

**CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY**

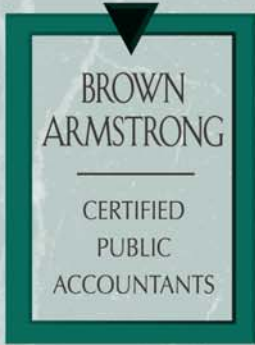
RESTATED FINANCIAL STATEMENTS

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2018**

**CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
JUNE 30, 2018**

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BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the California Electronic Recording Transaction Network Authority (the Authority) as of and for the fiscal year ended June 30, 2018, 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 accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express opinions 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 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 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 auditor's 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 Authority'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 Authority'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 opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-5, the schedule of the Authority's proportionate share of the net pension liability on page 18, and the schedule of the Authority's contributions on page 19 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The budgetary comparison schedule on page 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

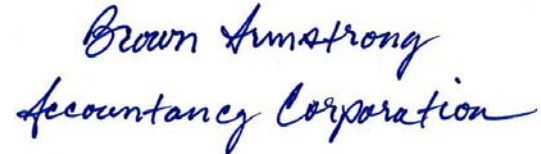
Restatement of Financial Statements

Without modifying our opinion, we draw attention to Note 11 to the amended and restated financial statements, which explains that the amended and restated financial statements for the fiscal year ended June 30, 2018, have been restated from those which we originally reported on December 31, 2018.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2020, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California
July 31, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Introduction

The following discussion and analysis of the financial performance and activity of the California Electronic Recording Transaction Network Authority (the Authority) provides an introduction and understanding of the basic financial statements of the Authority. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Authority was established on July 1, 2007, by a resolution of the Board of Supervisors of Kern County and the Board of Supervisors of San Bernardino County (the Board) for the purpose of the design, development, implementation, and ongoing operation and maintenance of an Assembly Bill (AB) 578 (Government Code Sections 27390 et seq.) compliant Electronic Recording Delivery System (ERDS) as well as a Government Code Section 27279 compliant system. The systems are used by the signatories to the Joint Powers Agreement to manage the programs for which they are responsible, and may include interfaces to other county consortia and state automated ERDS as provided in the Government Code.

The Authority is currently comprised of eleven member counties: El Dorado, Fresno, Kern, Merced, Monterey, San Bernardino, Santa Clara, Santa Cruz, San Joaquin, Shasta, and Solano. The Authority also services nine client counties: Butte, Contra Costa, Mono, Napa, Placer, San Francisco, San Luis Obispo, Sonoma, and Tehama.

The Financial Statements

The Authority previously adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statements Note Disclosures*. GASB Statement No. 34 establishes the accounting and financial reporting standards for state and local governments. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

The Authority's basic financial statements include: (1) the Statement of Net Position; (2) the Statement of Revenues, Expenses, and Changes in Net Position; (3) the Statement of Cash Flows; and (4) the Notes to the Basic Financial Statements. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Statement of Cash Flows

The Statement of Cash Flows is presented using the direct method and includes a reconciliation of operating cash flows to operating income. The Statement of Cash Flows basically provides detailed information about the cash received in the current fiscal year and the uses of the cash received. This is the only cash-basis financial statement presented and it reconciles cash receipts and cash expenditures to the beginning and ending cash on hand.

Most of the revenues are from county contributions based on a per affected title rate set by the Board of Directors in the adoption of the Authority's annual budget. All expenditures were for operating expenses.

Financial Highlights

- Operating revenues were \$904,145, while operating expenses were \$897,674.
- Loan repayments to Kern and San Bernardino counties were \$100,000.

Statements of Revenues, Expenses, and Changes in Net Position

A summary of the Authority's Statements of Revenues, Expenses, and Changes in Net Position for fiscal years 2018 and 2017 is as follows:

	2018	2017	Increase/(Decrease)	
	Restated	Restated	Amount	%
Operating Revenues	\$ 904,145	\$ 1,092,181	\$ (188,036)	-17.22%
Operating Expenses	<u>897,674</u>	<u>867,878</u>	<u>29,796</u>	<u>3.43%</u>
Operating Income	6,471	224,303	(217,832)	-97.12%
Nonoperating Revenues	16,487	10,604	5,883	55.48%
Nonoperating Expenses	<u>(12,575)</u>	<u>(9,171)</u>	<u>(3,404)</u>	<u>-37.12%</u>
Increase in Net Position	<u>\$ 10,383</u>	<u>\$ 225,736</u>	<u>\$ (215,353)</u>	<u>-95.40%</u>

The largest revenue category listed on the Statements of Revenues, Expenses, and Changes in Net Position is Fees for Services from Other Governmental Agencies (98.21% in 2018). Most of the revenue is collected from member counties through contributions based on the number of titles subject to the electronic recording fee (as specified in Government Code Sections 27390 et seq.) recorded by each county.

Operating and maintaining an AB 578 (Government Code Sections 27390 et seq.) compliant ERDS, as well as a Government Code Section 27279 compliant system, is dependent on staffing and technology. Fifty-eight percent (58%) of the Authority's operating expenses is for wages and benefits paid to employees. The next largest category of expense is for computer related technology.

Statements of Net Position

The Authority's Statements of Net Position as of June 30, 2018 and 2017, are as follows:

	2018	2017	Increase/(Decrease)	
	Restated	Restated	Amount	%
Current Assets	\$ 1,529,840	\$ 1,541,581	\$ (11,741)	-0.76%
Noncurrent Assets				
Capital Assets, Net	<u>44,438</u>	<u>48,486</u>	<u>(4,048)</u>	<u>-8.35%</u>
Total Assets	<u>\$ 1,574,278</u>	<u>\$ 1,590,067</u>	<u>\$ (15,789)</u>	<u>-0.99%</u>
Deferred Outflows of Resources	<u>\$ 298,052</u>	<u>\$ 296,687</u>	<u>\$ 1,365</u>	<u>0.46%</u>
Current Liabilities	\$ 59,269	\$ 39,980	\$ 19,289	48.25%
Noncurrent Liabilities	<u>1,956,326</u>	<u>1,979,468</u>	<u>(23,142)</u>	<u>-1.17%</u>
Total Liabilities	<u>\$ 2,015,595</u>	<u>\$ 2,019,448</u>	<u>\$ (3,853)</u>	<u>-0.19%</u>
Deferred Inflows of Resources	<u>\$ 61,648</u>	<u>\$ 82,602</u>	<u>\$ (20,954)</u>	<u>-25.37%</u>
Total Net Position (Accumulated Deficit)	<u>\$ (204,913)</u>	<u>\$ (215,296)</u>	<u>\$ 10,383</u>	<u>-4.82%</u>

The largest change in net position is a result of an operating income of \$10,383.

Capital Assets

As of the end of fiscal year 2018, the Authority's capital assets, before accumulated depreciation, were valued at \$112,755. There were no additions or deletions during the year.

	2018	2017	Increase/(Decrease)	
			Amount	%
Equipment	\$ 112,755	\$ 101,167	\$ 11,588	11.45%
Total	112,755	101,167	11,588	11.45%
Less: Accumulated Depreciation	(68,317)	(52,681)	15,636	-29.68%
Net Total	\$ 44,438	\$ 48,486	\$ (4,048)	-8.35%

Economic Factors and Next Year's Budget and Rates

The Authority notes that the number of real estate transactions and associated document recording levels have declined as compared to the previous year and makes particular note of a market which continues to move into a high-demand and low inventory environment. This environment, coupled with the continuing threat of higher interest rates, presents a significant risk of significantly reduced recording activity and its associated revenue stream. Due to these uncertainties, the Authority is conservatively projecting that for the fiscal year 2018-19 budget, recording activity will decline approximately 15% as compared to the previous FY. The projected addition of client counties during this fiscal year, will not impact revenues until the next fiscal year. Expenses remained essentially level in fiscal year 2017-18.

The fiscal year 2018-19 budget increases the member county contribution rate from \$0.49 to \$0.56 per document while maintaining the client county licensing tier rates with no changes. These changes were approved with the adopted budget in July 2018. These rates will allow the Authority to match revenue with budgeted expenditures. The total projected budgeted revenue for the Authority for fiscal year 2018-19 is \$913,640, as compared to \$726,048 last year, which is an increase of 25.83% vs the fiscal year 2017-18 adopted budget. This is due to a larger fund balance surplus.

For the fiscal year 2018-19, the adopted budget for the Authority's operating budget is \$1,967,450, which is an increase of 7.32% from the fiscal year 2017-18 operating budget.

At the time the fiscal year 2018-19 budget was adopted, the total capital project expenditure budget for fiscal year 2018-19 was \$75,000, which is a 300% increase as compared to the fiscal year 2017-18 adjusted budget. Although the \$75,000 is budgeted, there are no committed expenditures and it is reserved for infrastructure contingency needs.

Contacting the Authority's Financial Management

The Authority's financial report is designed to provide the Board of Directors, management, creditors, legislative and oversight agencies, citizens, and customers with an overview of the Authority's finances and to demonstrate its accountability for funds received. For additional information about this report, please contact the Executive Director of the Authority at (909) 831-2674.

BASIC FINANCIAL STATEMENTS

**CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
STATEMENT OF NET POSITION (RESTATED)
JUNE 30, 2018**

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 1,340,606
Accounts Receivable	185,234
Prepays	<u>4,000</u>

Total Current Assets	<u>1,529,840</u>
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Noncurrent Assets

Capital Assets

Computer Equipment, Net	<u>44,438</u>
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Total Noncurrent Assets	<u>44,438</u>
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Total Assets	<u>1,574,278</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Pensions	<u>298,052</u>
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LIABILITIES

Current Liabilities

Accounts Payable and Accrued Liabilities	42,204
Unearned Revenue	<u>17,065</u>

Total Current Liabilities	<u>59,269</u>
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Noncurrent Liabilities

Advances Payable	1,190,367
Compensated Absences Payable	258,236
Net Pension Liability	<u>507,723</u>

Total Noncurrent Liabilities	<u>1,956,326</u>
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Total Liabilities	<u>2,015,595</u>
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DEFERRED INFLOWS OF RESOURCES

Deferred Pensions	<u>61,648</u>
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NET POSITION (ACCUMULATED DEFICIT)

Total Net Position (Accumulated Deficit)	<u><u>\$ (204,913)</u></u>
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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 POSITION (RESTATED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

OPERATING REVENUES	
Fees for Services from Other Governmental Agencies	\$ 904,145
Total Operating Revenues	<u>904,145</u>
OPERATING EXPENSES	
Insurance	18,060
Salaries and Benefits	517,480
Office	7,772
Professional Services	125,268
Data Processing	189,321
Transportation and Travel	21,952
Annual Summit	2,185
Depreciation	<u>15,636</u>
Total Operating Expenses	<u>897,674</u>
Operating Income	<u>6,471</u>
NONOPERATING REVENUES (EXPENSES)	
Interest Earnings	16,487
Interest Expense	<u>(12,575)</u>
Total Nonoperating Revenues (Expenses)	<u>3,912</u>
Change in Net Position	10,383
Net Position (Accumulated Deficit) - Beginning, as Previously Reported	43,546
Prior Period Adjustments, Note 9	<u>(258,842)</u>
Net Position (Accumulated Deficit) - Beginning, as Restated	<u>(215,296)</u>
Net Position (Accumulated Deficit) - Ending	<u><u>\$ (204,913)</u></u>

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

**CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
STATEMENT OF CASH FLOWS (RESTATED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Receipts from Sale of Services	\$ 956,318
Cash Payments to Employees for Salaries and Benefits	(475,516)
Cash Payments to Vendors for Goods and Services	<u>(347,084)</u>
Net Cash Provided by Operating Activities	<u>133,718</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of Capital Assets	(11,588)
Advances Payable Payments - Principal	(87,425)
Advances Payable Payments - Interest	<u>(12,575)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(111,588)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Received	<u>16,487</u>
Net Cash Provided by Investing Activities	<u>16,487</u>
Net Increase in Cash and Cash Equivalents	38,617
Cash and Cash Equivalents, Beginning of Year	<u>1,301,989</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,340,606</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$ 6,471
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	15,636
Decrease in Accounts Receivable	35,108
Decrease in Prepaids	15,250
(Increase) in Deferred Pensions	(22,319)
Increase in Accounts Payable and Accrued Liabilities	2,224
Increase in Unearned Revenues	17,065
Increase in Compensated Absences Payable	29,374
Increase in Net Pension Liability	<u>34,909</u>
Net Cash Provided by Operating Activities	<u><u>\$ 133,718</u></u>

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, 2018**

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 Assembly Bill 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, 2018, a total of fifteen counties had joined the Authority, including eleven member counties as the governing counties and nine client counties. The member counties are the Counties of El Dorado, Fresno, Kern, Madera, Merced, Monterey, San Bernardino, Santa Clara, Santa Cruz, San Joaquin, Shasta, and Solano. The Counties of Butte, Contra Costa, Mono, Napa, Placer, San Francisco, San Luis Obispo, Sonoma, and Tehama joined the Authority as client counties. The governing Board of Directors of the Authority consists of nine 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 (U.S. GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) 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 and receivables 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 U.S. GAAP 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 expenses during the reporting period. Actual results could differ from those estimates.

D. Implemented GASB Board Statements

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The provisions of this statement are effective for fiscal years beginning after June 15, 2017. The Authority has implemented the provisions of GASB Statement No. 75 in the current year with no impact to the financial statements.

GASB Statement No. 81 – *Irrevocable Split-Interest Agreements*. The requirements of this statement are effective for reporting periods beginning after December 15, 2016. The Authority has implemented the provisions of GASB Statement No. 81 in the current year with no impact to the financial statements.

GASB Statement No. 85 – *Omnibus 2017*. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. The Authority has implemented the provisions of GASB Statement No. 85 in the current year with no impact to the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Implemented GASB Statements (Continued)

GASB Statement No. 86 – *Certain Debt Extinguishment Issues*. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. The Authority has implemented the provisions of GASB Statement No. 86 in the current year with no impact to the financial statements.

E. Future GASB Statements

GASB Statement No. 83 – *Certain Asset Retirement Obligations*. The provisions of this statement are effective for reporting periods beginning after June 15, 2018. The Authority has not fully judged the impact of implementation of GASB Statement No. 83 on the financial statements.

GASB Statement No. 84 – *Fiduciary Activities*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The Authority has not fully judged the effect of the implementation of GASB Statement No. 84 as of the date of the basic financial statements.

GASB Statement No. 87 – *Leases*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The Authority has not fully judged the impact of implementation of GASB Statement No. 87 on the financial statements.

GASB Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. The Authority has not fully judged the effect of the implementation of GASB Statement No. 88 as of the date of the basic financial statements.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The Authority has not fully judged the impact of implementation of GASB Statement No. 89 on the financial statements.

GASB Statement No. 90 – *Majority Equity Interests*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The Authority has not fully judged the impact of implementation of GASB Statement No. 90 on the financial statements.

F. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense related to pensions, information about the fiduciary net position of the San Bernardino County Employees' Retirement Association (SBCERA) and additions to/deductions from SBCERA's fiduciary net position have been determined on the same basis as they are reported by SBCERA. For this purpose, employer and employee contributions are recognized in the period the related salaries are earned and become measurable pursuant to formal commitments, statutory or contractual requirements; benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms; and investments are reported at fair value.

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 – ACCOUNTS RECEIVABLE

The accounts receivable is reported at its gross value, and where appropriate, is reduced by an allowance for the estimated uncollectible amounts. There were no estimated allowances for uncollectible amounts on the accounts receivable balance of \$185,234.

NOTE 4 – 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	7 years

Changes in capital assets for the fiscal year ended June 30, 2018, are as follows:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Depreciable Capital Assets:				
Computer Equipment	\$ 101,167	\$ 11,588	\$ -	\$ 112,755
Subtotal	101,167	11,588	-	112,755
Accumulated Depreciation:				
Computer Equipment	(52,681)	(15,636)	-	(68,317)
Subtotal	(52,681)	(15,636)	-	(68,317)
Net Capital Assets	\$ 48,486	\$ (4,048)	\$ -	\$ 44,438

Depreciation expense for the fiscal year ended June 30, 2018, was \$15,636.

NOTE 5 – ADVANCES PAYABLE

At the beginning of July 2007, the County of Kern and the 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 County of Kern and the County of San Bernardino apply to funds of other outside districts on deposit with the County of Kern and the County of San Bernardino's treasury. In addition, accrued interest will accrete to the principal of the advances. The advances 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, 2018, the outstanding principal and accrued interest was \$1,190,367.

NOTE 6 – FEES 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 fiscal year ended June 30, 2018, the amount was \$904,145.

NOTE 7 – 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 5 for details of the advances payable.

NOTE 8 – PENSIONS

Defined Benefit Pension Plans

A. San Bernardino County Employees' Retirement Association

Plan Description

The Authority participates in the SBCERA pension plan - a cost-sharing multiple-employer defined benefit pension plan (the Plan). SBCERA administers the Plan which provides benefits for two membership classifications, General and Safety, and those benefits are tiered based upon date of SBCERA membership. Safety membership is extended to those involved in active law enforcement and fire suppression. All other members are classified as General members. Authority employees are General members of SBCERA; therefore, Safety Plan information is not included in these financial statements. Generally, those who become members prior to January 1, 2013, are Tier 1 members. All other members are Tier 2. Employees who are appointed to a regular position, whose service is greater than fifty percent of the full standard of hours required, are members of SBCERA, and are provided with pension benefits pursuant to Plan requirements.

The Plan operates under the provisions of the California County Employees' Retirement Law of 1937 (CERL); the California Public Employees' Pension Reform Act of 2013 (PEPRA); and the regulations, procedures, and policies adopted by SBCERA's Board of Retirement (Board). The Plan's authority to establish and amend the benefit terms are set by the CERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the County of San Bernardino Board of Supervisors and/or the SBCERA Board. SBCERA is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

SBCERA is a legally separate entity from the Authority, not a component unit, and there is no financial interdependency with the County of San Bernardino. For these reasons, the Authority's financial statements exclude the SBCERA pension plan as of June 30, 2018. SBCERA publishes its own comprehensive annual financial report that includes its financial statements and required supplementary information that can be obtained by writing SBCERA at 348 W. Hospitality Lane, Third Floor, San Bernardino, CA 92415-0014 or visiting the website at: www.SBCERA.org.

NOTE 8 – PENSIONS (Continued)

Defined Benefit Pension Plans (Continued)

A. San Bernardino County Employees' Retirement Association (Continued)

Benefits Provided

SBCERA provides retirement, disability, death, and survivor benefits. The CERL and PEPRA establish benefit terms. Retirement benefits are calculated on the basis of age, average final compensation, and service credit as follows:

	<u>General - Tier 1</u>	<u>General Tier - 2</u>
Final Average Compensation	Highest 12 months	Highest 35 months
Normal Retirement Age	Age 55	Age 55
Early Retirement: Years of Service	Age 70 any years	Age 70 any years
Required and/or Age Eligible For	10 years age 50 30 years any age	5 years age 52 N/A
Benefit Percent per Year of Service for Normal Retirement Age	2% per year of final average compensation for every year of service credit	2.5% per year of final average compensation for every year of service credit
Benefit Adjustments	Reduced before age 55, increased after 22 up to age 65	Reduced before age 37
Final Average Compensation Limitation	Internal Revenue Code Section 401(a)(17)	Government Code Section 7522.10

An automatic cost of living adjustment is provided to benefit recipients based on changes in the local region Consumer Price Index (CPI) up to a maximum of 2% per year. Any increase greater than 2% is banked and may be used in years where the CPI is less than 2%. There is a one-time 7% increase at retirement for members hired before August 19, 1975. The Plan also provides disability and death benefits to eligible members and their beneficiaries, respectively. For retired members, the death benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to benefits based on the member's years of service or if the death was caused by employment. General members are also eligible for survivor benefits which are payable upon a member's death.

Contributions

Participating employers and active members are required by statute to contribute a percentage of covered salary to the Plan. This requirement is pursuant to Government Code Sections 31453.5 and 31454 for participating employers, and Government Code Sections 31621.6, 31639.25, and 7522.30 for active members. The contribution requirements are established and may be amended by the SBCERA Board pursuant to Article 1 of the CERL, which is consistent with the Plan's actuarial funding policy. The contribution rates are adopted yearly, based on an annual actuarial valuation, conducted by an independent actuary, that requires actuarial assumptions with regard to mortality, expected future service (including age at entry into the Plan, if applicable, and tier), and compensation increases of the members and beneficiaries. The combined active member and employer contribution rates are expected to finance the costs of benefits for employees that are allocated during the year, with an additional amount to finance any unfunded accrued liability. Participating employers may pay a portion of the active members' contributions through negotiations and bargaining agreements.

Employee contribution rates for the fiscal year ended June 30, 2018, ranged between 7.89% and 14.22% for Tier 1 General members, and between 9.33% and 8.37% for Tier 2 General members.

NOTE 8 – PENSIONS (Continued)

Defined Benefit Pension Plans (Continued)

A. San Bernardino County Employees' Retirement Association (Continued)

Pension Liability

At June 30, 2018, Authority reported a net pension liability of \$507,723 for its proportionate share of SBCERA's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. SBCERA's publicly available financial report provides details on the change in the net pension liability.

The Authority's proportion of the net pension liability was based on the Authority's contributions received by SBCERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017, relative to the total employer contributions received from all of SBCERA's participating employers. At June 30, 2017, the Authority's proportion was 0.019%, which was the same proportion measured as of June 30, 2016.

Pension Expense and Deferred Outflows/Inflows of Resources

For the fiscal year ended June 30, 2018, the Authority recognized pension expense of \$90,327 for its proportionate share of SBCERA's pension expense. At June 30, 2018, the Authority reported its proportionate share of deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 129,748	\$ -
Changes in proportion and differences between Authority contributions and proportionate share of contributions	75,996	-
Authority contributions subsequent to the measurement date	73,873	-
Net difference between projected and actual earnings on retirement plan investments	18,435	-
Differences between expected and actual experiences	-	54,316
Changes in proportion and differences between Authority contributions and proportionate share of contributions	-	7,332
	<u>\$ 298,052</u>	<u>\$ 61,648</u>

NOTE 8 – PENSIONS (Continued)

Defined Benefit Pension Plans (Continued)

A. San Bernardino County Employees' Retirement Association (Continued)

Pension Expense and Deferred Outflows/Inflows of Resources (Continued)

The \$73,873 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions to SBCERA, subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to SBCERA pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2019	\$ 38,007
2020	54,357
2021	42,399
2022	3,427
2023	20,068
Thereafter	<u>4,273</u>
Total	<u>\$ 162,531</u>

Actuarial Assumptions and Methods

The significant actuarial assumptions and methods used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll (3.75% payroll growth assumed)
Investment rate of return	7.50%
Inflation	3.25%
Projected salary increases	General: 4.60% to 13.75%
Administrative expenses	0.60% of payroll

For General members, post-retirement mortality is based on the RP-2000 Combined Healthy Mortality Tables projected with Scale BB to 2020.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the three-year period of July 1, 2010 – June 30, 2013.

There were no changes in assumptions from the prior year.

The long-term expected rate of return on pension plan investments is 7.50%. SBCERA's actuary prepares an analysis of the long-term expected rate of return on a triennial basis using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocations (approved by the SBCERA Board) and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumptions are summarized in the table on the following page.

NOTE 8 – PENSIONS (Continued)**Defined Benefit Pension Plans** (Continued)**A. San Bernardino County Employees' Retirement Association** (Continued)**Actuarial Assumptions and Methods** (Continued)**SBCERA's Long-Term Expected Real Rate of Return**

Asset Class	As of June 30, 2017 Valuation Date	
	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
U.S. Equity	N/A ¹	N/A ¹
Large Cap U.S. Equity	8.00%	5.61%
Small Cap U.S. Equity	2.00%	6.37%
Developed International Equity	6.00%	6.96%
Emerging Market Equity	6.00%	9.28%
U.S. Core Fixed Income	2.00%	1.06%
High Yield/Credit Strategies	13.00%	3.65%
Global Core Fixed Income	1.00%	0.07%
Emerging Market Debt	6.00%	3.85%
Real Estate	9.00%	4.37%
Cash and Equivalents	2.00%	-0.17%
International Credit	11.00%	6.75%
Absolute Return	13.00%	3.56%
Other Real Assets	5.00%	6.35%
Private Equity	16.00%	8.47%
Total	<u>100.00%</u>	

¹ N/A = Asset Class not considered in the calculation.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made based on the actuarially determined rates based on the SBCERA Board's funding policy, which establishes the contractually required rate based on statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 8 – PENSIONS (Continued)**Defined Benefit Pension Plans** (Continued)**A. San Bernardino County Employees' Retirement Association** (Continued)**Sensitivity of the Authority's Proportionate Share of the SBCERA Net Pension Liability to Changes in the Discount Rate**

The following table presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	Discount Rate -1% (6.25%)	Current Discount Rate (7.25%)	Discount Rate +1% (8.25%)
Authority's net pension liability as of June 30, 2018	\$ 883,790	\$ 507,723	\$ 198,399

Pension Plan Fiduciary Net Position

Detailed information about the SBCERA's fiduciary net position is available in a separately issued SBCERA comprehensive annual financial report. That report may be obtained on the Internet at www.SBCERA.org; by writing to SBCERA at 348 W. Hospitality Lane, Third Floor, San Bernardino, CA 92415; or by calling (909) 885-7980 or (877) 722-3721.

NOTE 9 – COMPENSATED ABSENCES

When employment with the Authority is terminated, an employee will receive compensation for all eligible unused hours. The following is a summary of earned compensated absences of the Authority for the fiscal year ended June 30, 2018:

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018	Due Within One Year
Compensated Absences	\$ 228,862	\$ 29,374	\$ -	\$ 258,236	\$ -
Total	<u>\$ 228,862</u>	<u>\$ 29,374</u>	<u>\$ -</u>	<u>\$ 258,236</u>	<u>\$ -</u>

NOTE 10 – PRIOR PERIOD ADJUSTMENT

The beginning net position has been restated as follows:

Net Position, July 1, 2017, as Previously Reported	\$ 43,546
Understatement of compensated absences payable	(228,862)
Addition of prior year expense recorded in current year	<u>(29,980)</u>
Net Position, July 1, 2017, as Restated	<u>\$ (215,296)</u>

NOTE 11 – RESTATEMENT

The Authority's previously reported June 30, 2018, financial statements, with an original audit report date as of December 31, 2018, were restated as a result of an understatement of compensated absences liability and the related expenses. The information in the following table shows the effect of the restatement on each affected financial statement line item:

	June 30, 2018		Effect of Change
	<u>As Previously Reported</u>	<u>As Restated</u>	
Statement of Net Position			
Compensated Absences Payable	\$ -	\$ 258,236	\$ 258,236
Total Noncurrent Liability	1,698,090	1,956,326	258,236
Total Liability	1,757,359	2,015,595	258,236
Total Net Position (Accumulated Deficit)	53,323	(204,913)	(258,236)
For the Fiscal Year Ended June 30, 2018			
	<u>As Previously Reported</u>	<u>As Restated</u>	Effect of Change
Statement of Revenues, Expenses, and Changes in Net Position			
Salaries and Benefits	\$ 488,106	\$ 517,480	\$ 29,374
Total Operating Expenses	868,300	897,674	29,374
Operating Income	35,845	6,471	(29,374)
Change in Net Position	39,757	10,383	(29,374)
Prior Period Adjustments	(29,980)	(258,842)	(228,862)
Net Position (Accumulated Deficit) - Beginning, as Restated	13,566	(215,296)	(228,862)
Net Position (Accumulated Deficit) - Ending	53,323	(204,913)	(258,236)
For the Fiscal Year Ended June 30, 2018			
	<u>As Previously Reported</u>	<u>As Restated</u>	Effect of Change
Statement of Cash Flows			
Operating Income	\$ 35,845	\$ 6,471	\$ (29,374)
Increase in Compensated Absences Payable	-	29,374	29,374

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 31, 2020, which is the date the financial statements are issued. No events have occurred that would require additional disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

**CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
SBCERA PENSION PLAN
LAST 10 FISCAL YEARS**

	<u>June 30, 2017</u> ⁽¹⁾	<u>June 30, 2016</u> ⁽¹⁾	<u>June 30, 2015</u> ⁽¹⁾	<u>June 30, 2014</u> ⁽¹⁾
The Authority's proportion of the net pension liability	0.019%	0.019%	0.020%	0.014%
The Authority's proportionate share of the net pension liability	\$ 507,723	\$ 472,814	\$ 381,217	\$ 244,456
The Authority's covered-employee payroll	\$ 349,770	\$ 374,163	\$ 198,693	\$ 219,947
The Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	145.16%	126.37%	191.86%	111.14%
Plan fiduciary net position	\$ 2,211,389	\$ 1,899,721	\$ 2,026,260	\$ 1,378,372
Plan fiduciary net position as a percentage of the total pension liability	81.33%	80.07%	84.17%	84.94%

⁽¹⁾ The amounts presented for each fiscal year were determined as of June 30. Data for fiscal years ended June 30, 2007 through 2013 is not available in a comparable format.

**CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS
LAST 10 FISCAL YEARS**

	<u>June 30, 2017 ⁽¹⁾</u>	<u>June 30, 2016 ⁽¹⁾</u>	<u>June 30, 2015 ⁽¹⁾</u>	<u>June 30, 2014 ⁽¹⁾</u>
Actuarially determined contribution	\$ 73,871	\$ 70,005	\$ 66,969	\$ 39,966
Contributions in relation to the actuarially determined	<u>(73,871)</u>	<u>(70,005)</u>	<u>(66,969)</u>	<u>(39,966)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 349,770	\$ 374,163	\$ 198,693	\$ 219,947
Contributions as a percentage of covered-employee payroll	21.1%	18.7%	33.7%	18.2%

⁽¹⁾ The amounts presented for each fiscal year were determined as of June 30. Data for fiscal years ended June 30, 2007 through 2013 is not available in a comparable format.

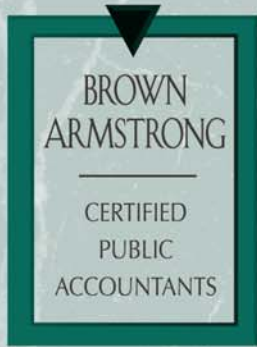
OTHER SUPPLEMENTARY INFORMATION

**CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES			
Fees for Services from Other Governmental Agencies	\$ 726,048	\$ 904,145	\$ 178,097
Total Operating Revenues	<u>726,048</u>	<u>904,145</u>	<u>178,097</u>
OPERATING EXPENSES			
Insurance	23,000	18,060	4,940
Memberships	1,000	-	1,000
Salaries and Benefits	594,825	517,480	77,345
Office	25,000	7,772	17,228
Professional Services	137,500	125,268	12,232
Data Processing	214,765	189,321	25,444
Transportation and Travel	25,000	21,952	3,048
Annual Summit	12,000	2,185	9,815
Grant Issuance	50,000	-	50,000
Other Financing- Loan Repayments	25,000	-	25,000
Depreciation	<u>25,000</u>	<u>15,636</u>	<u>9,364</u>
Total Operating Expenses	<u>1,133,090</u>	<u>897,674</u>	<u>235,416</u>
Operating Income (Loss)	<u>(407,042)</u>	<u>6,471</u>	<u>413,513</u>
NONOPERATING REVENUES (EXPENSES)			
Interest Earnings	-	16,487	16,487
Interest Expense	<u>-</u>	<u>(12,575)</u>	<u>(12,575)</u>
Total Nonoperating Revenues (Expenses)	<u>-</u>	<u>3,912</u>	<u>3,912</u>
Change in Net Position	<u>\$ (407,042)</u>	10,383	<u>\$ 417,425</u>
Net Position (Accumulated Deficit) - Beginning Restated		<u>(215,296)</u>	
Net Position (Accumulated Deficit) - Ending		<u>\$ (204,913)</u>	

Note: The annual summit was covered by the budgeted contingency.

OTHER INDEPENDENT AUDITOR'S REPORT



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the 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, the financial statements of the Authority, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated July 31, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as Finding 2018-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Restatement

Without modifying our opinion, our previous report dated December 31, 2018, has been withdrawn and the Authority's financial statements have been restated as discussed in Note 11. In addition, our original opinion on the Authority's internal control over financial reporting and on compliance and other matters as of and for the fiscal year ended June 30, 2018, was restated as of July 31, 2020.

Purpose if this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
July 31, 2020

**CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2018**

Current Year Findings:

Finding 2018-001

Condition:

We noted during our Subsequent Disbursement and Expenditure Testing that the Authority did not properly accrue payroll or record compensated absences liability. As such, we proposed material adjustments to accrue these liabilities.

Criteria:

Per accounting principles generally accepted in the United States of America, and governmental accounting standards, proprietary funds use the accrual basis of accounting. Under the accrual basis, expenses and liabilities are to be recorded in the period incurred. The pay periods occurred before year end and were paid after year end rather than being recorded on the accrual basis of accounting for the fiscal year under audit.

Cause of Condition:

There was a timing issue when it came to recording payroll accruals at year end and the Authority did not accrue certain payroll related liabilities that should have been accrued.

Potential Effect of Condition:

Understating liabilities and expenses, and overstating net position for the fiscal year under audit.

Recommendation:

We recommend that the Authority implement procedures to review their quarterly payroll funding expense for the first quarter to ensure administration costs represent only the cost related to salaries earned in the current fiscal year. Payroll expenses relating to employee services before the end of the prior fiscal year should be accrued and reported as expenses for the prior fiscal year. In addition, compensated absences liability should be recorded in the Authority's accounting and financial reporting system.

View of Responsible Officials and Planned Corrective Actions:

This finding was discussed with the Business Manager on Tuesday October 11, 2018 where he acknowledges there was an overlap between fiscal years and that no accrual was made. The Authority has corrected their financial statements to reflect this liability on the financial statements, further the Authority agrees to perform certain closing procedures to ensure that proper accruals, including compensated absences liability, are made.

**CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
STATUS OF PRIOR YEAR FINDINGS AND RESPONSES
JUNE 30, 2018**

None noted.