CALIFORNIA ELECTRONIC RECORDING TRANSACTION NETWORK AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
JUNE 30, 2013

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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

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 year ended June 30, 2013, 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 entity'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 entity'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.

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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the 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 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 13 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2014, 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

Brown Armstrong
Accountancy Corporation

Bakersfield, California
February 25, 2014

MANAGEMENT’S DISCUSSION AND ANALYSIS

**CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Introduction

The following discussion and analysis of the financial performance and activity of the California Electronic Recording Transaction Network Authority (the Authority) provide 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 nine member counties: El Dorado, Fresno, Kern, Merced, Monterey, San Bernardino, Santa Clara, Santa Cruz, and San Joaquin. The Authority also services two client counties: Contra Costa and San Francisco.

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 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 Change 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.

Statements 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 in the adoption of the Authority's annual budget. All expenditures were for operating expenses.

Financial Highlights

- Operating revenues were $849,348, while operating expenses were $635,893.
- 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 2013 and 2012 is as follows:

			Increase/(Decrease)	
	2013	2012	Amount	%
Operating Revenues	$ 849,348	$ 575,321	$ 274,027	47.63%
Operating Expenses	635,893	601,325	34,568	5.75%
Operating Income (Loss)	213,455	(26,004)	239,459	920.85%
Nonoperating Revenues	4,643	7,147	(2,504)	-35.04%
Nonoperating Expenses	(6,554)	(13,832)	7,278	52.62%
Increase (Decrease) in Net Position	$ 211,544	$ (32,689)	$ 244,233	747.14%

The largest revenue category listed on the Statements of Revenues, Expenses, and Changes in Net Position is Fees for Services from Other Governmental Agencies (99.4% in 2013). 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-one percent (51%) 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, 2013 and 2012, are as follows:

			Increase/(Decrease)	
	2013	2012	Amount	%
Current Assets	$ 840,663	$ 815,475	$ 25,188	3.09%
Noncurrent Assets				
Capital Assets, Net	65,801	3,154	62,647	1986.27%
Total Noncurrent Assets	65,801	3,154	62,647	1986.27%
Total Assets	$ 906,464	$ 818,629	$ 87,835	10.73%
Current Liabilities	$ -	$ 30,263	$ (30,263)	-100.00%
Noncurrent Liabilities	1,653,003	1,746,449	(93,446)	-5.35%
Total Liabilities	$ 1,653,003	$ 1,776,712	$ (123,709)	-6.96%
Total Net Position	$ (746,539)	$ (958,083)	$ 211,544	22.08%

Capital Assets

As of the end of fiscal year 2013, the Authority's capital assets, before accumulated depreciation, were valued at $70,140. Total additions during the year amounted to $64,253 related to two servers and a storage array. There were no deletions during the year.

			Increase/(Decrease)	
	2013	2012	Amount	%
Equipment	$ 70,140	$ 5,887	$ 64,253	1091.44%
Total	70,140	5,887	64,253	1091.44%
Less: Accumulated Depreciation	(4,339)	(2,733)	(1,606)	-58.76%
Net Total	$ 65,801	$ 3,154	$ 62,647	1986.27%

Economic Factors and Next Year's Budget and Rates

The Authority continues to feel the impact of economic uncertainty within the housing market due to rising interest rates and constrained supply which threatens recording activity and its associated revenue stream. Due to these uncertainties, the Authority is conservatively projecting that for the fiscal year 2013-14 budget, revenues will remain level to slightly higher with the addition of a client county. Expenses have remained essentially level in fiscal year 2012-13 and are budgeted to increase with the addition of an employee and continued contribution to contingencies in 2013-14.

The fiscal year 2013-14 budget maintains the county contribution rate of $.49 per document and client county licensing tier rates which were approved with the adopted budget in July 2013. These rates will allow the Authority to match revenue with budgeted expenditures. The total projected revenue for the Authority for fiscal year 2013-14 is $839,598, which is an increase of 23.8% over the fiscal year 2012-13 adopted budget.

For the fiscal year 2013-14, the adopted budget for the Authority's operating budget is $919,260, which is an increase of 31.79% from the fiscal year 2012-13 operating budget.

At the time the fiscal year 2013-14 budget was adopted, the total capital project expenditure budget for fiscal year 2013-14 was $20,000, which is a decrease of 77.8% as compared to the fiscal year 2012-13 adjusted budget. The significant decrease was due to replacement of the Authority's storage infrastructure.

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
JUNE 30, 2013

ASSETS		
Current Assets		
Cash and Cash Equivalents	$	759,623
Accounts Receivable		81,040
Total Current Assets		840,663
Noncurrent Assets		
Capital Assets		
Computer Equipment, Net		65,801
Total Noncurrent Assets		65,801
Total Assets	$	906,464
LIABILITIES		
Current Liabilities		
Accounts Payable	$	-
Total Current Liabilities		-
Noncurrent Liabilities		
Advances Payable		1,653,003
Total Noncurrent Liabilities		1,653,003
Total Liabilities		1,653,003
NET POSITION (ACCUMULATED DEFICIT)		
Total Net Position (Accumulated Deficit)	$	(746,539)

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

OPERATING REVENUES	
Fees for Services from Other Governmental Agencies	$ 849,348
Total Operating Revenues	849,348
OPERATING EXPENSES	
Insurance	18,895
Salaries and Benefits	326,635
Office	10,309
Professional Services	60,492
Data Processing	193,994
Transportation and Travel	17,643
Licensing and Warranty	6,319
Depreciation	1,606
Total Operating Expenses	635,893
Operating Income	213,455
NONOPERATING REVENUES (EXPENSES)	
Interest Earnings	4,643
Interest Expense	(6,554)
Total Nonoperating Expenses	(1,911)
Change in Net Position	211,544
Net Position (Accumulated Deficit) - Beginning	(958,083)
Net Position (Accumulated Deficit) - Ending	$ (746,539)

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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Receipts from Sale of Services	$ 768,308
Cash Payments to Employees for Salaries and Benefits	(326,635)
Cash Payments to Vendors for Goods and Services	(337,915)
Net Cash Provided by Operating Activities	103,758
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of Capital Assets	(64,253)
Advances Payable Payments - Principal	(93,446)
Advances Payable Payments - Interest	(6,554)
Net Cash Used by Capital and Related Financing Activities	(164,253)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Received	4,643
Net Cash Provided by Investing Activities	4,643
Net Decrease in Cash and Cash Equivalents	(55,852)
Cash and Cash Equivalents, Beginning of Year	815,475
Cash and Cash Equivalents, End of Year	$ 759,623

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

Operating Income	$ 213,455
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	1,606
Increase in Accounts Receivable	(81,040)
Decrease in Accounts Payable	(30,263)
Net Cash Provided by Operating Activities	$ 103,758

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 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, 2013, a total of ten counties had joined the Authority, including nine member counties as the governing counties and two client counties. The member counties are the Counties of Kern, San Bernardino, Fresno, Santa Clara, Santa Cruz, San Joaquin, El Dorado, Monterey, and Merced. The Counties of Contra Costa and San Francisco 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 expenditures/expenses during the reporting period. Actual results could differ from those estimates.

D. Implemented Governmental Accounting Standards Board Statements

GASB Statement No. 60 – *Accounting and Financial Reporting for Service Concession Arrangements* addresses accounting and financial reporting issues related to public-private and public-public partnerships. The statement is effective for periods beginning after December 15, 2011. Upon implementation, there was no effect on the Authority's accounting or financial reporting.

GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14, and No. 34* modifies a number of provisions with regard to reporting of component units within a financial reporting entity. The statement is effective for periods beginning after June 15, 2012. Upon implementation, there was no effect on the Authority's accounting or financial reporting.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Implemented Governmental Accounting Standards Board Statements (Continued)

GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements – Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The statement is effective for periods beginning after December 15, 2011. However, as the statement codifies what is in current practice, there is no net effect on the Authority's accounting or financial reporting upon the statement's implementation.

GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* modifies financial reporting of those elements. The largest change was the replacement of the Statement of Net Assets with a Statement of Net Position and a Statement of Changes in Net Position instead of the Statement of Changes in Net Assets upon implementation for periods beginning after December 15, 2011. The Authority has implemented this change for the fiscal year ended June 30, 2013.

GASB Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions* amends current accounting and financial reporting related to terminations of swap agreements due to defaults of other termination events. In certain instances where swap counterparties or credit support providers are replaced, hedge accounting may continue, rather than cease. The provisions of GASB Statement No. 63 are effective for financial statements beginning after June 15, 2011. Upon implementation there was no effect on the Authority's accounting or financial reporting.

E. Future Governmental Accounting Standards Board Statements

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities* establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. The Authority has not made an assessment of any changes that will occur upon this statement's implementation.

GASB Statement No. 66 – *Technical Corrections—2012—An Amendment of GASB Statements No. 10 and No. 62* amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement No. 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. The Authority has not made an assessment of any changes that will occur upon this statement's implementation.

GASB Statement No. 67 – *Financial Reporting for Pension Plans—An Amendment of GASB Statement No. 25* replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this statement and to defined contribution plans that provide post employment benefits other than pensions. The provisions of GASB Statement No. 67 are effective for financial statements beginning after June 30, 2013. The Authority has not made an assessment of any changes that will occur upon this statement's implementation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Future Governmental Accounting Standards Board Statements (Continued)

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27* replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this statement. The provisions of GASB Statement No. 68 are effective for financial statements beginning after June 30, 2014. The Authority has not made an assessment of any changes that will occur upon this statement's implementation.

GASB Statement No. 69 – *Government Combinations and Disposals of Government Operations.* The provisions of GASB Statement No. 69 are effective for financial statements beginning after December 15, 2013. The Authority has not made an assessment of any changes that will occur upon this statement's implementation.

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* The provisions of GASB Statement No. 70 are effective for financial statements beginning after June 30, 2013. The Authority has not made an assessment of any changes that will occur upon this statement's implementation.

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 allowance and the estimated uncollectible amounts. There were no estimated allowances for uncollectible amounts on the accounts receivable balance of $81,040.

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

NOTE 4 – CAPITAL ASSETS (Continued)

Capital assets for the year ended June 30, 2013, are as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Depreciable Capital Assets:				
Computer Equipment	$ 5,887	$ 64,253	$ -	$ 70,140
Subtotal	5,887	64,253	-	70,140
Accumulated Depreciation:				
Computer Equipment	(2,733)	(1,606)	-	(4,339)
Subtotal	(2,733)	(1,606)	-	(4,339)
Net Capital Assets	$ 3,154	$ 62,647	$ -	$ 65,801

Depreciation expense for the year ended June 30, 2013, was $1,606.

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, 2013, the outstanding principal and accrued interest was $1,653,003.

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 year ended June 30, 2013, the amount was $768,308.

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 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 25, 2014, which is the date the financial statements are issued. No events have occurred that would require disclosure.

OTHER SUPPLEMENTARY INFORMATION

CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Budget	Actual	Variance
OPERATING REVENUES			
Fees for Services from Other Governmental Agencies	$ 678,157	$ 849,348	$ 171,191
Total Operating Revenues	678,157	849,348	171,191
OPERATING EXPENSES			
Insurance	19,325	18,895	430
Memberships	1,000	-	1,000
Salaries and Benefits	315,000	326,635	(11,635)
Office	5,000	10,309	(5,309)
Professional Services	74,052	60,492	13,560
Data Processing	253,155	193,994	59,161
Transportation and Travel	30,000	17,643	12,357
Licensing and Warrenty	-	6,319	(6,319)
Depreciation	-	1,606	(1,606)
Total Operating Expenses	697,532	635,893	61,639
Operating Income (Loss)	(19,375)	213,455	232,830
NONOPERATING REVENUES (EXPENSES)			
Interest Earnings	-	4,643	4,643
Interest Expense	-	(6,554)	(6,554)
Total Nonoperating Expenses	-	(1,911)	(1,911)
Change in Net Position	(19,375)	211,544	230,919
Net Position (Accumulated Deficit) - Beginning	(958,083)	(958,083)	-
Net Position (Accumulated Deficit) - Ending	$ (977,458)	$ (746,539)	$ 230,919

OTHER INDEPENDENT AUDITOR'S REPORT

BROWN
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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

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 year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 25, 2014.

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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

Purpose of 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
February 25, 2014

CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2013

None in current year.

CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
STATUS OF PRIOR YEAR FINDINGS AND RESPONSES
JUNE 30, 2013

Agreed Upon Condition 1 – Lack of Expenditure Accrual Internal Controls

Condition: We performed a search for unrecorded liabilities by selecting expenditures that occurred after June 30, 2013, to determine if there were any unrecorded liabilities that should have been accrued. During our testing, we noted 2 out of the 5 expenditures transactions selected for testing were not properly accrued for the fiscal year. Given both balances were material, the financial statements were adjusted accordingly.

Recommendation: We recommend that the Authority fully enforce the County of Kern's expenditure accrual year-end policies and procedures or establish its own written expenditure accrual policies and procedures. We also recommend that the Business Manager and/or the Executive Director perform random checks to ensure that all expenditures that need to be accrued are being properly accrued at year-end.

Management Response: Management agrees with the recommendation. The County of Kern's expenditure accrual year-end policies and procedures will be fully enforced. The Business Manager and/or the Executive Director will perform random checks to ensure that all expenditures that need to be accrued are properly accrued at year-end.

Current Year Status: Implemented.

Agreed Upon Condition 2 – Lack of Purchasing Card Internal Controls

Condition: During our search for unrecorded liabilities testing, one of the expenditures selected was a monthly credit card statement. Per discussion with management, the card is used by the Executive Director for travel and other business purchases; however, no review is performed by someone other than the cardholder prior to the monthly statements being paid. Additionally, there is also no formal purchase card policies and procedures in place.

Given the facts identified above, we decided to select a sample of credit card statements for fraud testing. We obtained a listing of all US Bank claims paid during the 2011-2012 fiscal year and randomly selected 4 months to review. During our testing we noted the following:

- Management was unable to provide us with copies of all the transactions receipts (total of 10 missing receipts).

- Appears not all transactions should have been charges to the travel expenditure code; some charges appear to be office, meals, and postage related expenses.

Recommendation: We recommend that the Authority implement formal written purchase card policies and procedures, which should include what the purchase card(s) may or may not be used for. We also recommend that the Authority establish review procedures over purchase card transactions by someone other than the cardholder. Someone other than the cardholder should be verifying supporting documentation for each transaction, verifying transactions were for business related expenses, and verifying transaction were classified to the correct expenditure codes.

Management Response:

- The total dollar amount of charges for the four months sampled is $7,898.81 and the total dollar amount for the missing receipts is $336.43. The 10 receipts missing from the credit card statements in the four months sampled were in conjunction with Board authorized overnight travel for 2 trips to San Jose (missing receipts for meals in the amount of $13.25, $13.70, $33.12 and $9.73), 1 trip to Sacramento (missing receipts for a meal in the amount of $25.54), and 1 trip to Lake Tahoe (missing receipts for airport shuttle in the amount of $49.00, parking at Ontario Airport in the amount of $72.00, 2 meals in the amounts of $40.51 and $4.58, and a room cancellation fee in the amount of $75.00 due to the Board's decision to cancel the budget development portion of the meeting due to pending storms). All other receipts for each of these statements were furnished.

- Prior to July 1, 2012, all purchasing card payments to US Bank were set up to only allocate charges to one expense key, the travel expense key. As of July 1, 2012, all purchase card payments to US Bank have been set up to be allocated to individual expense keys which will ensure all charges are expensed to the proper expense keys.

- The Authority's Board agrees with the recommendation to implement formal written purchasing card policies and procedures. Purchase card policies and procedures are being developed and will be placed on the agenda for consideration by the Board at its next meeting in January 2013. The policies and procedures will identify what the purchasing card may be used for and detail the review and approval procedures to ensure transactions are for business related expenditures and to ensure expenditures are classified to the correct expenditure codes.

Current Year Status: Implemented.