CALIFORNIA ELECTRONIC RECORDING TRANSACTION NETWORK AUTHORITY

REPORT ON AUDIT OF FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

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TRANSACTION NETWORK AUTHORITY
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INDEPENDENT AUDITORS' REPORT

Board of Directors
California Electronic Recording
Transaction Network Authority
Bakersfield, California

Report on the Audit of the Financial Statements

Opinion

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, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Board of Directors
California Electronic Recording
Transaction Network Authority

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The budgetary comparison schedule is presented as other supplementary information for purposes of additional analysis and is not a required part of the basic financial statements. The budgetary comparative schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2024, 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 solely 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 effectiveness of the Authority's 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 Authority's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Glendora, California
May 6, 2024

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.

As of June 30, 2023, the Authority is comprised of 22 counties, this includes 3-member counties as the governing counties and 19 client counties. The 3 member counties are Santa Cruz, Kern, and El Dorado. The 19 client counties are Alameda, Butte, Calaveras, Glenn, Humboldt, Madera, Modoc, Mono, Monterey, Napa, Placer, Plumas, San Francisco, San Luis Obispo, Sonoma, Tehama, Tuolumne, Yolo, Yuba.

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.

STATEMENT OF CASH FLOWS (CONTINUED)

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 $788,136. while operating expenses were $649,504.

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 2023 and 2022 is as follows:

			Increase (Decrease)	
	2023	2022	Amount	Percent
Operating Revenues	$ 788,136	$ 1,048,022	$ (259,886)	-24.8%
Operating Expenses	649,504	676,965	(27,461)	-4.1%
Operating Income	138,632	371,057	(232,425)	-62.6%
Nonoperating Revenues	32,993	16,655	16,338	98.1%
Increase in Net Position	$ 171,625	$ 387,712	$ (216,087)	NM

The largest revenue category listed on the statements of revenues, expenses, and changes in net position is Fees for Services from Other Governmental Agencies (100% in 2023). Most of the revenue is collected from 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. Sixty percent (60%) 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, 2023 and 2022, are as follows:

			Increase (Decrease)	
	2023	2022	Amount	Percent
Assets:				
Current Assets	$ 1,663,972	$ 1,488,925	$ 175,047	11.8%
Noncurrent Assets:				
Capital Assets, Net	47,188	45,995	1,193	2.6%
Total Assets	1,711,160	1,534,920	176,240	11.5%
Liabilities:				
Current Liabilities	4,615	-	4,615	100.0%
Total Liabilities	4,615	-	4,615	100.0%
Net Position:				
Investment in Capital Assets	47,188	45,995	1,193	2.6%
Unrestricted	1,659,357	1,488,925	170,432	11.4%
Total Net Position	$ 1,706,545	$ 1,534,920	$ 171,625	

The change in net position is a result of operating and nonoperating activity and was $171,625.

CAPITAL ASSETS

As of the end of fiscal year 2023, the Authority's capital assets, before accumulated depreciation, were valued at $209,533. There were an addition of $24,276 to capital assets during the year.

			Increase (Decrease)	
	2023	2022	Amount	Percent
Equipment	$ 209,533	$ 185,257	$ 24,276	13.1%
Less: Accumulated Depreciation	(162,345)	(139,262)	(23,083)	16.6%
Net Total	$ 47,188	$ 45,995	$ 1,193	2.6%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Authority notes that the number of real estate transactions and associated document recording levels are continuing to decline as compared to the previous year and makes particular note of a market with lower demand for housing and higher interest rates. Due to these uncertainties, the Authority is conservatively projecting that for the fiscal year 2023-24 budget, recording activity will decline approximately 10% as compared to the previous FY.

The fiscal year 2023-24 budget maintains a board county rate of $0.51 per electronic recording dollar collected and an agent fee of up to $0.75 per recorded document. This coupled with the ending fund balance of FY 2022-2023 will allow the Authority to match revenue with budgeted expenditures. For the fiscal year 2023-24,the adopted budget for the Authority's operating budget is $2,081,600, this is a significant increase from the 2022-23 budget of $1,744,500.

At the time the fiscal year 2023-24 budget was adopted, the total capital project expenditure budget for the fiscal year 2023-24 was $312,000, which is an increase from the fiscal year 2022-2023. The $312,000 is budgeted for replacement of infrastructure hardware.

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 (714) 400-8188.

CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2023

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 1,536,679
Accounts Receivable	10,100
Due from Members	117,193
Total Current Assets	1,663,972
Noncurrent Assets:	
Capital Assets:	
Computer Equipment, Net of Accumulated Depreciation	47,188
Total Noncurrent Assets	47,188
Total Assets	1,711,160
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities	4,615
Total Current Liabilities	4,615
Total Liabilities	4,615
NET POSITION	
Investment in Capital Assets	47,188
Unrestricted	1,659,357
Total Net Position	$ 1,706,545

See accompanying Notes to Basic Financial Statements.

CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2023

OPERATING REVENUES	
Fees for Services from Other Governmental Agencies	$ 788,136
OPERATING EXPENSES	
Insurance	6,554
Salaries and Benefits	393,983
Office	9,639
Professional Services	50,363
Data Processing	149,529
Transportation and Travel	16,353
Depreciation	23,083
Total Operating Expenses	649,504
OPERATING INCOME	138,632
NONOPERATING REVENUES	
Interest Earnings	32,993
Total Nonoperating Revenues	32,993
CHANGE IN NET POSITION	171,625
Net Position - Beginning of Year	1,534,920
NET POSITION - END OF YEAR	$ 1,706,545

See accompanying Notes to Basic Financial Statements.

CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Receipts from Sale of Services	$ 780,832
Cash Payments to/on Behalf of Employees for Salaries and Benefits	(393,983)
Cash Payments to Vendors for Goods and Services	(227,823)
Net Cash Provided by Operating Activities	159,026
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(24,276)
Net Cash Used by Non-Capital and Related Financing Activities	(24,276)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	32,993
Net Cash Provided by Investing Activities	32,993
NET INCREASE IN CASH AND CASH EQUIVALENTS	167,743
Cash and Cash Equivalents - Beginning of Year	1,368,936
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,536,679
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	$ 138,632
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	23,083
(Increase) Decrease in:	
Accounts Receivable	(10,100)
Due from Members	2,796
Increase (Decrease) in:	
Accounts Payable and Accrued Liabilities	4,615
Net Cash Provided by Operating Activities	$ 159,026

See accompanying Notes to Basic Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2023, there are a total of 22 counties in the Authority, this includes 3-member counties as the governing counties and 19 client counties. The 3 member counties are Santa Cruz, Kern, and El Dorado. The client counties are Alameda, Butte, Calaveras, Glenn, Humboldt, Madera, Modoc, Mono, Monterey, Napa, Placer, Plumas, San Francisco, San Luis Obispo, Sonoma, Tehama, Tuolumne, Yolo, Yuba. The governing board of directors of the Authority consists of 3 county officials, each from a member county.

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.

Classification of Revenues

Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Standard

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This standard defines a subscription-based information technology arrangement (SBITA); establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA. The Authority adopted the standard effective July 1, 2022. There was no material impact on the Authority's financial position and results of operations as a result of the adoption of this account standard.

NOTE 3 CASH AND CASH EQUIVALENTS

The Authority pools cash with the County of Kern. 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 4 ACCOUNTS RECEIVABLE

The accounts receivable, including due from members, 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 $127,293.

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 acquisition 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

NOTE 5 CAPITAL ASSETS (CONTINUED)

Changes in capital assets for the fiscal year ended June 30, 2023, are as follows:

	Balance - June 30, 2022	Additions	Deletions	Balance - June 30, 2023
Depreciable Capital Assets:				
Computer Equipment	$ 185,257	$ 24,276	$ -	$ 209,533
Accumulated Depreciation:				
Computer Equipment	(139,262)	(23,083)	-	(162,345)
Net Capital Assets	$ 45,995	$ 1,193	$ -	$ 47,188

Depreciation expense for the fiscal year ended June 30, 2023, was $23,083.

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, 2023, the amount was $788,136.

NOTE 7 RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For these risks of loss, the Authority joined and is covered by public entity risk pools: the Special District Risk Management Authority's Property/Liability Program.

The Special District Risk Management Authority's Property/Liability Program is a public entity risk pool currently composed of 499 member entities. The pool provides members catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The Authority is responsible for paying a premium based on its exposure in relation to the exposure of the other participants and a deductible of $500 per occurrence for property claims and $0 per occurrence for liability claims. The Authority is also responsible for any payments in excess of the maximum coverage of $2.5 million per occurrence for property claims and $2.5 million per occurrence for liability claims. However, lower limits apply to certain categories of losses. A member must participate in the pool at least three years after becoming a member; however, it may withdraw after the initial three-year period.

NOTE 7 RISK MANAGEMENT (CONTINUED)

The Special District Risk Management Authority's Property/Liability Program receives independent audits annually and an audit by the State Department of Insurance every five years. All pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation. If a pool were to become insolvent, the Authority would be assessed an additional contribution.

CALIFORNIA ELECTRONIC RECORDING
TRANSACTION NETWORK AUTHORITY
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2023

	Budget	Actual	Variance Over/(Under) Budget
OPERATING REVENUES			
Fees for Services from Other Governmental Agencies	$ 744,500	$ 788,136	$ 43,636
Total Operating Revenues	744,500	788,136	43,636
OPERATING EXPENSES			
Insurance	29,200	6,554	(22,646)
Memberships	2,000	-	(2,000)
Salaries and Benefits	386,000	393,983	7,983
Office	20,000	9,639	(10,361)
Professional Services	70,800	50,363	(20,437)
Data Processing	166,500	149,529	(16,971)
Transportation and Travel	20,000	16,353	(3,647)
Annual Summit	15,000	-	(15,000)
Grant Issuance	10,000	-	(10,000)
Depreciation	25,000	23,083	(1,917)
Total Operating Expenses	744,500	649,504	(94,996)
OPERATING INCOME	-	138,632	138,632
NONOPERATING REVENUES			
Interest Earnings	-	32,993	32,993
Total Nonoperating Revenues	-	32,993	32,993
CHANGE IN NET POSITION	$ -	171,625	$ 171,625
Net Position - Beginning of Year		1,534,920	
NET POSITION - END OF YEAR		$ 1,706,545	

INDEPENDENT AUDITORS' 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*

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 California Electronic Recording Transaction Network Authority (the Authority), as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 6, 2024.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2023-001 that we consider to be a material weakness.

Board of Directors
California Electronic Recording
Transaction Network Authority

Report on 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 financial statement. 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

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Glendora, California
May 6, 2024

<u>2023 – 001</u>

Type of Finding: Material Weakness

Condition: The County did not make reversing entries for accrued receipt of member contributions, which resulted in a misstatement to accounts receivable and revenue. There was no proper review of journal entries which resulted in the duplication of cash associated with the payroll replenishment account. There was no proper review of the fixed asset listing which resulted in an understatement in fixed assets in the prior fiscal year and an overstatement in depreciation expense in the current year.

Criteria or specific requirement: Proper year-end closing procedures include the review and reconciliation of the trial balance and supporting schedules prior to finalization.

Effect: The following are misstatements detected as a result of audit procedures that are within the Authority's financial statements:

- Audit adjustment of $119,989 to reverse accounts receivable for amounts collected in the current year from the client counties, board counties, and agents relating to 4th quarter contribution revenue from the FY 21-22.

- Audit adjustment of $26,412 to reverse cash for a duplicate journal entry.

- Post-closing adjustment of $12,526 for the missed capitalization of a data server added in June 2023.

Cause: The Authority did not review the trial balance, post-closing journal entries, and supporting schedules properly before closing the books.

Repeat Finding: This is not a repeat finding.

Recommendation: The Authority should include additional procedures during the year end closing process to reconcile accrual accounts. The Authority should also establish procedures to ensure all capitalizable assets are reflected in the capital assets system on the date they are put into service.

Views of responsible officials and planned corrective actions: There is no disagreement with the audit finding and County will implement our auditors' recommendation.