

RURAL COUNTIES' ENVIRONMENTAL SERVICES

JOINT POWERS AUTHORITY

FINANCIAL STATEMENTS

WITH SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2006

AND

INDEPENDENT AUDITOR'S REPORT

**RURAL COUNTIES' ENVIRONMENTAL SERVICES
JOINT POWERS AUTHORITY**

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended December 31, 2006

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Counties' Environmental Services
Joint Powers Authority
Sacramento, California

We have audited the accompanying financial statements of the governmental activities and major fund of the Rural Counties' Environmental Services Joint Powers Authority (Authority), as of and for the year ended December 31, 2006, which collectively comprise the Authority's basic financial statements as listed in the accompanying 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, the State Controller's Minimum Audit Requirements for California Special Districts 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 consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 the governmental activities and major fund of Rural Counties' Environmental Services Joint Powers Authority as of December 31, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

INDEPENDENT AUDITOR'S REPORT

(Continued)

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2007, 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.

Management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplemental statement of revenues, expenditures and changes in fund balance by grant is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Perry-Smith LLP

Sacramento, California
August 24, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Rural Counties' Environmental Services Joint Powers Authority (Authority) is a joint powers authority comprised of twenty-two rural California counties. The purpose of the Authority is to provide programs for planning, management and operation of solid waste programs, and for other environmental services including, but not necessarily limited to, legislative and regulatory advocacy, solicitation of grant funding, and implementation of grant-funded projects.

This section of the Authority's basic financial statements presents a discussion and analysis of the Authority's financial performance during the calendar year ended December 31, 2006.

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded liabilities at December 31, 2006 by \$153,192 (net assets).
- The Authority's total net assets increased by \$12,091 from December 31, 2005 due primarily to increased revenue from dues.
- Actual grant revenue was \$116,217 less than the final budget and grant expenses were \$118,773 less than the final budget primarily due to a decrease in grants and staffing costs. Three grant proposals were submitted for funding in 2006. Of those, only one was funded, and work on that grant did not begin until November 2006.
- In May 2007, the Department of Finance completed their audit of two Household Hazardous Waste Discretionary Grants and concluded that the funds were expended as intended. The grants totaled \$581,106.85 and covered the period from June 1, 2001 through March 31, 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis in this section is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, using accounting methods similar to those of a private-sector business. These statements provide information about the Authority's overall financial status.

The Statement of Net Assets presents information on all the Authority's assets and liabilities as of the end of the calendar year, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Activities presents information on how net assets changed during the calendar year, with revenues and expenses by major type or function. All changes in net assets are reported as soon as the underlying event which gives rise to the change occurs, regardless of the timing of related cash flows.

Both of the government-wide financial statements distinguish functions of the Authority that are primarily financed with member dues and grant funding.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund financial statements are the more familiar groupings of accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority utilizes a special revenue fund to account for its activities.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Rural Counties' Environmental Services Joint Powers Authority
Net Assets
December 31, 2006 and 2005**

	<u>Governmental Activities</u>		<u>Increase/(Decrease)</u>	
	<u>2006</u>	<u>2005</u>	<u>\$</u>	<u>%</u>
Assets:				
Cash and investments	\$ 315,813	\$ 280,287	\$ 35,526	12.7%
Receivables	67,834	131,385	(63,551)	(48.4%)
Total assets	<u>383,647</u>	<u>411,672</u>	<u>(28,025)</u>	<u>(6.8%)</u>
Liabilities:				
Payables	88,758	64,424	24,334	37.8%
Deferred revenue and funds held for projects	141,697	183,506	(41,809)	(22.8%)
Total liabilities	<u>230,455</u>	<u>247,930</u>	<u>(17,475)</u>	<u>(7.0%)</u>
Net assets:				
Unrestricted	<u>\$ 153,192</u>	<u>\$ 163,742</u>	<u>\$ (10,550)</u>	<u>(6.4%)</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, net assets (assets in excess of liabilities) were \$153,192 at December 31, 2006. Net assets as of January 1, 2006 of \$163,742 have been decreased by \$22,641 to \$141,101 due to a restatement of accrued and deferred revenue from prior years that was not allowable under the grant provisions.

Rural Counties' Environmental Services Joint Powers Authority
Change in Net Assets
For the Calendar Years Ended December 31, 2006 and 2005

	<u>Governmental Activities</u>		<u>Increase/(Decrease)</u>	
	<u>2006</u>	<u>2005</u>	<u>\$</u>	<u>%</u>
Revenues:				
Grants	\$ 290,388	\$ 350,160	\$ (59,772)	(17.1%)
Membership dues	115,800	106,399	9,401	8.8%
Interest	2,670	1,795	875	48.7%
Total revenues	<u>408,858</u>	<u>458,354</u>	<u>(49,496)</u>	<u>(10.8%)</u>
Expenditures:				
Grants on behalf of member counties	287,832	352,680	(64,848)	(18.4%)
Administration	108,935	103,634	5,301	5.1%
Total expenditures	<u>396,767</u>	<u>456,314</u>	<u>(59,547)</u>	<u>(13.0%)</u>
Change in net assets	12,091	2,040	10,051	492.7%
Restatement for prior period adjustment	(22,641)		(22,641)	
Net assets, beginning of year	<u>163,742</u>	<u>161,702</u>	<u>2,040</u>	<u>1.3%</u>
Net assets, end of year	<u>\$ 153,192</u>	<u>\$ 163,742</u>	<u>\$ (10,550)</u>	<u>(6.4%)</u>

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUND

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The general fund is the general operating fund of the Authority. It is used to account for all of the Authority's financial resources. For the year ended December 31, 2006, the Authority's total revenues decreased by \$49,496 or 10.8%. The Authority also experienced a decrease in total expenditures of \$59,547 or 13.0%. Grant revenues and related expenses decreased due to the decreased number of grants actually executed in 2006.

CAPITAL ASSETS AND LONG-TERM DEBT

The Authority had no capital assets or long-term debt as of December 31, 2006.

CURRENTLY KNOWN FACTS

During the first four months of 2007, the Authority has submitted two proposals for grant funding. If successful, these grants would begin in the Fall of 2007. The Authority anticipates continued grant funding through the California Integrated Waste Management Board's Used Oil Block Grant program and through the Department of Conservation's Division of Recycling City/County Payment program in July 2007. The Authority plans to continue to seek additional avenues for grant funding to support the purpose of the Authority and its members throughout 2007.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Rural Counties' Environmental Services Joint Powers Authority, 801 12th Street, Suite 600, Sacramento, CA 95814.

RURAL COUNTIES' ENVIRONMENTAL SERVICES
JOINT POWERS AUTHORITY

STATEMENT OF NET ASSETS

December 31, 2006

	<u>Governmental Activities</u>
ASSETS	
Cash (Note 3)	\$ 230,516
Restricted cash	85,297
Grants receivable	<u>67,834</u>
Total assets	<u>383,647</u>
LIABILITIES	
Accounts payable	88,758
Deferred revenue and funds held for projects	<u>141,697</u>
Total liabilities	<u>230,455</u>
NET ASSETS	
Unrestricted	<u><u>\$ 153,192</u></u>

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

**RURAL COUNTIES' ENVIRONMENTAL SERVICES
JOINT POWERS AUTHORITY**

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2006

	<u>Governmental Activities</u>
PROGRAM EXPENSES	
Solid waste programs	\$ 287,832
Administration	<u>108,935</u>
Total program expenses	<u>396,767</u>
PROGRAM REVENUES	
Charges for services – membership dues	115,800
Operating grants	<u>290,388</u>
Total program revenues	<u>406,188</u>
Net program revenue	<u>9,421</u>
GENERAL REVENUES	
Investment earnings	<u>2,670</u>
Increase in net assets	12,091
Net assets – January 1, 2006, as previously reported	163,742
Prior period adjustment (Note 7)	<u>(22,641)</u>
Net assets – January 1, 2006, as restated	<u>141,101</u>
Net assets – December 31, 2006	<u><u>\$ 153,192</u></u>

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

**RURAL COUNTIES' ENVIRONMENTAL SERVICES
JOINT POWERS AUTHORITY**

BALANCE SHEET

GENERAL FUND

For the Year Ended December 31, 2006

ASSETS

Cash (Note 3)	\$ 230,516
Restricted cash	85,297
Grants receivable	<u>67,834</u>
 Total assets	 <u>\$ 383,647</u>

LIABILITIES AND FUND BALANCE

Liabilities:	
Accounts payable	\$ 15,928
Accounts payable – RCRC (Note 4)	72,830
Deferred revenue	56,400
Funds held for projects	<u>85,297</u>
 Total liabilities	 <u>230,455</u>
 Fund balance – unreserved	 <u>153,192</u>
 Total liabilities and fund balance	 <u>\$ 383,647</u>

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

**RURAL COUNTIES' ENVIRONMENTAL SERVICES
JOINT POWERS AUTHORITY**

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE**

GENERAL FUND

For the Year Ended December 31, 2006

Revenues:	
Intergovernmental:	
Grants	\$ 290,388
Membership dues	115,800
Interest	<u>2,670</u>
Total revenues	<u>408,858</u>
Expenditures:	
Solid waste programs:	
Grants on behalf of member counties	287,832
Administration:	
Technical support services (Note 4)	90,000
Consultants	18,000
Other	<u>935</u>
Total expenditures	<u>396,767</u>
Excess of revenues over expenditures	12,091
Fund balance, January 1, 2006, as previously reported	163,742
Prior period adjustment (Note 7)	<u>(22,641)</u>
Fund balance January 1, 2006, as restated	<u>141,101</u>
Fund balance, December 31, 2006	<u><u>\$ 153,192</u></u>

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

**RURAL COUNTIES' ENVIRONMENTAL SERVICES
JOINT POWERS AUTHORITY**

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**

GENERAL FUND

For the Year Ended December 31, 2006

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Budget
Revenues:				
Intergovernmental:				
Grants	\$ 406,605	\$ 406,605	\$ 290,388	\$ (116,217)
Membership dues	118,800	118,800	115,800	(3,000)
Interest	1,500	1,500	2,670	1,170
Total revenues	526,905	526,905	408,858	(118,047)
Expenditures:				
Solid waste programs:				
Grants on behalf of member counties	406,605	406,605	287,832	(118,773)
Administration:				
Technical support services	90,000	90,000	90,000	
Consultants	18,000	18,000	18,000	
Other	12,300	12,300	935	(11,365)
Total expenditures	526,905	526,905	396,767	(130,138)
Excess of revenues over expenditures			12,091	12,091
Fund balance, January 1, 2006, as previously reported	163,742	163,742	163,742	
Prior period adjustment (Note 7)			(22,641)	(22,641)
Fund balance, December 31, 2006, as restated			141,101	
Fund balance, December 31, 2006	\$ 163,742	\$ 163,742	\$ 153,192	\$ (10,550)

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

**RURAL COUNTIES' ENVIRONMENTAL SERVICES
JOINT POWERS AUTHORITY**

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Rural Counties' Environmental Services Joint Powers Authority (Authority) is an organization of certain political subdivisions of the State of California, engaged in the exercise of an essential governmental function. The purpose of the Authority is to develop and fund programs to provide for solid waste planning, solid waste services, cooperative marketing and regulatory advocacy and other environmental services, as well as to provide a forum for mutual support, to strengthen the liaison with state government, and to secure and disseminate information of common interest relating to environmental issues. Twenty-two member counties participate in the Authority, which is governed by a Board of Directors.

The Authority contracts with various organizations and businesses to provide specialized services as needed to administer and implement programs as determined by the Authority's Board of Directors. Regional Council of Rural Counties (RCRC), a California nonprofit mutual benefit corporation, provides various administrative and technical support services to the Authority. RCRC was organized to serve and strengthen county and local governments through definition, study and actions relative to problems affecting the member counties and their resources to include but not be limited to those of social, economic, environmental and ecological importance. Technical support services provided by RCRC include salaries and wages, benefits, and related costs (see Note 4).

The Authority's Board members are a member of the Board of Supervisors from each member county or their designated alternate to represent the member county.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Government-Wide and Fund Financial Statements

The statement of net assets and statement of activities include the financial activities of the Authority. The Authority is only engaged in governmental activities, which are normally supported by intergovernmental revenues and charges for services.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Authority. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a specific function. Program revenues include charges for services - membership dues and grants that are restricted to meeting operating requirements.

**RURAL COUNTIES' ENVIRONMENTAL SERVICES
JOINT POWERS AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

Separate fund financial statements are provided for the Authority's General Fund. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on the near-term inflows and outflows of available expendable resources. Such information may be useful in evaluating a government's near-term financing requirements.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The General Fund is the general operating fund of the Authority. It is used to account for all of the Authority's financial resources. Grant revenues are recognized as soon as all eligibility requirements imposed by the provider have been met, provided they are measurable and available. All other revenues of the Authority are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 6 months from year end. Expenditures are recorded when a liability is incurred.

Restricted Cash

Restricted cash includes funds held for projects and are restricted by members as to their use. These amounts are not included in cash and cash equivalents, regardless of the liquidity or maturity date of these amounts.

Grants Receivable

As of December 31, 2006, receivables are primarily comprised of funds due from granting agencies.

**RURAL COUNTIES' ENVIRONMENTAL SERVICES
JOINT POWERS AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Funds Held for Projects

The Authority accepts funds on behalf of certain members for projects designated by those members. The members contributing the funds direct the expenditure of those funds. As a result, the Authority recognizes a liability equal to the amount of funds collected by the Authority for these projects. Funds received by the Authority are not segregated from the general operating accounts of the Authority.

Deferred Revenue

Counties are assessed membership dues on July 1st of each year. The dues cover a one-year period from July 1 to June 30 and are recognized ratably over that period.

Income Taxes

The Authority is an organization comprised of public agencies and is exempt from Federal income and California franchise taxes. Accordingly, no provision for Federal or State income taxes has been made in the accompanying financial statements.

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 expenses during the reporting period. Actual results could differ from these estimates.

2. BUDGETARY INFORMATION

The Authority's Board of Directors approves all budgeted revenues and expenditures. Budgeted revenue and expenditures represent the original adopted budget and any amendments during the year. The legal level of budgetary control for the Authority is total expenditures. The budgetary process is on a basis of accounting consistent with accounting principles generally accepted in the United States of America.

3. CASH

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. Cash and cash equivalents consist of deposits with financial institutions. As of December 31, 2006, the Authority's deposits are entirely insured or collateralized. Section 53652 of the California Governmental Code requires financial institutions to secure deposits made by governmental units in excess of insured amounts, by the pledging of governmental securities as collateral. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by governmental units.

**RURAL COUNTIES' ENVIRONMENTAL SERVICES
JOINT POWERS AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)**

4. RELATED PARTY TRANSACTIONS

Technical support services provided to the Authority by RCRC for the year ended December 31, 2006 totaled \$90,000, of which \$37,500 was payable at December 31, 2006. In addition, \$35,330 was payable to RCRC at December 31, 2006 for administrative expenses paid by RCRC on behalf of the Authority.

5. CONTINGENCIES

The Authority has received grants from state and local sources that are subject to review and audit by representatives of those agencies to determine if the funds were expended in accordance with appropriate statutes, grant terms and regulations. These types of audits could lead to expenditure disallowances or questioned costs under grant terms. The Authority believes that no significant liabilities will be incurred as a result of these audits.

6. 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; and natural disasters. RCRC purchases commercial insurance through an insurance agent who obtains insurance coverage from insurance companies, which includes coverage for the Authority. Coverage provided by commercial insurance and excess coverage as of December 31, 2006 is as follows:

<u>Type of Coverage</u>	<u>Commercial Insurance (In Aggregate)</u>	<u>Excess or Additional Coverage (In Aggregate)</u>	<u>Deductible/Self- Insured Retention</u>
Special Liability Insurance Program	\$10,000,000 general liability	\$5,000,000 per occurrence	\$10,000 per occurrence
	\$10,000,000 errors and omissions		
	\$10,000,000 auto liability		
	\$10,000,000 non-owned and hired auto		
	\$5,000,000 employment practices	No excess on employment practices	
	\$1,000,000 fire damage liability		
	\$1,000,000 uninsured motorist coverage		
	\$10,000,000 directors and officers		

(Continued)

**RURAL COUNTIES' ENVIRONMENTAL SERVICES
JOINT POWERS AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)**

6. RISK MANAGEMENT (Continued)

<u>Type of Coverage</u>	<u>Commercial Insurance (In Aggregate)</u>	<u>Excess or Additional Coverage (In Aggregate)</u>	<u>Deductible/Self- Insured Retention</u>
Special Property Insurance Program	\$350,000,000 per occurrence (with sublimits from \$25,000,000 to \$500,000,000), excludes flood and earthquake		\$5,000 per occurrence
Special Boiler and Machinery Program	\$50,000,000 combined limit with sublimits from \$1,000,000 to \$10,000,000), excludes flood and earthquake		\$2,500 per occurrence (with sub-deductibles from \$2,500 to \$375,000)
Pollution	\$1,000,000 claims made		\$25,000
Crime Coverage	\$1,000,000 combined limit	\$5,000,000	\$2,500 per occurrence

There have been no settlement amounts that have exceeded commercial insurance coverage for the last three years.

7. PRIOR PERIOD ADJUSTMENT

The accompanying financial statements include a restatement of previously reported net assets due to errors in accounting for deferred revenues and accounts receivable related to closed grants. The Authority determined that deferred revenues of \$5,670 were understated and \$16,971 in accounts receivable were overstated for grants that had been closed in 2005. The accompanying financial statements reflect the impact of restating accounts receivable and deferred revenues, resulting in a net reduction of unrestricted net assets of \$22,641 as of January 1, 2006.

SUPPLEMENTARY INFORMATION

RURAL COUNTIES' ENVIRONMENTAL SERVICES
JOINT POWERS AUTHORITY

SUPPLEMENTAL STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE (DEFICIT) BY GRANT

For the Year Ended December 31, 2006

	HD12 Regional	HD14 Regional	UBG9 Regional	UBG10 Regional	UBG11 Regional	UBG12 Regional	SB332 Regional	TR34 Regional	TR43 Mariposa	UOG8 Regional	Member Services	Total
Revenues:												
Grants	\$ 33,572	\$ 57,554	\$ 7,348	\$ 58,893	\$ 49,539	\$ 3,351	\$ 65,158	\$ 5,499	\$ 1,595	\$ 2,063	\$ 5,816	\$ 290,388
Expenditures:												
Grants on behalf of member counties:												
Mobile/other collection	29,533	300										29,533
Consultants			589	4,352	1,448							300
Other costs			491	11,138	3,067			3,100				9,489
Permanent facilities	1,083	48,299				55	53,908					118,041
Personnel	2,956	8,955	1,592	21,708	21,491	3,296	11,250	2,399	715	2,063		76,425
Publicity and education			6,508	21,695	24,961				880			54,044
Total expenditures	33,572	57,554	9,180	58,893	50,967	3,351	65,158	5,499	1,595	2,063		287,832
(Deficiency) excess of revenues (under) over expenditures			(1,832)		(1,428)						5,816	2,556
Fund balance (deficit), January 1, 2006			1,832								(3,516)	(1,684)
Fund balance (deficit), December 31, 2006	\$ -	\$ -	\$ -	\$ -	\$ (1,428)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,300	\$ 872

**INDEPENDENT AUDITOR'S 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**

Board of Directors
Rural Counties' Regional Environmental Services
Joint Powers Authority
Sacramento, California

We have audited the financial statements of the governmental activities and the major fund of the Rural Counties' Environmental Services Joint Powers Authority (Authority), as of and for the year ended December 31, 2006, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated August 24, 2007. 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 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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity'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 entity'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.

**INDEPENDENT AUDITOR'S 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**

(Continued)

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*.

We noted certain matters that we reported to management of the Authority in a separate letter dated August 24, 2007.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Perry-Smith LLP

Sacramento, California
August 24, 2007