



NORTH NET TRAINING AUTHORITY

Basic Financial Statements

June 30, 2014

(With Independent Auditors' Report Thereon)

NORTH NET TRAINING AUTHORITY

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KPMG LLP
Suite 700
20 Pacifica
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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 year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 audit. We conducted our audit 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, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

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

Irvine, California
January 15, 2015

NORTH NET TRAINING AUTHORITY

Statement of Net Position

June 30, 2014

Assets

Current assets:	
Investments	\$ 827,269
Interest receivable	2,255
	<hr/>
Total current assets	829,524
	<hr/>
Noncurrent assets:	
Capital assets:	
Land	202,730
Building, structures, and improvements	1,111,453
Machinery and equipment	144,273
Construction in progress	47,914
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Total capital assets	1,506,370
Less accumulated depreciation	(763,121)
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Capital assets, net	743,249
Total noncurrent assets	743,249
	<hr/>
Total assets	1,572,773
	<hr/>

Liabilities

Current liabilities:	
Accounts payable	29,540
Accrued payroll	530
	<hr/>
Total current liabilities	30,070
	<hr/>

Net Position

Net investment in capital assets	743,249
Unrestricted	799,454
	<hr/>
Total net position	\$ 1,542,703
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See accompanying notes to financial statements.

NORTH NET TRAINING AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2014

Operating revenues:	
Member agency contributions	\$ 208,920
Fire training fees	70,615
Other revenues	4,314
	<hr/>
Total operating revenues	283,849
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Operating expenses:	
Salaries and wages reimbursements	81,468
Instructional training	106,156
Administration and overhead	11,921
Office supplies and maintenance	81,112
Other operating	74,378
Depreciation	32,607
	<hr/>
Total operating expenses	387,642
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Operating loss	(103,793)
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Nonoperating revenue:	
Interest income	9,659
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Total nonoperating revenues	9,659
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Change in net position	(94,134)
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Net position at beginning of year	1,636,837
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Net position at ending of year	\$ 1,542,703
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See accompanying notes to financial statements.

NORTH NET TRAINING AUTHORITY

Statement of Cash Flows

Year ended June 30, 2014

Cash flows from operating activities:	
Receipts from member agencies	\$ 208,920
Receipts from users for training	70,615
Receipts from other income	4,314
Payments to suppliers for goods and services	(261,957)
Payments for wages and other benefits reimbursements	(80,938)
Payments to City of Anaheim for administration and overhead	(11,921)
	<u>(70,967)</u>
Net cash used for operating activities	<u>(70,967)</u>
Cash flows from capital and related financing activities:	
Capital purchases	(169,900)
	<u>(169,900)</u>
Net cash used for capital and related financing activities	<u>(169,900)</u>
Cash flows from investing activities:	
Purchase of investment securities	(797,000)
Proceeds from sale and maturity of investment securities	1,032,185
Interest received	5,682
	<u>240,867</u>
Net cash provided by investing activities	<u>240,867</u>
Change in cash	—
Cash at beginning of year	<u>—</u>
Cash at end of year	<u>\$ —</u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (103,793)
Adjustment to reconcile operating loss to net cash used in operating activities:	
Depreciation	32,607
Changes in assets and liabilities:	
Accounts payable	(311)
Wages payable	530
	<u>(70,967)</u>
Net cash used for operating activities	<u>\$ (70,967)</u>
Schedule of noncash investing activities:	
Increase in fair value of investments	\$ 2,334

See accompanying notes to financial statements.

NORTH NET TRAINING AUTHORITY

Notes to Financial Statements

June 30, 2014

(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, 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 year ended June 30, 2014, the Authority paid the City \$13,264 and \$1,483 for pension and 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 (GASB) 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, revenues are recognized when earned and expenses are recognized when incurred.

Operating revenues are those revenues that are generated from the authority's primary operations. All other revenues are 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) *Investments*

The Authority participates in investment pool managed by the City of Anaheim (City), which is an external investment pool and is not SEC-registered. The Authority's investment in the pool are carried at fair value based on the value of each participating unit.

NORTH NET TRAINING AUTHORITY

Notes to Financial Statements

June 30, 2014

(d) 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

(e) 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.

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, 2014, 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.

(f) 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. 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, 2014, the City's pooled investment fund has been reviewed by Standard and Poor's Corporation (S&P) and received a credit rating of AAf/S1 and has a weighted average maturity of 1.91 years.

NORTH NET TRAINING AUTHORITY

Notes to Financial Statements

June 30, 2014

(3) 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 year ended June 30, 2014:

	Amount	Percentage
Fair share contributions:		
City of Anaheim	\$ 97,712	49.60%
City of Garden Grove	43,340	22.00
City of Orange	55,948	28.40
	197,000	100.00%
Administrative fees:		
City of Garden Grove	5,206	
City of Orange	6,714	
Total fair share contributions	\$ 208,920	

(4) Capital Assets

Capital asset activities for the year ended June 30, 2014 were as follows:

	Beginning balance	Additions	Deletions	Ending balance
Nondepreciable assets:				
Land	\$ 202,730	—	—	202,730
Construction in progress	25,275	169,900	(147,261)	47,914
Total	228,005	169,900	(147,261)	250,644
Depreciable assets:				
Building, structures, and improvements	964,192	147,261	—	1,111,453
Machinery and equipment	144,273	—	—	144,273
Total	1,108,465	147,261	—	1,255,726
Accumulated depreciation:				
Building, structures, and improvements	675,510	25,295	—	700,805
Machinery and equipment	55,004	7,312	—	62,316
Total	730,514	32,607	—	763,121
Total depreciable assets, net	377,951	114,654	—	492,605
Total capital assets, net	\$ 605,956	284,554	(147,261)	743,249

NORTH NET TRAINING AUTHORITY

Notes to Financial Statements

June 30, 2014

(5) 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 year ended June 30, 2014, the administration fee paid to the City was \$11,920 per the JPA Agreement.

(6) Risk Management

The Authority is self-insured for general liability claims. The amount of claims paid out is distributed amongst 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, 2014, the Authority did not have any claims outstanding nor did the Authority pay any claims during the year.

(7) 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, 2014.