(77,697)
Total	(807,825)	(92,502)	—	(900,327)
Total depreciable assets, net	1,168,889	(92,502)	12,488	1,088,875
Total capital assets, net	$ 1,384,107	(92,502)	—	1,291,605

Capital asset activities for the year ended June 30, 2015 were as follows:

	Beginning balance	Additions	Deletions	Ending balance
Nondepreciable assets:				
Land	$ 202,730	—	—	202,730
Construction in progress	47,914	661,660	(697,086)	12,488
Total	250,644	661,660	(697,086)	215,218
Depreciable assets:				
Building, structures, and improvements	1,111,453	18,001	697,086	1,826,540
Machinery and equipment	144,273	5,901	—	150,174
Total	1,255,726	23,902	697,086	1,976,714

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	Beginning balance	Additions	Deletions	Ending balance
Accumulated depreciation:				
Building, structures, and improvements	$ (700,805)	(37,085)	—	(737,890)
Machinery and equipment	(62,316)	(7,619)	—	(69,935)
Total	(763,121)	(44,704)	—	(807,825)
Total depreciable assets, net	492,605	(20,802)	697,086	1,168,889
Total capital assets, net	$ 743,249	640,858	—	1,384,107

(9) Administration of the JPA

Administrative services required for the operation of the Training Center, management, and administration of the personnel are administered by the City of Anaheim. For fiscal years ended June 30, 2016 and 2015, the administration fee paid to the City was $53,383 and $36,005, respectively, per the JPA Agreement.

(10) Risk Management

The Authority is self-insured for general liability claims. The amount of claims paid out is distributed among each member for reimbursement. In the event an unfunded liability arises, the contribution of each member shall be in an amount equal to the total unfunded liability multiplied by that member's percentage of budget. At June 30, 2016 and 2015, the Authority did not have any claims outstanding nor did the Authority pay any claims during the years then ended.

(11) Commitments and Contingencies

Lawsuits

In the ordinary course of business, the Authority is subject to various claims, investigations, proceedings, tax assessments, and legal actions from time to time arising out of the conduct of the Authority's business. Management believes that, based on current knowledge, the outcome of any such pending matters will not have a material adverse effect on the Authority's financial position.

Commitments

The Authority does not have any major contractual commitments or contingencies as of June 30, 2016 and 2015.