



NORTH NET TRAINING AUTHORITY

Basic Financial Statements

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)

NORTH NET TRAINING AUTHORITY

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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, 2021 and 2020, 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, 2021 and 2020, 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
December 9, 2021

NORTH NET TRAINING AUTHORITY

Statements of Net Position

June 30, 2021 and 2020

Assets	2021	2020
Current assets:		
Investments	\$ 1,379,125	1,615,127
Accounts receivable	10,775	12,229
Interest receivable	7,680	9,504
Prepays	1,804	—
Total current assets	1,399,384	1,636,860
Noncurrent assets:		
Capital assets:		
Land	237,322	191,623
Building, structures, and improvements	2,365,299	2,118,262
Machinery and equipment	200,547	192,582
Construction work in progress	304,510	230,424
Total capital assets	3,107,678	2,732,891
Less accumulated depreciation	(1,443,988)	(1,319,182)
Capital assets, net	1,663,690	1,413,709
Total noncurrent assets	1,663,690	1,413,709
Total assets	3,063,074	3,050,569
Liabilities		
Current liabilities:		
Accounts payable	28,722	40,344
Accrued payroll	2,787	6,375
Interest payable	26	24
Unearned revenues	44,070	29,375
Current portion of long-term debt	6,756	6,689
Total current liabilities	82,361	82,807
Noncurrent liability:		
Long-term debt, less current portion	109,850	116,606
Total noncurrent liability	109,850	116,606
Total liabilities	192,211	199,413
Net Position		
Net investment in capital assets	1,547,084	1,290,414
Unrestricted	1,323,779	1,560,742
Total net position	\$ 2,870,863	2,851,156

See accompanying notes to basic financial statements.

NORTH NET TRAINING AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2021 and 2020

	2021	2020
Operating revenue:		
Member agency contributions	\$ 726,084	726,806
Fire training fees	291,206	281,718
Rental income	21,705	24,525
Fire assistance reimbursements	123,916	80,118
Total operating revenue	1,162,911	1,113,167
Operating expenses:		
Salaries and wages reimbursements	373,826	303,924
Instructional training	324,984	278,873
Administration and overhead	43,565	51,005
Office supplies and maintenance	151,233	131,069
Other operating	123,572	120,852
Depreciation	124,806	111,254
Total operating expenses	1,141,986	996,977
Operating income	20,925	116,190
Nonoperating revenue (expense):		
Investment income	—	81,752
Interest expense	(1,218)	(1,296)
Total net nonoperating revenue	(1,218)	80,456
Change in net position	19,707	196,646
Net position at beginning of year	2,851,156	2,654,510
Net position at ending of year	\$ 2,870,863	2,851,156

See accompanying notes to basic financial statements.

NORTH NET TRAINING AUTHORITY

Statements of Cash Flows

Years ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Receipts from member agencies	\$ 726,084	726,806
Receipts from users for training	301,726	262,303
Receipts from rental income	19,764	19,866
Receipts from fire assistance reimbursements	131,486	111,966
Payments to suppliers for goods and services	(613,215)	(520,543)
Payments for wages and other benefits reimbursements	(377,414)	(301,165)
Payments to City of Anaheim for administration and overhead	(43,565)	(51,005)
Net cash provided by operating activities	144,866	248,228
Cash flows from capital and related financing activities:		
Principal payment on long-term debt	(6,689)	(6,619)
Interest paid	(1,216)	(1,287)
Capital purchases	(374,787)	(322,774)
Net cash used for capital and related financing activities	(382,692)	(330,680)
Cash flows from investing activities:		
Purchase of investment securities	(180,593)	(281,240)
Proceeds from sale and maturity of investment securities	386,000	329,000
Interest received	32,419	34,692
Net cash provided by investing activities	237,826	82,452
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	\$ 20,925	116,190
Adjustment to reconcile income to net cash provided by operating activities:		
Depreciation	124,806	111,254
Changes in assets and liabilities:		
Accounts receivable	1,454	27,189
Prepays	(1,804)	—
Accounts payable	(11,622)	10,251
Accrued payroll	(3,588)	2,759
Unearned revenues	14,695	(19,415)
Net cash provided by operating activities	\$ 144,866	248,228
Schedule of noncash investing activity:		
Increase (decrease) in fair value of investments	\$ (30,595)	42,189

See accompanying notes to basic financial statements.

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Notes to Basic Financial Statements

June 30, 2021 and 2020

(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), 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 who perform functions on behalf 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, 2021 and 2020, the Authority paid the City \$63,353 and \$53,282 for pension, \$14,675 and \$10,117 for retiree medical, and \$6,296 and \$3,009 for workers' compensation costs, respectively, and are included in Salary and wages reimbursement on the Statements of Revenue, Expenses, and Changes in Net Position.

(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.

(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

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Notes to Basic Financial Statements

June 30, 2021 and 2020

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

(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, 2021 and 2020, the Authority had \$1,547,084 and \$1,290,414 in net investment in capital assets.

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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, 2021 and 2020, 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, 2021 and 2020, the Authority had \$1,323,779 and \$1,560,742 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) New Accounting Pronouncement

On July 1, 2020, the Authority adopted the following new accounting pronouncements issued by the GASB:

- Statement No 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported.

Implement of this Statement has no material effect on amounts reported in the Authority's financial statements.

(3) Investments

The Authority's investment policy allows all funds to be invested with the City. As of June 30, 2021 and 2020, the Authority had \$1,379,125 and \$1,615,127 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, 2021 and 2020 was AAf/S1. At June 30, 2021 and 2020, the treasurer's investment portfolio has a weighted average maturity of 1.40 and 1.92 years, respectively.

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(4) Accounts Receivable

Accounts receivable at June 30, 2021 and 2020 consisted of the following:

	2021	2020
Fire assistance reimbursements	\$ —	7,570
Training fees	4,175	—
Rental	6,600	4,659
Total	\$ 10,775	12,229

(5) 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 \$44,070 and \$29,375 for the fiscal year ended June 30, 2021 and 2020, respectively.

(6) 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, 2021 and 2020:

	2021		2020	
	Amount	Percentage	Amount	Percentage
Fair share contributions:				
City of Anaheim	\$ 468,397	64.51 %	\$ 468,860	64.51 %
City of Orange	257,687	35.49	257,946	35.49
Total fair share contributions	\$ 726,084	100.00 %	\$ 726,806	100.00 %

(7) Fire Training Fees

The Authority collects fire training fees from non-subscribing agencies for training services provided. Fire training fees were \$291,206 and \$281,718 for the fiscal years ended June 30, 2021 and 2020, respectively.

(8) Rental Income

The Authority earned rental income from facility rental. Rental income was \$21,705 and \$24,525 for the fiscal years ended June 30, 2021 and 2020, respectively.

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(9) 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 \$123,916 and \$80,118 for the fiscal years ended June 30, 2021 and 2020, respectively.

(10) Capital Assets

Capital asset activities for the year ended June 30, 2021 were as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions/ retirements</u>	<u>Ending balance</u>
Nondepreciable assets:				
Land	\$ 191,623	45,699	—	237,322
Construction work in progress	230,424	311,240	(237,154)	304,510
Total	<u>422,047</u>	<u>356,939</u>	<u>(237,154)</u>	<u>541,832</u>
Depreciable assets:				
Building, structures, and improvements	2,118,262	9,883	237,154	2,365,299
Machinery and equipment	192,582	7,965	—	200,547
Total	<u>2,310,844</u>	<u>17,848</u>	<u>237,154</u>	<u>2,565,846</u>
Accumulated depreciation:				
Building, structures, and improvements	(1,197,115)	(112,853)	—	(1,309,968)
Machinery and equipment	(122,067)	(11,953)	—	(134,020)
Total	<u>(1,319,182)</u>	<u>(124,806)</u>	<u>—</u>	<u>(1,443,988)</u>
Total depreciable assets, net	<u>991,662</u>	<u>(106,958)</u>	<u>237,154</u>	<u>1,121,858</u>
Total capital assets, net	<u>\$ 1,413,709</u>	<u>249,981</u>	<u>—</u>	<u>1,663,690</u>

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Notes to Basic Financial Statements

June 30, 2021 and 2020

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

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

(11) Long-Term Liability

The following is a summary of changes in long-term liabilities for the year ended June 30, 2021:

	<u>Beginning balance</u>	<u>Additions/ proceeds</u>	<u>Reductions/ payments</u>	<u>Ending balance</u>	<u>Due within one year</u>
Loan payable	\$ 123,295	—	(6,689)	116,606	6,756
Total	\$ 123,295	—	(6,689)	116,606	6,756

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	\$ 129,914	—	(6,619)	123,295	6,689

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June 30, 2021 and 2020

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 \$3,953 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>
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	7,031	874	7,905
2027–2031	36,223	3,302	39,525
2032–2036	38,076	1,449	39,525
2037–2039	7,847	58	7,905
	<u>\$ 116,606</u>	<u>9,874</u>	<u>126,480</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, 2021 and 2020, the administration fee paid to the City was \$43,565 and \$51,005, 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 2021 and 2020. 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, 2021 and 2020, 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.

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Notes to Basic Financial Statements

June 30, 2021 and 2020

(b) Commitments

On the May 17, 2021 board meeting, the Board approved to purchase two Multi-Story Training Props in the amount of \$760,198. The acquisitions will be funded 50% or \$380,099 from the Authority's capital reserve, \$130,000 from the State of California for fire training purposes and the balance of \$250,099 will be contributed from the Santa Ana College training funds.

The Authority does not have any other major contractual commitments or contingencies as of June 30, 2021 and 2020.