CALIFORNIA ELECTRONIC RECORDING TRANSACTION NETWORK AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
JUNE 30, 2009

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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 financial statements of the California Electronic Recording Transaction Network Authority (Authority), as of and for the year ended June 30, 2009, 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 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements referred to above present fairly, in all material respects, the respective financial position of California Electronic Recording Transaction Network Authority as of June 30, 2009, 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 February 17, 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.

The Authority has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
February 17, 2010

BASIC FINANCIAL STATEMENTS

CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2009

ASSETS		
Current Assets		
Cash and Cash Equivalents	$	1,305,375
Interest Receivable		12,041
Total Current Assets		1,317,416
Noncurrent Assets		
Capital Assets:		
Computer Equipment, net		32,326
Total Noncurrent Assets		32,326
Total Assets	$	1,349,742
LIABILITIES		
Noncurrent Liabilities		
Advances Payable	$	1,983,058
Total Noncurrent Liabilities		1,983,058
Total Liabilities		1,983,058
NET ASSETS		
Total Net Assets	$	(633,316)

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, 2009

OPERATING REVENUES	
Fees for Services from Other Governmental Agencies	$ 1,093,262
Total Operating Revenues	1,093,262
OPERATING EXPENSES	
Salaries and Benefits	211,218
Office	48,597
Professional Services	138,499
Data Processing	1,289,616
Transportation and Travel	6,307
Utilities	30
Equipment	34,425
Depreciation	531
Total Operating Expenses	1,729,223
Operating Loss	(635,961)
NON-OPERATING REVENUES (EXPENSES)	
Interest Earnings	70,040
Interest Expense	(67,395)
Total Non-operating Revenues	2,645
Change in Net Assets	(633,316)
Net Assets - Beginning	-
Net Assets - Ending	$ (633,316)

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, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Receipts from Sale of Services	$ 1,081,221
Cash Payments to Employees for Salaries and Benefits	(211,218)
Cash Payments to Vendors for Goods and Services	(1,517,474)
Net Cash Used by Operating Activities	(647,471)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of Capital Assets	(32,857)
Advances Payable Payments - Principal	(32,605)
Advances Payable Payments - Interest	(67,395)
Net Cash Used by Capital Related Financing Activities	(132,857)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Received	70,040
Net Cash Provided by Investing Activities	70,040
Net Decrease in Cash	(710,288)
Cash and Cash Equivalents, Beginning of Year	2,015,663
Cash and Cash Equivalents, End of Year	$ 1,305,375

Reconciliation of Operating Loss to Net Cash Used by Operating Activities

Operating Loss	$ (635,961)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	531
Increase in Interest Receivable	(12,041)
Net Cash Used by Operating Activities	$ (647,471)

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

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 Kern County and San Bernardino County 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.

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

The Authority's 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 Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards. The Authority is presented in the accompanying 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 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 County of Kern. The cash balances reflect the transfers in of the borrowed fund from both Kern County and San Bernardino County. Interest income earned on pooled cash is allocated from the County to the Authority based on its average cash balances outstanding. For purpose 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 rate at the same rate that the Counties apply to funds of other outside districts on deposit with the 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 revenue as available. At June 30, 2009, the outstanding principal and accrued interest was $1,983,059.

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 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 assets or materially extend the asset's lives 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, 2009 is as follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Depreciable Capital Assets:				
Computer Equipment	$ -	$ 32,857	$ -	$ 32,857
Subtotal	-	32,857	-	32,857
Accumulated Depreciation:				
Computer Equipment	-	(531)	-	(531)
Subtotal	-	(531)	-	(531)
Net Capital Assets	$ -	$ 32,326	$ -	$ 32,326

Depreciation expense for the year ended June 30, 2009 is $531.

NOTE 5 – 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 "Fee for Services from Other Governmental Agencies". For the year ended June 30, 2009, the amount was $833,587.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF 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

We have audited the financial statements of the California Electronic Recording Transaction Network Authority (Authority), as of and for the year ended June 30, 2009, and have issued our report thereon dated February 17, 2010. 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 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 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*.

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

Bakersfield, California
February 17, 2010