



NORTH NET TRAINING AUTHORITY

Basic Financial Statements

June 30, 2024 and 2023

(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:

Opinion

We have audited the financial statements of the North Net Training Authority (the Authority) as of and for the years ended June 30, 2024 and 2023, 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with US generally accepted accounting principles

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with US generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting in fraud is higher than for one resulting in error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Management has omitted management's discussion and analysis that US 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 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 23, 2024

NORTH NET TRAINING AUTHORITY

Statements of Net Position

June 30, 2024 and 2023

Assets	2024	2023
Current assets:		
Investments	\$ 870,754	2,028,934
Accounts receivable	25,301	7,165
Interest receivable	8,728	8,907
Prepays	2,261	2,052
Total current assets	907,044	2,047,058
Noncurrent assets:		
Capital assets:		
Land	237,322	237,322
Building, structures, and improvements	3,775,417	2,640,232
Machinery and equipment	384,705	211,322
Construction work in progress	573,392	744,327
Total capital assets	4,970,836	3,833,203
Less accumulated depreciation	(1,880,459)	(1,712,937)
Capital assets, net	3,090,377	2,120,266
Total noncurrent assets	3,090,377	2,120,266
Total assets	3,997,421	4,167,324
Liabilities		
Current liabilities:		
Accounts payable	42,016	344,689
Accrued payroll	3,468	3,530
Interest payable	6	23
Unearned revenues	34,275	69,070
Current portion of long-term debt	6,961	6,889
Total current liabilities	86,726	424,201
Noncurrent liability:		
Long-term debt, less current portion	89,177	96,138
Total noncurrent liability	89,177	96,138
Total liabilities	175,903	520,339
Net Position		
Net investment in capital assets	2,994,239	1,739,711
Unrestricted	827,279	1,907,274
Total net position	\$ 3,821,518	3,646,985

See accompanying notes to basic financial statements.

NORTH NET TRAINING AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2024 and 2023

	2024	2023
Operating revenue:		
Member agency contributions	\$ 803,032	682,460
Fire training fees	413,706	410,824
Rental income	39,606	24,338
Fire assistance reimbursements	174,180	43,862
Total operating revenue	1,430,524	1,161,484
Operating expenses:		
Salaries and wages reimbursements	425,891	339,024
Training expenses	452,446	442,877
Administration and overhead	59,606	51,366
Office supplies and maintenance	133,114	114,527
Other operating	109,453	113,366
Depreciation	167,522	142,008
Total operating expenses	1,348,032	1,203,168
Operating income (loss)	82,492	(41,684)
Nonoperating revenue (expense):		
Grants and contributions	—	463,975
Investment income	93,040	5,293
Loss on retirement of capital assets	—	(3,403)
Interest expense	(999)	(1,080)
Total net nonoperating revenue	92,041	464,785
Change in net position	174,533	423,101
Net position at beginning of year	3,646,985	3,223,884
Net position at ending of year	\$ 3,821,518	3,646,985

See accompanying notes to basic financial statements.

NORTH NET TRAINING AUTHORITY

Statements of Cash Flows

Years ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Receipts from member agencies	\$ 803,032	682,460
Receipts from users for training	362,505	422,674
Receipts from rental income	37,876	24,473
Receipts from fire assistance reimbursements	174,180	43,862
Payments to suppliers for goods and services	(720,367)	(643,559)
Payments for wages and other benefits reimbursements	(425,953)	(342,215)
Payments to City of Anaheim for administration and overhead	(59,606)	(51,366)
Net cash provided by operating activities	171,667	136,329
Cash flows from capital and related financing activities:		
Capital grants and contributions	—	644,177
Principal payment on long-term debt	(6,889)	(6,823)
Interest paid	(1,016)	(1,081)
Capital purchases	(1,415,161)	(14,132)
Net cash (used in) provided by capital and related financing activities	(1,423,066)	622,141
Cash flows from investing activities:		
Purchase of investment securities	(41,123)	(867,889)
Proceeds from sale and maturity of investment securities	1,248,000	67,000
Interest received	44,522	42,419
Net cash provided by (used in) investing activities	1,251,399	(758,470)
Change in cash	—	—
Cash at beginning of year	—	—
Cash at end of year	\$ —	—
Reconciliation of operating loss to net cash provided by operating activities:		
Operating income (loss)	\$ 82,492	(41,684)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	167,522	142,008
Changes in assets and liabilities:		
Accounts receivable	(18,136)	(3,200)
Prepays	(209)	(120)
Accounts payable	(25,145)	27,331
Accrued payroll	(62)	(3,191)
Unearned revenues	(34,795)	15,185
Net cash provided by operating activities	\$ 171,667	136,329
Schedule of cash and noncash reconciliation of capital and investing activities:		
Increase (decrease) in fair value of investments	\$ 48,697	(40,108)
(Decrease) increase in accounts payable for capital purpose	(277,528)	277,528
Loss on disposal of capital asset	—	3,403

See accompanying notes to basic financial statements.

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Notes to Basic Financial Statements

June 30, 2024 and 2023

(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's 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's employees who work with the Authority. For the years ended June 30, 2024 and 2023, the Authority paid the City \$86,470 and \$80,737 for pension, \$13,960 and \$12,104 for retiree medical, and \$8,549 and \$8,063 for workers' compensation costs, respectively, and are included in salaries and wages reimbursements 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 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 statements of net position. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recognized when incurred.

Operating revenue is the revenue that is generated from the Authority's primary operations. All other revenue is reported as nonoperating revenue. 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

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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 are 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

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Notes to Basic Financial Statements

June 30, 2024 and 2023

acquisition, construction, or improvement of those assets. At June 30, 2024 and 2023, the Authority had \$2,994,239 and \$1,739,711, respectively 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, 2024 and 2023, 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, 2024 and 2023, the Authority had \$827,279 and \$1,907,274, respectively, 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

The Authority adopted the following new accounting pronouncements issued by the GASB during the current fiscal year that ended June 30, 2024:

- GASB Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*. This statement establishes accounting and financial reporting requirements for (a) accounting changes and (b) the correction of an error in previously issued financial statements. The Authority adopted this statement during the year ended June 30, 2024 and determined it did not have a material impact to the financial statements.
- GASB Statement No. 101, *Compensated Absences*. This statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but has not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The Authority adopted this statement during the year ended June 30, 2024 and determined it did not have a material impact to the financial statements.

(3) Investments

The Authority's investment policy allows all funds to be invested with the City. As of June 30, 2024 and 2023, the Authority had \$870,754 and \$2,028,934 respectively, invested in the City's pooled investment fund, respectively. The City's investment policy limits the permitted investments in the investment pool to

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June 30, 2024 and 2023

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; Local Agency Investment Fund (LAIF); repurchase agreements; reverse repurchase agreements; and money market mutual funds. The City's treasurer investment portfolio rating at June 30, 2024 and 2023 was AAf/S1. At June 30, 2024 and 2023, the treasurer's investment portfolio has a weighted average maturity of 1.67 and 1.59 years, respectively.

(4) Accounts Receivable

Accounts receivable at June 30, 2024 and 2023 consisted of the following:

	2024	2023
Training fees	\$ 22,341	5,935
Rental	2,960	1,230
Total	\$ 25,301	7,165

(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 \$34,275 and \$69,070 for the fiscal years ended June 30, 2024 and 2023, 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 that existed on January 1 of each calendar year. Once determined for any fiscal year, the member's fair share percentage shall remain unchanged. Each member's fair share percentage is multiplied by the adopted budget amount for the upcoming fiscal year to determine the required fair share contribution amount. 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, 2024 and 2023:

	2024		2023	
	Amount	Percentage	Amount	Percentage
Fair share contributions:				
City of Anaheim	\$ 530,644	66.08 %	\$ 447,694	65.60 %
City of Orange	272,388	33.92	234,766	34.40
Total fair share contributions	\$ 803,032	100.00 %	\$ 682,460	100.00 %

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Notes to Basic Financial Statements

June 30, 2024 and 2023

(7) Fire Training Fees

The Authority collects fire training fees from nonsubscribing agencies for training services provided. Fire training fees were \$413,706 and \$410,824 for the fiscal years ended June 30, 2024 and 2023, respectively.

(8) Rental Income

The Authority earned rental income from facility rental. Periodically, the Authority rents its facilities to various organizations for terms that were less than one year. Rental income was \$39,606 and \$24,338 for the fiscal years ended June 30, 2024 and 2023, respectively.

(9) Fire Assistance Reimbursements

The Authority provided strike team fire assistance to the State of California's Office of Emergency Services (Cal OES). The reimbursable labor and other costs were \$174,180 and \$43,862 for the fiscal years ended June 30, 2024 and 2023, respectively.

(10) Grants and Contributions

For the fiscal year ended June 30, 2023, the Authority received grants and contributions totaled \$463,975 of which \$299,310 was provided by the City of Anaheim, and \$164,665 provided by the City of Orange. These grants and contributions partially provided funds toward the acquisition of two Multi-Story training Props.

For the fiscal year ended June 30, 2024, the Authority did not receive any grants and contributions.

(11) Capital Assets

Capital asset activities for the year ended June 30, 2024 were as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions/ transfers</u>	<u>Ending balance</u>
Nondepreciable assets:				
Land	\$ 237,322	—	—	237,322
Construction work in progress	744,327	1,116,838	(1,287,773)	573,392
Total	<u>981,649</u>	<u>1,116,838</u>	<u>(1,287,773)</u>	<u>810,714</u>
Depreciable assets:				
Building, structures, and improvements	2,640,232	1,135,185	—	3,775,417
Machinery and equipment	211,322	173,383	—	384,705
Total	<u>2,851,554</u>	<u>1,308,568</u>	<u>—</u>	<u>4,160,122</u>
Accumulated depreciation:				
Building, structures, and improvements	(1,553,563)	(148,815)	—	(1,702,378)
Machinery and equipment	(159,374)	(18,707)	—	(178,081)
Total	<u>(1,712,937)</u>	<u>(167,522)</u>	<u>—</u>	<u>(1,880,459)</u>
Total depreciable assets, net	<u>1,138,617</u>	<u>1,141,046</u>	<u>—</u>	<u>2,279,663</u>
Total capital assets, net	<u>\$ 2,120,266</u>	<u>2,257,884</u>	<u>(1,287,773)</u>	<u>3,090,377</u>

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Notes to Basic Financial Statements

June 30, 2024 and 2023

Capital asset activities for the year ended June 30, 2023 were as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions/ retirements</u>	<u>Ending balance</u>
Nondepreciable assets:				
Land	\$ 237,322	—	—	237,322
Construction work in progress	463,442	280,885	—	744,327
Total	<u>700,764</u>	<u>280,885</u>	<u>—</u>	<u>981,649</u>
Depreciable assets:				
Building, structures, and improvements	2,658,232	—	(18,000)	2,640,232
Machinery and equipment	200,547	10,775	—	211,322
Total	<u>2,858,779</u>	<u>10,775</u>	<u>(18,000)</u>	<u>2,851,554</u>
Accumulated depreciation:				
Building, structures, and improvements	(1,439,164)	(128,996)	14,597	(1,553,563)
Machinery and equipment	(146,362)	(13,012)	—	(159,374)
Total	<u>(1,585,526)</u>	<u>(142,008)</u>	<u>14,597</u>	<u>(1,712,937)</u>
Total depreciable assets, net	<u>1,273,253</u>	<u>(131,233)</u>	<u>(3,403)</u>	<u>1,138,617</u>
Total capital assets, net	\$ <u>1,974,017</u>	<u>149,652</u>	<u>(3,403)</u>	<u>2,120,266</u>

(12) Long-Term Liability

The following is a summary of changes in long-term liabilities for the year ended June 30, 2024:

	<u>Beginning balance</u>	<u>Additions/ proceeds</u>	<u>Reductions/ payments</u>	<u>Ending balance</u>	<u>Due within one year</u>
Loan payable	\$ 103,027	—	(6,889)	96,138	6,961
Total	\$ <u>103,027</u>	<u>—</u>	<u>(6,889)</u>	<u>96,138</u>	<u>6,961</u>

The following is a summary of changes in long-term liabilities for the year ended June 30, 2023:

	<u>Beginning balance</u>	<u>Additions/ proceeds</u>	<u>Reductions/ payments</u>	<u>Ending balance</u>	<u>Due within one year</u>
Loan payable	\$ 109,850	—	(6,823)	103,027	6,889
Total	\$ <u>109,850</u>	<u>—</u>	<u>(6,823)</u>	<u>103,027</u>	<u>6,889</u>

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Notes to Basic Financial Statements

June 30, 2024 and 2023

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>
2025	\$ 6,961	944	7,905
2026	7,031	874	7,905
2027	7,101	804	7,905
2028	7,171	734	7,905
2029	7,244	661	7,905
2030–2034	37,325	2,201	39,526
2035–2038	<u>23,305</u>	<u>410</u>	<u>23,715</u>
	<u>\$ 96,138</u>	<u>6,628</u>	<u>102,766</u>

(13) 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, 2024 and 2023, the administration fee (amounts other than payments for pension and workers' compensation costs discussed in note 1 of this report) paid to the City was \$59,606 and \$51,366, 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.

(14) 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 years 2024 and 2023. 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, 2024 and 2023, the Authority did not have any claims outstanding nor did the Authority pay any claims during the years then ended.

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Notes to Basic Financial Statements

June 30, 2024 and 2023

(15) 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.

(b) *Commitments*

At June 30, 2024, the Authority's commitment totaled \$421,757 representing the remaining commitment for the fabrication of the Custom Apartment Complex fire training props.

The Authority does not have any other major contractual commitments or contingencies as of June 30, 2024 and 2023.