

**CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY**

FINANCIAL STATEMENTS

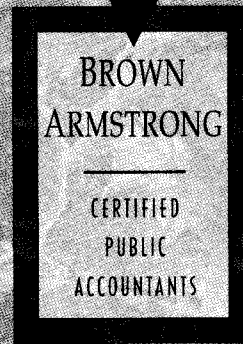
**FOR THE YEAR ENDED
JUNE 30, 2010**

**CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
JUNE 30, 2010**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
BASIC FINANCIAL STATEMENTS:	
Statement of Net Assets	3
Statement of Revenues, Expenses and Changes in Net Assets.....	4
Statement of Cash Flows.....	5
Notes to the Basic Financial Statements	6
OTHER INDEPENDENT AUDITOR'S REPORTS:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	9

Peter C. Brown, CPA
Burton H. Armstrong, CPA, MST
Andrew J. Paulden, CPA
Steven R. Starback, CPA
Chris M. Thornburgh, CPA
Eric H. Xin, CPA, MBA
Richard L. Halle, CPA, MST
Aileen K. Keeter, CPA



■ Main Office
4200 Irwindale Ave., Suite 300
Bakersfield, California 93309
Tel 661-324-4971 Fax 661-324-4997
e-mail: info@bacpas.com

■ 560 Central Avenue
Shafter, California 93263
Tel 661-746-2145 Fax 661-746-2118

■ 8365 N. Fresno Street, Suite 440
Fresno, California 93720
Tel 559-476-3591 Fax 559-476-3593

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members
of the Governing Board
California Electronic Recording
Transaction Network Authority
Bakersfield, California

We have audited the accompanying basic financial statements of the California Electronic Recording Transaction Network Authority (Authority), as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

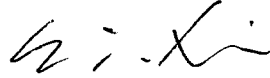
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2010, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2010, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted the management discussion and analysis (MD&A) that accounting principles generally accepted in the United States of America 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "M. L. K.", is written below the company name.

Bakersfield, California
December 14, 2010

BASIC FINANCIAL STATEMENTS

**CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2010**

ASSETS

Current Assets	
Cash and Cash Equivalents	\$ 982,697
Interest Receivable	<u>2,987</u>
Total Current Assets	<u>985,684</u>
Noncurrent Assets	
Capital Assets	
Computer Equipment, Net	<u>4,836</u>
Total Noncurrent Assets	<u>4,836</u>
Total Assets	<u><u>\$ 990,520</u></u>

LIABILITIES

Noncurrent Liabilities	
Advances Payable	<u>\$ 1,911,975</u>
Total Noncurrent Liabilities	<u>1,911,975</u>
Total Liabilities	<u>1,911,975</u>

NET ASSETS (ACCUMULATED DEFICIT)

Total Net Assets (Accumulated Deficit)	<u><u>\$ (921,455)</u></u>
--	----------------------------

The accompanying notes are an integral part of these financial statements.

**CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

OPERATING REVENUES	
Fees for Services from Other Governmental Agencies	\$ 842,724
	<u>842,724</u>
OPERATING EXPENSES	
Salaries and Benefits	265,293
Office	1,829
Professional Services	62,889
Data Processing	733,722
Transportation and Travel	29,819
Depreciation	841
	<u>1,094,393</u>
Total Operating Expenses	<u>1,094,393</u>
Operating Loss	<u>(251,669)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest Earnings	19,096
Interest Expense	(28,917)
	<u>(9,821)</u>
Total Nonoperating Revenues (Expenses)	<u>(9,821)</u>
Change in Net Assets	(261,490)
Net Assets (Accumulated Deficit) - Beginning (as restated)	<u>(659,965)</u>
Net Assets (Accumulated Deficit) - Ending	<u>\$ (921,455)</u>

The accompanying notes are an integral part of these financial statements.

**CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Receipts from Sale of Services	\$ 851,778
Cash Payments to Employees for Salaries and Benefits	(265,293)
Cash Payments to Vendors for Goods and Services	<u>(828,259)</u>

Net Cash Used by Operating Activities (241,774)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Advances Payable Payments - Principal	(71,083)
Advances Payable Payments - Interest	<u>(28,917)</u>

Net Cash Used by Capital and Related Financing Activities (100,000)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest Received	<u>19,096</u>
-------------------	---------------

Net Cash Provided by Investing Activities 19,096

Net Decrease in Cash and Cash Equivalents (322,678)

Cash and Cash Equivalents, Beginning of Year 1,305,375

Cash and Cash Equivalents, End of Year \$ 982,697

Reconciliation of Operating Loss to Net Cash Used by Operating Activities

Operating Loss \$ (251,669)

Adjustments to Reconcile Operating Loss to Net
Cash Used by Operating Activities:

Depreciation Expense	841
Decrease in Interest Receivable	<u>9,054</u>

Net Cash Used by Operating Activities \$ (241,774)

The accompanying notes are an integral part of these financial statements.

**CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The California Electronic Recording Transaction Network Authority (the Authority) was established July 1, 2007, as a unifying umbrella agency to coordinate the service desires of both the County of Kern and the County of San Bernardino and enable certain lead counties to jointly develop, implement and support an AB 578 compliance system to be known as the California Electronic Recording Transaction Network, which will allow for the electronic recording of documents by multiple counties using variable back-end systems. As of June 30, 2010, a total of nine counties had joined the Authority, including eight member counties as the governing counties and one client county. The member counties are the Counties of Kern, San Bernardino, Fresno, Santa Clara, Santa Cruz, San Joaquin, and El Dorado. The County of Merced joined the Authority as a client county. The governing Board of Directors of the Authority consists of eight county officials, each from a member county.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The Authority's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) as applied to government units. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards. The Authority is presented in the accompanying basic financial statements as a proprietary fund type – an enterprise fund. As a proprietary fund type, the Authority accounts for its transactions on the flow of economic resources measurement focus and using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used.

C. Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH AND CASH EQUIVALENTS

The Authority now pools cash with the County of Kern. The cash balances reflect the transfers in of the borrowed funds from both the County of Kern and the County of San Bernardino. Interest income earned on pooled cash is allocated from the County of Kern to the Authority based on its average cash balances outstanding. For purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

NOTE 3 – ADVANCES PAYABLE

At the beginning of July 2007, County of Kern and County of San Bernardino advanced \$500,000 and \$1,500,000, respectively, to the Authority as initial funding. The advances bear interest at the same rate that the two Counties apply to funds of other outside districts on deposit with the two Counties' treasury. In addition, accrued interest will accrete to the principal of the advances. The Authority will be paid back both principal and accrued interest from the Authority's net operating revenues as available. The advances payable may be prepaid in whole or in part at any time, without penalty. There is no structured due date for principal and unpaid interest for the advances payable. At June 30, 2010, the outstanding principal and accrued interest was \$1,911,975.

NOTE 4 – RELATED PARTY TRANSACTIONS

The Authority obtained its initial funding from two related parties, the County of Kern and the County of San Bernardino, in the form of an advance payable from each county. See Note 3 for details of the advances payable.

NOTE 5 – CAPITAL ASSETS

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed capital assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend the asset's life are not capitalized, but are expensed as incurred.

Capital assets are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Ground Equipment, Furniture and Office Equipment	15 years
Communication Equipment and Vehicles	10 years
Computer Equipment	5 years

Capital assets for the year ended June 30, 2010, are as follows:

	Balance July 1, 2009	Adjustments	Additions	Deletions	Balance June 30, 2010
Depreciable Capital Assets:					
Computer Equipment	\$ 32,857	\$ (26,970)	\$ -	\$ -	\$ 5,887
Subtotal	32,857	(26,970)	-	-	5,887
Accumulated Depreciation:					
Computer Equipment	(531)	321	(841)	-	(1,051)
Subtotal	(531)	321	(841)	-	(1,051)
Net Capital Assets	\$ 32,326	\$ (26,649)	\$ (841)	\$ -	\$ 4,836

Depreciation expense for the year ended June 30, 2010, is \$841.

NOTE 6 – FEE FOR SERVICES FROM OTHER GOVERNMENTAL AGENCIES

The Authority charges a fee to constituent organizations on a quarterly basis based on an annually adopted operating budget, total document recordings and a per document fee. The Authority's operating budget is adopted on an annual basis by the Board of Directors. This operating budget total is divided by the total estimated document recording volume of constituent organizations to arrive at an annual per document fee. Each constituent organization reports to the Authority on a quarterly basis its actual recording volumes and this number is multiplied by the per document fee to arrive at a total fee due for the quarter. This fee is then invoiced to the constituent organization and received as revenue under "Fees for Services from Other Governmental Agencies." For the year ended June 30, 2010, the amount was \$842,724.

NOTE 7 – PRIOR PERIOD ADJUSTMENT

During fiscal year 2009-10, the Authority made the following prior period adjustment to restate net assets to correct errors made in reporting capital assets in prior year.

<u>Balance July 1, 2009 as previously reported</u>	<u>Adjustments</u>	<u>Balance July 1, 2009 as restated</u>
<u>\$ (633,316)</u>	<u>\$ (26,649)</u>	<u>\$ (659,965)</u>