KPMG

NORTH NET TRAINING AUTHORITY

Basic Financial Statements

June 30, 2018 and 2017

(With Independent Auditors’ Report Thereon)

NORTH NET TRAINING AUTHORITY

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KPMG LLP
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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, 2018 and 2017, 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, 2018 and 2017, 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

Irvine, California
December 19, 2018

NORTH NET TRAINING AUTHORITY

Statements of Net Position

June 30, 2018 and 2017

Assets		**2018**	**2017**
Current assets:			
Investments	$	348,097	299,835
Accounts receivable		27,997	17,180
Interest receivable		1,164	1,101
Total current assets		377,258	318,116
Noncurrent assets:			
Capital assets:			
Land		202,730	202,730
Building, structures, and improvements		2,025,912	1,826,540
Machinery and equipment		192,582	192,582
Total capital assets		2,421,224	2,221,852
Less accumulated depreciation		(1,098,567)	(994,450)
Capital assets, net		1,322,657	1,227,402
Total noncurrent assets		1,322,657	1,227,402
Total assets		1,699,915	1,545,518
Liabilities			
Current liabilities:			
Accounts payable		18,906	16,943
Accrued payroll		5,500	4,626
Interest payable		1,017	—
Unearned revenues		9,540	34,425
Current portion of long-term debt		5,600	—
Total current liabilities		40,563	55,994
Noncurrent liability:			
Long-term obligation, less current portion		130,400	—
Total noncurrent liability		130,400	—
Total liabilities		170,963	55,994
Net Position			
Net investment in capital assets		1,186,657	1,227,402
Unrestricted		342,295	262,122
Total net position	$	1,528,952	1,489,524

See accompanying notes to basic financial statements.

NORTH NET TRAINING AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2018 and 2017

	2018	2017
Operating revenue:		
Member agency contributions	$ 783,696	611,804
Fire training fees	170,560	147,047
Rental income	29,665	20,265
Fire assistance reimbursements	99,332	—
Total operating revenue	1,083,253	779,116
Operating expenses:		
Salaries and wages reimbursements	348,005	276,647
Instructional training	240,067	177,382
Administration and overhead	100,896	82,479
Office supplies and maintenance	149,625	161,210
Other operating	101,411	103,605
Depreciation	104,117	94,123
Total operating expenses	1,044,121	895,446
Operating income (loss)	39,132	(116,330)
Nonoperating revenue (expense):		
Interest income	1,313	1,535
Interest expense	(1,017)	—
Total net nonoperating revenue	296	1,535
Change in net position	39,428	(114,795)
Net position at beginning of year	1,489,524	1,604,319
Net position at ending of year	$ 1,528,952	1,489,524

See accompanying notes to basic financial statements.

NORTH NET TRAINING AUTHORITY

Statements of Cash Flows

Years ended June 30, 2018 and 2017

		2018	2017
Cash flows from operating activities:			
Receipts from member agencies	$	783,696	611,804
Receipts from users for training		162,855	151,507
Receipts from rental income		28,125	38,265
Receipts from fire assistance reimbursements		74,599	—
Payments to suppliers for goods and services		(490,864)	(460,341)
Payments for wages and other benefits reimbursements		(347,131)	(274,024)
Payments to City of Anaheim for administration and overhead		(100,896)	(82,479)
Net cash provided by (used for) operating activities		110,384	(15,268)
Cash flows from capital and related financing activities:			
Proceeds from loan		136,000	—
Capital purchases		(199,372)	(29,920)
Net cash used for capital and related financing activities		(63,372)	(29,920)
Cash flows from investing activities:			
Purchase of investment securities		(128,000)	(109,000)
Proceeds from sale and maturity of investment securities		76,586	150,630
Interest received		4,402	3,558
Net cash provided by (used for) investing activities		(47,012)	45,188
Change in cash		—	—
Cash at beginning of year		—	—
Cash at end of year	$	—	—
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	$	39,132	(116,330)
Adjustment to reconcile income (loss) to net cash provided by (used for) operating activities:			
Depreciation		104,117	94,123
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable		(10,817)	820
Accounts payable		1,963	(18,144)
Accrued payroll		874	2,623
Unearned revenues		(24,885)	21,640
Net cash provided by (used for) operating activities	$	110,384	(15,268)
Schedule of noncash investing activity:			
Decrease in fair value of investments	$	(3,152)	(2,270)

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, 2018 and 2017, the Authority paid the City $46,648 and $36,811 for pension, $$17,762 and $16,105 for retiree medical, and $6,176 and $2,842 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 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 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.

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, 2018 and 2017, 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, 2018 and 2017, the Authority had $348,097 and $299,835 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. On December 6, 2017 the Standard and Poor's Corporation (S&P) raised the credit rating of the City's treasurer investment portfolio to AA+f/S1 from AAf/S1. The treasurer's investment portfolio has a weighted average maturity of 1.41 years and 1.76 years, respectively.

(3) Accounts Receivable

Accounts receivable at June 30, 2018 and 2017 consisted of the following:

	2018	2017
Cal OES Fire and Rescue	$ 24,733	—
Various – fire training fees	—	17,180
Various reimbursements	3,264	—
Total	$ 27,997	17,180

(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 $9,540 and $34,425 for the fiscal year ended June 30, 2018 and 2017, 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 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, 2018 and 2017:

	2018		2017	
	Amount	**Percentage**	**Amount**	**Percentage**
Fair share contributions:				
City of Anaheim	$ 391,848	50.00 %	$ 305,902	50.00 %
City of Garden Grove	172,413	22.00	134,597	22.00
City of Orange	219,435	28.00	171,305	28.00
Total fair share contributions	$ 783,696	100.00 %	$ 611,804	100.00 %

(6) Fire Training Fees

The Authority collects fire training fees from nonsubscribing agencies for training services provided. Fire training fees were $170,560 and $147,047 for the fiscal years ended June 30, 2018 and 2017, respectively.

(7) Rental Income

The Authority earned rental income from facility rental. Rental income was $29,665 and $20,265 for the fiscal years ended June 30, 2018 and 2017, respectively.

(8) Fire Assistance Reimbursements

During fiscal year 2018, the Authority provided strike team fire assistance to the High Cascade Complex, Liberty Fire, January Storm, and other fire incidents. The State's Office of Emergency Services (Cal OES) reimbursed the Authority for labor and other costs related to these incidents in the amount of $99,332.

(9) Capital Assets

Capital asset activities for the year ended June 30, 2018 were as follows:

	Beginning balance	Additions	Retirements	Ending balance
Nondepreciable assets:				
Land	$ 202,730	—	—	202,730
Total	202,730	—	—	202,730
Depreciable assets:				
Building, structures, and improvements	1,826,540	199,372	—	2,025,912
Machinery and equipment	192,582	—	—	192,582
Total	2,019,122	199,372	—	2,218,494
Accumulated depreciation:				
Building, structures, and improvements	(907,037)	(92,571)	—	(999,608)
Machinery and equipment	(87,413)	(11,546)	—	(98,959)
Total	(994,450)	(104,117)	—	(1,098,567)
Total depreciable assets, net	1,024,672	95,255	—	1,119,927
Total capital assets, net	$ 1,227,402	95,255	—	1,322,657

Capital asset activities for the year ended June 30, 2017 were as follows:

	Beginning balance	Additions	Retirements	Ending balance
Nondepreciable assets:				
Land	$ 202,730	—	—	202,730
Total	202,730	—	—	202,730
Depreciable assets:				
Building, structures, and improvements	1,826,540	—	—	1,826,540
Machinery and equipment	162,662	29,920	—	192,582
Total	1,989,202	29,920	—	2,019,122
Accumulated depreciation:				
Building, structures, and improvements	(822,630)	(84,407)	—	(907,037)
Machinery and equipment	(77,697)	(9,716)	—	(87,413)
Total	(900,327)	(94,123)	—	(994,450)
Total depreciable assets, net	1,088,875	(64,203)	—	1,024,672
Total capital assets, net	$ 1,291,605	(64,203)	—	1,227,402

(Continued)

(10) Long-term Liability

	Beginning balance	Additions/ proceeds	Reductions/ payments	Ending balance	Due within one year
Loan payable	$ —	136,000	—	136,000	$ 5,600
Total	$ —	136,000	—	136,000	$ 5,600

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:

Fiscal years	Principal	Interest	Total
2019	$ 5,600	2,336	7,936
2020	6,643	1,291	7,934
2021	6,714	1,221	7,935
2022	6,781	1,154	7,935
2023	6,849	1,086	7,935
2024–2028	35,285	4,389	39,674
2029–2033	37,093	2,581	39,674
2034–2037	31,035	702	31,737
	$ 136,000	14,760	150,760

(11) 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, 2018 and 2017, the administration fee paid to the City was $100,896 and $82,479, respectively, per the JPA Agreement.

(12) 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, 2018 and 2017, the Authority did not have any claims outstanding nor did the Authority pay any claims during the years then ended.

(Continued)

(13) 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 other major contractual commitments or contingencies as of June 30, 2018 and 2017.