

RURAL COUNTIES' ENVIRONMENTAL SERVICES

JOINT POWERS AUTHORITY

FINANCIAL STATEMENTS

WITH SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2010

AND

INDEPENDENT AUDITOR'S REPORT

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

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended December 31, 2010

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-6
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet – General Fund	9
Statement of Revenues, Expenditures and Changes in Fund Balance – General Fund	10
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	11
Notes to Basic Financial Statements	12-17
Supplementary Information:	
Supplemental Statement of Revenues, Expenditures and Changes in Fund Balance by Grant	18
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 <i>Government Auditing Standards</i>	19-20

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, 2010, 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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT

(Continued)

Management's discussion and analysis on pages 3 through 6 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 not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Perry-Smith LLP

Sacramento, California
May 13, 2011



RURAL COUNTIES' ENVIRONMENTAL SERVICES JOINT POWERS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2010.

FINANCIAL HIGHLIGHTS

The assets of the Authority exceeded liabilities at December 31, 2010, by \$127,596 (net assets). All of the net assets are available to meet ongoing obligations. The Authority's total net assets decreased by \$6,117 from December 31, 2009 to December 31, 2010, due primarily to decreased grant revenue.

Actual grant revenue was \$168,204 less than the final budget and grant expenses were \$168,204 less than the final budget primarily due to less grant activity than anticipated. Two competitive grant proposals were submitted for funding in 2010 and one was funded. The remaining proposal has not yet been awarded.

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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to 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 expenditures 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.

RURAL COUNTIES' ENVIRONMENTAL SERVICES JOINT POWERS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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 general revenue fund to account for its activities.

Notes to 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
Condensed Statement of Net Assets
December 31, 2010 and 2009**

	Governmental Activities		Increase/(Decrease)	
	<u>2010</u>	<u>2009</u>	<u>\$</u>	<u>%</u>
Assets:				
Cash and prepaids	\$ 29,373	\$ 121,354	\$ (91,981)	(75.8%)
Receivables	<u>227,613</u>	<u>180,268</u>	<u>47,345</u>	<u>26.3%</u>
Total assets	<u>256,986</u>	<u>301,622</u>	<u>(44,636)</u>	<u>(14.8%)</u>
Liabilities:				
Payables	68,152	108,471	(40,319)	(37.2%)
Deferred revenue and funds held for projects	<u>61,238</u>	<u>59,438</u>	<u>1,800</u>	<u>3.0%</u>
Total liabilities	<u>129,390</u>	<u>167,909</u>	<u>(38,519)</u>	<u>(22.9%)</u>
Net assets:				
Net assets, unrestricted	\$ <u>127,596</u>	\$ <u>133,713</u>	\$ <u>(6,117)</u>	<u>(4.6%)</u>

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the Authority, net assets (assets in excess of liabilities) were \$127,596 at December 31, 2010, a decrease of \$6,117 (down 4.6%) from December 31, 2009. Cash decreased due to a combination of increased grant receivables and payments made to reduce accounts payable.

RURAL COUNTIES' ENVIRONMENTAL SERVICES JOINT POWERS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Rural Counties' Environmental Services Joint Powers Authority
Condensed Statement of Activities
For the Years Ended December 31, 2010 and 2009**

	Governmental Activities		Increase/(Decrease)	
	<u>2010</u>	<u>2009</u>	<u>\$</u>	<u>%</u>
Revenues:				
Grants	\$ 251,236	\$ 260,196	\$ (8,960)	(3.4%)
Membership dues	120,600	121,800	(1,200)	(1.0%)
Miscellaneous income	41,634	25,386	16,248	64.0%
Total revenues	<u>413,470</u>	<u>407,382</u>	<u>6,088</u>	<u>1.5%</u>
Expenditures:				
Grants on behalf of member counties	251,236	260,196	(8,960)	(3.4%)
Administration	168,351	170,209	(1,858)	(1.1%)
Total expenditures	<u>419,587</u>	<u>430,405</u>	<u>(10,818)</u>	<u>(2.5%)</u>
Change in net assets	(6,117)	(23,023)	16,906	(73.4%)
Net assets, January 1	<u>133,713</u>	<u>156,736</u>	<u>(23,023)</u>	<u>(14.7%)</u>
Net assets, December 31	<u>\$ 127,596</u>	<u>\$ 133,713</u>	<u>\$ (6,117)</u>	<u>(4.6%)</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, 2010, the Authority's total revenues increased by \$6,088 (up 1.5%). The Authority also experienced a decrease in total expenditures of \$10,818 (down 2.5%). The increase in revenue was primarily due to an increased contribution by RCRC. Grant revenues and related expenditures decreased by \$8,960.

FUTURE ECONOMIC OUTLOOK

The Authority anticipates continued limited grant funding through the California Department of Resources Recycling and Recovery's (Cal Recycle) Used Oil and through the Department of Conservation's Division of Recycling City/County Payment programs through July 2011. Program implementation for the Cal Recycle Tire Cleanup and Amnesty Grant and the Cal Recycle Household Hazardous Waste – 17th Cycle Regional Grant will end in April 2011. The Authority continued to seek additional avenues for grant funding to support the purpose of the Authority and its members throughout 2010, and will do so as well in 2011. The Authority has applied for a U.S. Department of Agriculture Solid Waste Management Grant and another Cal Recycle Tire Amnesty Grant.

RURAL COUNTIES' ENVIRONMENTAL SERVICES JOINT POWERS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 the CFO, 1215 K Street, Suite 1650, Sacramento, CA 95814.

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

**STATEMENT OF NET ASSETS
December 31, 2010**

	<u>Governmental Activities</u>
ASSETS	
Cash (Note 3)	\$ 24,342
Restricted cash	3,038
Grants and accounts receivable	227,613
Prepaid assets	<u>1,993</u>
Total assets	<u>256,986</u>
LIABILITIES	
Accounts payable	11,368
Accounts payable – RCRC (Note 4)	56,784
Deferred revenue	58,200
Funds held for projects	<u>3,038</u>
Total liabilities	<u>129,390</u>
NET ASSETS	
Unrestricted	\$ <u>127,596</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, 2010**

	<u>Governmental Activities</u>
PROGRAM EXPENSES	
Solid waste programs	\$ 251,236
Administration (Note 4)	<u>168,351</u>
Total program expenses	<u>419,587</u>
PROGRAM REVENUES	
Operating grants and contracts	251,236
Charges for services – membership dues	<u>120,600</u>
Total program revenues	<u>371,836</u>
Net program loss	<u>(47,751)</u>
GENERAL REVENUES	
Contributions, interest income and other (Note 4)	<u>41,634</u>
Decrease in net assets	(6,117)
Net assets, January 1, 2010	<u>133,713</u>
Net assets, December 31, 2010	<u>\$ 127,596</u>

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

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

**BALANCE SHEET
GENERAL FUND
December 31, 2010**

ASSETS

Cash (Note 3)	\$	24,342
Restricted cash		3,038
Grants and accounts receivable		227,613
Prepaid assets		<u>1,993</u>
 Total assets	 \$	 <u>256,986</u>

LIABILITIES AND FUND BALANCE

Accounts payable	\$	11,368
Accounts payable – RCRC (Note 4)		56,784
Deferred revenue		58,200
Funds held for projects		<u>3,038</u>
 Total liabilities		 <u>129,390</u>
 Fund balance - unreserved		 <u>127,596</u>
 Total liabilities and fund balance	 \$	 <u>256,986</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, 2010

Revenues:	
Intergovernmental grants and contracts	\$ 251,236
Membership dues	120,600
Interest and other (Note 4)	<u>41,634</u>
Total revenues	<u>413,470</u>
Expenditures:	
Solid waste grants on behalf of member counties	251,236
Administration:	
Technical support services (Note 4)	90,000
Consultants	34,809
Other	<u>43,542</u>
Total expenditures	<u>419,587</u>
Excess expenditures over revenue	(6,117)
Fund balance, January 1, 2010	<u>133,713</u>
Fund balance, December 31, 2010	<u>\$ 127,596</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, 2010

	<u>Budgeted Amounts</u>			<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Intergovernmental grants and contracts	\$ 419,440	\$ 419,440	\$ 251,236	\$ (168,204)
Membership dues	118,800	118,800	120,600	1,800
Interest and other	40,669	40,669	41,634	965
	<u>578,909</u>	<u>578,909</u>	<u>413,470</u>	<u>(165,439)</u>
Expenditures:				
Solid waste grants on behalf of member counties	419,440	419,440	251,236	(168,204)
Administration:				
Technical support services	90,000	90,000	90,000	-
Consultants	44,000	44,000	34,809	(9,191)
Other	50,470	50,470	43,542	(6,928)
	<u>603,910</u>	<u>603,910</u>	<u>419,587</u>	<u>(184,323)</u>
Excess of expenditures over revenues	(25,001)	(25,001)	(6,117)	18,884
Fund balance, January 1, 2010	<u>133,713</u>	<u>133,713</u>	<u>133,713</u>	<u>-</u>
Fund balance, December 31, 2010	\$ <u>108,712</u>	\$ <u>108,712</u>	\$ <u>127,596</u>	\$ <u>18,884</u>

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).

Each of the Authority's Board members are members of the Board of Supervisors from their 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.

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

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

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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 six 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. As of December 31, 2010, cash balances of \$3,038 were restricted.

Grants Receivable

As of December 31, 2010, receivables are primarily comprised of funds due from granting agencies.

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

NOTES TO BASIC FINANCIAL STATEMENTS

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.

Impact of New Accounting Pronouncements

In February 2009, the Governmental Accounting Standards Board (GASB) issued GASB Codification Section (GASB Cod. Sec.) 1300 and 1800, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Cod. Sec. 1300 and 1800). The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental-fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. GASB Cod. Sec. 1300 and 1800 is effective for periods beginning after June 15, 2010. Early implementation is encouraged. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented. The adoption of GASB Cod. Sec. 1300 and 1800 is not expected to have a material impact on the Authority's financial statements.

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

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of New Accounting Pronouncements (Continued)

In June 2010, the Governmental Accounting Standards Board (GASB) issued GASB Cod. Sec. 150, *Financial Instruments Omnibus*. The requirements of this statement will improve financial reporting by providing more complete information, improving consistency of measurements and providing clarifications of existing standards. Limiting interest rate disclosures in mutual funds, external investment pools, and other pooled investments to debt investment pools provides better guidance regarding the applicability of interest rate disclosures. The adoption of GASB Cod. Sec. 150 is not expected to have a material impact on the Authority's financial statements.

In November 2010, GASB issued GASB Cod. Sec. 2100, *Financial Reporting Entity Omnibus*. The requirements of this statement will improve financial reporting by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, to better meet the needs of users and address reporting entity issues that have come to light since GASB 14 and GASB 34 were issued in 1991 and 1999, respectively. The statement is intended to improve the information presented about the financial reporting entity which is comprised of a primary government and related entities (component units) and modifies certain requirements for inclusion of component units in the financial reporting entity. The statement also clarifies the reporting of equity interests in legally separate organizations. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2012. The adoption of GASB Cod. Sec. 2100 is not expected to have a material impact on the Authority's financial statements.

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 consists of deposits with financial institutions. As of December 31, 2010, 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

4. RELATED PARTY TRANSACTIONS

Technical support services provided to the Authority by RCRC for the year ended December 31, 2010 totaled \$90,000 which is included in the administration expenses on the statement of revenues, expenditures and changes in fund balance. \$56,784 was payable to RCRC as of December 31, 2010 for technical support services and administrative expenses paid by RCRC on behalf of the Authority. In 2010, RCRC contributed \$39,669 in support of ESJPA expenses. This contribution is included in interest and other revenue on the statement of revenues, expenditures and changes in fund balance.

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, 2010 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		
	\$10,000,000 uninsured motorist coverage		
	\$10,000,000 directors and officers		

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

NOTES TO BASIC FINANCIAL STATEMENTS

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
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.

SUPPLEMENTARY INFORMATION

RURAL COUNTIES' ENVIRONMENTAL SERVICES
JOINT POWERS AUTHORITY

SUPPLEMENTAL STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE BY GRANT
For the Year Ended December 31, 2010

	UBG15/UBG8 Regional	HD17 Regional	TCA4 Regional	TCA6 Regional	UBG14 Regional	HD16 Del Norte	USDA Regional	Total
Revenues:								
Grants	\$ 25,850	\$ 79,207	\$ 52,879	\$ 23,858	\$ 65,812	\$ 2,684	\$ 946	\$ 248,552
Contracts								2,684
Total revenues	25,850	79,207	52,879	23,858	65,812	2,684	946	251,236
Expenditures:								
Grants on behalf of member counties:								
Mobile/other collection		15,451	34,473	13,554		2,540		63,478
Consultants		8,160		150			946	10,850
Other costs		65			713			1,724
Permanent facilities	6,147	52,810	15,821	8,449	51,550	144		110,507
Personnel	3,950	2,232	2,585	1,705	5,362			35,958
Publicity and education	15,753	489		1,187	8,187			28,719
Total expenditures	25,850	79,207	52,879	23,858	65,812	2,684	946	251,236
Excess of revenues over expenditures	0	0	0	0	0	0	0	0
Fund balance January 1, 2010	0	0	0	0	0	0	0	0
Fund balance December 31, 2010	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

**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' Environmental Services
Joint Powers Authority
Sacramento, California

We have audited the financial statements of Rural Counties' Environmental Services Joint Powers Authority (Authority), as of and for the year ended December 31, 2010, and have issued our report dated May 13, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**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 (Continued)

We noted certain matters that we reported to management of the Authority in a separate letter dated May 13, 2011.

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
May 13, 2011

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

We are pleased to present this letter related to the conduct of the audit of the financial statements of Rural Counties' Environmental Services Joint Powers Authority (the "Authority") as of and for the year ended December 31, 2010. This report is intended to inform the Board of Directors about significant matters related to the conduct of the annual audit so that it can appropriately discharge its oversight responsibility, and that we comply with our professional responsibilities.

The following summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Authority's financial reporting process.

The Auditor's Responsibility Under Generally Accepted Auditing Standards

Our audit of the financial statements of Rural Counties' Environmental Services Joint Powers Authority for the year ended December 31, 2010 was conducted in accordance with auditing standards generally accepted in the United States of America and *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, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe that our audit accomplished that objective.

In accordance with *Governmental Auditing Standards*, we have also performed tests of controls and compliance with laws and regulations that contribute to the evidence supporting our opinion on the financial statements. However, they do not provide a basis for opining on the Authority's internal control or compliance with laws and regulations.

Adoption of, or Change in, Accounting Policies

The Board of Directors and management have the ultimate responsibility for the appropriateness of the accounting policies used by the Association. Significant accounting policies are included in Note 1 to the financial statements. The Authority did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period which should be brought to your attention for approval.

Adoption of, or Change in, Accounting Policies (Continued)

The following financial accounting standards have been issued but were not required to be adopted for the year ended December 31, 2010:

In February 2009, the Governmental Accounting Standards Board (GASB) issued Codification Section (GASB Cod. Sec.) 1300 and 1800, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Cod. Sec. 1300 and 1800). The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. GASB Cod. Sec. 1300 and 1800 is effective for periods beginning after June 15, 2010. Early implementation is encouraged. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented. The adoption of GASB Code. Sec. 1300 and 1800 is not expected to have a material impact on the Authority's financial statements.

In June 2010, the GASB issued GASB Cod. Sec. 150, *Financial Instruments Omnibus*. The requirements of this Statement will improve financial reporting by providing more complete information, improving consistency of measurements and providing clarifications of existing standards. Limiting interest rate disclosures in mutual funds, external investment pools, and other pooled investments to debt investment pools provides better guidance regarding the applicability of interest rate disclosures. The adoption of GASB Cod. Sec. 150 is not expected to have a material impact on the Authority's financial statements.

In November 2010, the GASB issued GASB Cod. Sec. 2100, *Financial Reporting Entity Omnibus*. The requirements of this statement will improve financial reporting by amending the requirements of GASB Statement No. 14, *The financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, to better meet the needs of users and address reporting entity issues that have come to light since GASB 14 and GASB 34 were issued in 1991 and 1999, respectively. The Statement is intended to improve the information presented about the financial reporting entity which is comprised of a primary government and related entities (component units) and modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement also clarified the reporting of equity interests in legally separate organizations. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. The adoption of GASB Cod. Sec. 2100 is not expected to have a material impact on the Authority's financial statements.

Significant or Unusual Transactions

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.



Alternative Treatments Discussed with Management

We did not discuss with management any alternative treatments within accounting principles generally accepted in the United States of America for accounting policies and practices related to material items during the current audit period.

Accounting Estimates and Management Judgments

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us that they used all the relevant facts available to them at the time to make the best judgments about accounting estimates, and we considered this information in the scope of our audit. You may wish to monitor throughout the year the processes used to compute and record these accounting estimates.

Accounting Estimates and Management Judgments (Continued)

We have evaluated the reasonableness of accounting estimates in relationship to the financial statements taken as a whole and concluded that management's approach to these estimation processes is reasonable.

Significant Audit Adjustments

There were no audit adjustments made to the original trial balance presented to us to begin our audit.

Uncorrected Misstatements

We noted one uncorrected misstatement, that was determined by management to be immaterial to the financial statements taken as a whole, that was not made to the financial statements. The uncorrected misstatement is summarized in the accompanying schedule.

Other Information in Documents Containing Audited Financial Statements

We are not aware of any documents that contain the audited financial statements. If such documents were to be published, we would have a responsibility to determine that such financial information was not materially inconsistent with the audited financial statements of the Authority.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.



Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Major Issues Discussed with Management Prior to Retention

No major issues were discussed with management prior to our retention to perform the aforementioned audit.

Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management relating to the performance of the audit.

Material Written Communications Between Management and Our Firm

Enclosed you will find copies of all material written communications between our firm and the management of Rural Counties' Environmental Services Joint Powers Authority.

* * * * *

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to Rural Counties' Environmental Services Joint Powers Authority.

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 the specified parties.

Perry-Smith LLP

Sacramento, California
May 13, 2011



RURAL COUNTIES' ENVIRONMENTAL SERVICES JOINT POWERS AUTHORITY

SUMMARIZED SCHEDULE OF UNCORRECTED MISSTATEMENTS

DECEMBER 31, 2010

<u>Description</u>	<u>Effect – Increase (Decrease)</u>				
	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Revenue</u>	<u>Expenses</u>
<u>Current Year Differences</u>					
- To adjust accounts payable and related expense		\$ 4,530	\$ (4,530)		\$ 4,530
Total Effect				<u>\$ -</u>	<u>\$ 4,530</u>
Balance Sheet Effect	<u>\$ -</u>	<u>\$ 4,530</u>	<u>\$ (4,530)</u>		

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

In connection with our audit of the financial statements of Rural Counties' Environmental Services Joint Powers Authority for the year ended December 31, 2010, we identified a deficiency in internal control over financial reporting (control deficiency).

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 financial statement misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

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 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.

Because of the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the internal control to future periods is subject to the risk that internal control may become inadequate because of changes in conditions or that the degree of compliance may deteriorate.

Following is a description of the identified control deficiency that we determined did not constitute a significant deficiency or material weakness:

Two invoices for services received during 2010 were improperly excluded from the December 31, 2010 accounts payable balance. We recommend the enhancement of the internal control process to ensure that all invoices are captured and liabilities for related expenses are recorded in the appropriate reporting period.

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

Perry Smith LLP

Sacramento, California
May 13, 2011

