

**CALIFORNIA ELECTRONIC RECORDING  
TRANSACTION NETWORK AUTHORITY**

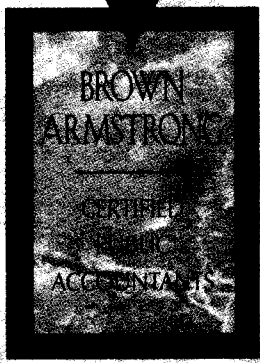
**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2011**

**CALIFORNIA ELECTRONIC RECORDING  
TRANSACTION NETWORK AUTHORITY  
JUNE 30, 2011**

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# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

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

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We have audited the accompanying basic financial statements of the California Electronic Recording Transaction Network Authority (the Authority), as of and for the year ended June 30, 2011, 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, 2011, 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.

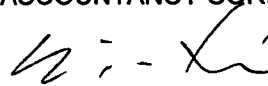
In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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.



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MEMBER of the American Institute of  
Certified Public Accountants

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. Li", is written below the company name.

Bakersfield, California  
November 23, 2011

**BASIC FINANCIAL STATEMENTS**

**CALIFORNIA ELECTRONIC RECORDING  
TRANSACTION NETWORK AUTHORITY  
STATEMENT OF NET ASSETS  
JUNE 30, 2011**

**ASSETS**

Current Assets

Cash and Cash Equivalents \$ 903,228

Total Current Assets 903,228

Noncurrent Assets

Capital Assets

Computer Equipment, Net 3,995

Total Noncurrent Assets 3,995

Total Assets \$ 907,223

**LIABILITIES**

Noncurrent Liabilities

Advances Payable \$ 1,832,617

Total Noncurrent Liabilities 1,832,617

Total Liabilities 1,832,617

**NET ASSETS (ACCUMULATED DEFICIT)**

Total Net Assets (Accumulated Deficit) \$ (925,394)

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, 2011**

<b>OPERATING REVENUES</b>	
Fees for Services from Other Governmental Agencies	<u>\$ 591,540</u>
Total Operating Revenues	<u>591,540</u>
<b>OPERATING EXPENSES</b>	
Memberships	350
Salaries and Benefits	299,516
Office	32,978
Professional Services	42,760
Data Processing	174,118
Transportation and Travel	31,781
Depreciation	<u>841</u>
Total Operating Expenses	<u>582,344</u>
Operating Income	<u>9,196</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest Earnings	7,507
Interest Expense	<u>(20,642)</u>
Total Nonoperating Expenses	<u>(13,135)</u>
Change in Net Assets	(3,939)
Net Assets (Accumulated Deficit) - Beginning	<u>(921,455)</u>
Net Assets (Accumulated Deficit) - Ending	<u><u>\$ (925,394)</u></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, 2011**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash Receipts from Sale of Services	\$ 594,527
Cash Payments to Employees for Salaries and Benefits	(299,516)
Cash Payments to Vendors for Goods and Services	(281,987)
	<u>13,024</u>

Net Cash Provided by Operating Activities

13,024

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Advances Payable Payments - Principal	(79,358)
Advances Payable Payments - Interest	(20,642)
	<u>(100,000)</u>

Net Cash Used by Capital and Related Financing Activities

(100,000)

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest Received	7,507
	<u>7,507</u>

Net Cash Provided by Investing Activities

7,507

Net Decrease in Cash and Cash Equivalents

(79,469)

Cash and Cash Equivalents, Beginning of Year

982,697

Cash and Cash Equivalents, End of Year

\$ 903,228

**Reconciliation of Operating Income to Net Cash Provided by Operating Activities**

Operating Income	\$ 9,196
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Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:

Depreciation Expense	841
Decrease in Interest Receivable	2,987
	<u>3,828</u>

Net Cash Provided by Operating Activities

\$ 13,024

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, 2011**

**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, 2011, 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, El Dorado, and Monterey. 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, 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 advance 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, 2011, the outstanding principal and accrued interest was \$1,832,617.

**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

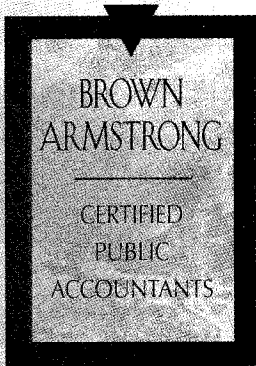
Capital assets for the year ended June 30, 2011, are as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Depreciable Capital Assets:				
Computer Equipment	\$ 5,887	\$ -	\$ -	\$ 5,887
Subtotal	5,887	-	-	5,887
Accumulated Depreciation:				
Computer Equipment	(1,051)	(841)	-	(1,892)
Subtotal	(1,051)	(841)	-	(1,892)
Net Capital Assets	<u>\$ 4,836</u>	<u>\$ (841)</u>	<u>\$ -</u>	<u>\$ 3,995</u>

Depreciation expense for the year ended June 30, 2011, 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, 2011, the amount was \$591,540.



# 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 Governing Board  
California Electronic Recording  
Transaction Network Authority  
Bakersfield, California

### **MAIN OFFICE**

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We have audited the basic financial statements of the California Electronic Recording Transaction Network Authority (the Authority), as of and for the year ended June 30, 2011, and have issued our report thereon dated November 23, 2011. 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

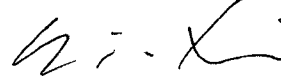
As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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*.



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MEMBER of the American Institute of  
Certified Public Accountants

The report is intended solely for the information of management and the Governing Board of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "M. Li", is positioned below the company name.

Bakersfield, California  
November 23, 2011