



NORTH NET TRAINING AUTHORITY

Basic Financial Statements

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

NORTH NET TRAINING AUTHORITY

Table of Contents

	Page(s)
Independent Auditors' Report	1-2
Basic Financial Statements:	
Statements of Net Position	3
Statements of Revenue, Expenses, and Changes in Net Position	4
Statements of Cash Flows	5
Notes to Basic Financial Statements	6-13



KPMG LLP
Suite 1500
550 South Hope Street
Los Angeles, CA 90071-2629

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, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements for the years then ended 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, 2020 and 2019, 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.



Other Matter

Required Supplementary Information

Management has omitted management's discussion and analysis that U.S. generally accepted accounting principles 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

Los Angeles, California
November 19, 2020

NORTH NET TRAINING AUTHORITY

Statements of Net Position

June 30, 2020 and 2019

Assets	2020	2019
Current assets:		
Investments	\$ 1,615,127	1,620,698
Accounts receivable	12,229	39,418
Interest receivable	9,504	4,633
Total current assets	1,636,860	1,664,749
Noncurrent assets:		
Capital assets:		
Land	191,623	191,623
Building, structures, and improvements	2,118,262	2,025,912
Machinery and equipment	192,582	192,582
Construction work in progress	230,424	—
Total capital assets	2,732,891	2,410,117
Less accumulated depreciation	(1,319,182)	(1,207,928)
Capital assets, net	1,413,709	1,202,189
Total noncurrent assets	1,413,709	1,202,189
Total assets	3,050,569	2,866,938
Liabilities		
Current liabilities:		
Accounts payable	40,344	30,093
Accrued payroll	6,375	3,616
Interest payable	24	15
Unearned revenues	29,375	48,790
Current portion of long-term debt	6,689	6,619
Total current liabilities	82,807	89,133
Noncurrent liability:		
Long-term debt, less current portion	116,606	123,295
Total noncurrent liability	116,606	123,295
Total liabilities	199,413	212,428
Net Position		
Net investment in capital assets	1,290,414	1,072,275
Unrestricted	1,560,742	1,582,235
Total net position	\$ 2,851,156	2,654,510

See accompanying notes to basic financial statements.

NORTH NET TRAINING AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2020 and 2019

	2020	2019
Operating revenue:		
Member agency contributions	\$ 726,806	859,388
Fire training fees	281,718	224,990
Rental income	24,525	34,708
Fire assistance reimbursements	80,118	14,685
Total operating revenue	1,113,167	1,133,771
Operating expenses:		
Salaries and wages reimbursements	303,924	298,311
Instructional training	278,873	222,070
Administration and overhead	51,005	109,542
Office supplies and maintenance	131,069	127,186
Other operating	120,852	96,753
Depreciation	111,254	109,361
Total operating expenses	996,977	963,223
Operating income	116,190	170,548
Nonoperating revenue (expense):		
Investment income	81,752	38,179
Gain on sale of capital asset	—	917,648
Interest expense	(1,296)	(817)
Total net nonoperating revenue	80,456	955,010
Change in net position	196,646	1,125,558
Net position at beginning of year	2,654,510	1,528,952
Net position at ending of year	\$ 2,851,156	2,654,510

See accompanying notes to basic financial statements.

NORTH NET TRAINING AUTHORITY

Statements of Cash Flows

Years ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Receipts from member agencies	\$ 726,806	859,388
Receipts from users for training	262,303	264,240
Receipts from rental income	19,866	36,248
Receipts from fire assistance reimbursements	111,966	—
Payments to suppliers for goods and services	(520,543)	(433,098)
Payments for wages and other benefits reimbursements	(301,165)	(300,195)
Payments to City of Anaheim for administration and overhead	(51,005)	(109,542)
Net cash provided by operating activities	248,228	317,041
Cash flows from capital and related financing activities:		
Proceeds from sale of capital asset	—	928,755
Principal payment on long-term debt	(6,619)	(6,086)
Interest paid	(1,287)	(1,819)
Capital purchases	(322,774)	—
Net cash provided by (used for) capital and related financing activities	(330,680)	920,850
Cash flows from investing activities:		
Purchase of investment securities	(281,240)	(1,626,777)
Proceeds from sale and maturity of investment securities	329,000	379,000
Interest received	34,692	9,886
Net cash provided by (used for) investing activities	82,452	(1,237,891)
Change in cash	—	—
Cash at beginning of year	—	—
Cash at end of year	\$ —	—
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 116,190	170,548
Adjustment to reconcile income to net cash provided by operating activities:		
Depreciation	111,254	109,361
Changes in assets and liabilities:		
Accounts receivable	27,189	(11,421)
Accounts payable	10,251	11,187
Accrued payroll	2,759	(1,884)
Unearned revenues	(19,415)	39,250
Net cash provided by operating activities	\$ 248,228	317,041
Schedule of noncash investing activity:		
Increase in fair value of investments	\$ 42,189	24,824

See accompanying notes to basic financial statements.

NORTH NET TRAINING AUTHORITY

Notes to Basic Financial Statements

June 30, 2020 and 2019

(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.

On December 20, 2018, the City of Garden Grove provided its notice of intent to withdraw from the JPA as a member agency effective the end of the current fiscal year ending June 30, 2019. Pursuant to section 8.2 of the JPA Agreement, the withdrawal member agency forfeits all rights and claims of the withdrawing member to any repayment of contributions or advances or other distribution of funds or property after withdrawal including distribution in the event of termination of the Authority. Pursuant to 9.2C of the Joint Powers Agreement, the City of Garden Grove retained its right to a distribution of 26.67% of the proceeds of the property if the Joint Powers Agreement is terminated at some point in the future.

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, 2020 and 2019, the Authority paid the City \$53,282 and \$50,213 for pension, \$10,117 and \$12,610 for retiree medical, and \$3,009 and \$2,948 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 are those revenues that are generated from the Authority's primary operations. All other revenue is reported as non-operating revenues. Operating expenses are those expenses that are essential to the Authority's primary operations. All other expenses are reported as non-operating expenses.

NORTH NET TRAINING AUTHORITY

Notes to Basic Financial Statements

June 30, 2020 and 2019

(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 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 the investment pool managed by the City, which is an external investment pool and is not registered with the Securities and Exchange Commission. 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 and equipment	5–10 years

NORTH NET TRAINING AUTHORITY

Notes to Basic Financial Statements

June 30, 2020 and 2019

(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. At June 30, 2020 and 2019, the Authority had \$1,290,414 and \$1,072,275 in net investment in capital assets.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. At June 30, 2020 and 2019, 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.

Unrestricted – This component of net position is the amount the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position. At June 30, 2020 and 2019, the Authority had \$1,560,742 and \$1,582,235 in unrestricted net position.

(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, 2020 and 2019, the Authority had \$1,615,127 and \$1,620,698 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; supranational; LAIF; repurchase agreements; reverse repurchase agreements; and money market mutual funds. The City's treasurer investment portfolio rating at June 30, 2020 and 2019 was AAf/S1. At June 30, 2020 and 2019, the treasurer's investment portfolio has a weighted average maturity of 1.92.

NORTH NET TRAINING AUTHORITY

Notes to Basic Financial Statements

June 30, 2020 and 2019

(3) Accounts Receivable

Accounts receivable at June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Fire assistance reimbursements	\$ 7,570	39,418
Rental	<u>4,659</u>	<u>—</u>
Total	\$ <u>12,229</u>	<u>39,418</u>

(4) Unearned Revenues

Unearned revenues represent amounts collected for fire training fees that were registered for classes to be held during the next fiscal year. These amounts were \$29,375 and \$48,790 for the fiscal year ended June 30, 2020 and 2019, respectively.

(5) 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 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, 2020 and 2019:

	<u>2020</u>		<u>2019</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Fair share contributions:				
City of Anaheim	\$ 468,860	64.51 %	\$ 432,788	50.36 %
City of Garden Grove	—	—	189,580	22.06
City of Orange	<u>257,946</u>	<u>35.49</u>	<u>237,020</u>	<u>27.58</u>
Total fair share contributions	\$ <u>726,806</u>	<u>100.00 %</u>	\$ <u>859,388</u>	<u>100.00 %</u>

(6) Fire Training Fees

The Authority collects fire training fees from nonsubscribing agencies for training services provided. Fire training fees were \$281,718 and \$224,990 for the fiscal years ended June 30, 2020 and 2019, respectively.

(7) Rental Income

The Authority earned rental income from facility rental. Rental income were \$24,525 and \$34,708 for the fiscal years ended June 30, 2020 and 2019, respectively.

NORTH NET TRAINING AUTHORITY

Notes to Basic Financial Statements

June 30, 2020 and 2019

(8) Fire Assistance Reimbursements

The Authority provided strike team fire assistance to the State's Office of Emergency Services (Cal OES). The reimbursable labor and other costs were \$80,118 and \$14,685 for the fiscal years ended June 30, 2020 and 2019, respectively.

(9) Gain on Sale of Capital Asset

On May 16, 2019 the Authority sold a portion of its land to the City in the amount of \$928,755 for the purpose of Orangewood Avenue street widening construction. This portion of land has a book value of \$11,107 resulting \$917,648 in realized gain on sale of capital asset.

(10) Capital Assets

Capital asset activities for the year ended June 30, 2020 were as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Nondepreciable assets:				
Land	\$ 191,623	—	—	191,623
Construction work in progress	—	230,424	—	230,424
Total	<u>191,623</u>	<u>230,424</u>	<u>—</u>	<u>422,047</u>
Depreciable assets:				
Building, structures, and improvements	2,025,912	92,350	—	2,118,262
Machinery and equipment	192,582	—	—	192,582
Total	<u>2,218,494</u>	<u>92,350</u>	<u>—</u>	<u>2,310,844</u>
Accumulated depreciation:				
Building, structures, and improvements	(1,097,423)	(99,692)	—	(1,197,115)
Machinery and equipment	(110,505)	(11,562)	—	(122,067)
Total	<u>(1,207,928)</u>	<u>(111,254)</u>	<u>—</u>	<u>(1,319,182)</u>
Total depreciable assets, net	<u>1,010,566</u>	<u>(18,904)</u>	<u>—</u>	<u>991,662</u>
Total capital assets, net	\$ <u>1,202,189</u>	<u>211,520</u>	<u>—</u>	<u>1,413,709</u>

NORTH NET TRAINING AUTHORITY

Notes to Basic Financial Statements

June 30, 2020 and 2019

Capital asset activities for the year ended June 30, 2019 were as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Nondepreciable assets:				
Land	\$ 202,730	—	(11,107)	191,623
Total	<u>202,730</u>	<u>—</u>	<u>(11,107)</u>	<u>191,623</u>
Depreciable assets:				
Building, structures, and improvements	2,025,912	—	—	2,025,912
Machinery and equipment	<u>192,582</u>	<u>—</u>	<u>—</u>	<u>192,582</u>
Total	<u>2,218,494</u>	<u>—</u>	<u>—</u>	<u>2,218,494</u>
Accumulated depreciation:				
Building, structures, and improvements	(999,608)	(97,815)	—	(1,097,423)
Machinery and equipment	<u>(98,959)</u>	<u>(11,546)</u>	<u>—</u>	<u>(110,505)</u>
Total	<u>(1,098,567)</u>	<u>(109,361)</u>	<u>—</u>	<u>(1,207,928)</u>
Total depreciable assets, net	<u>1,119,927</u>	<u>(109,361)</u>	<u>—</u>	<u>1,010,566</u>
Total capital assets, net	\$ <u>1,322,657</u>	<u>(109,361)</u>	<u>(11,107)</u>	<u>1,202,189</u>

(11) Long-Term Liability

The following is a summary of changes in long-term liabilities for the year ended June 30, 2020:

	<u>Beginning balance</u>	<u>Additions/ proceeds</u>	<u>Reductions/ payments</u>	<u>Ending balance</u>	<u>Due within one year</u>
Loan payable	\$ 129,914	—	(6,619)	123,295	6,689
Total	\$ <u>129,914</u>	<u>—</u>	<u>(6,619)</u>	<u>123,295</u>	<u>6,689</u>

The following is a summary of changes in long-term liabilities for the year ended June 30, 2019:

	<u>Beginning balance</u>	<u>Additions/ proceeds</u>	<u>Reductions/ payments</u>	<u>Ending balance</u>	<u>Due within one year</u>
Loan payable	\$ 136,000	—	(6,086)	129,914	6,619
Total	\$ <u>136,000</u>	<u>—</u>	<u>(6,086)</u>	<u>129,914</u>	<u>6,619</u>

NORTH NET TRAINING AUTHORITY

Notes to Basic Financial Statements

June 30, 2020 and 2019

On December 19, 2016, the Authority entered into an Energy Conservation Assistance Act Loan Agreement with the California Energy Commission for a loan amount of \$136,000 to partially provide resources for the replacement of the Air Handling Unit and installation of direct digital control system to the HVAC system (Project) at the North Net Training facility. On February 22, 2018, the Authority received loan proceeds of \$136,000. The loan is payable from the estimated annual energy cost saving of \$8,000. The loan bears interest at the rate of 1% per annum, principal and interest payments of \$3,967 are due semiannually beginning on or before December 22 of the fiscal year following the year in which the Project is completed and continuing until said principal and interest shall be paid in full. Debt service requirements to maturity are as follows:

<u>Fiscal years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 6,689	1,216	7,905
2022	6,756	1,149	7,905
2023	6,823	1,082	7,905
2024	6,889	1,016	7,905
2025	6,961	944	7,905
2026–2030	35,864	3,662	39,526
2031–2035	37,699	1,827	39,526
2036–2038	15,614	196	15,810
	<u>\$ 123,295</u>	<u>11,092</u>	<u>134,387</u>

(12) 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. For fiscal years ended June 30, 2020 and 2019, the administration fee paid to the City was \$51,005 and \$109,542, respectively, per the JPA Agreement. Administrative fee paid to the City was amended from twelve percent (12%) to six percent (6%) of the member's fair share percentage effective beginning on July 1, 2019.

(13) Risk Management

The Authority is self-insured for general liability claims. Additionally, the Authority also purchased a General Liability Insurance Policy which is in effect for both fiscal year 2020 and 2019. 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, 2020 and 2019, the Authority did not have any claims outstanding nor did the Authority pay any claims during the years then ended.

(14) Commitments and Contingencies

(a) 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.

NORTH NET TRAINING AUTHORITY

Notes to Basic Financial Statements

June 30, 2020 and 2019

(b) Commitments

The Authority does not have any other major contractual commitments or contingencies as of June 30, 2020 and 2019.