

MARTINEZ, ROSARIO & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MAVERICK COUNTY SOLID WASTE AUTHORITY

FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

MAVERICK COUNTY SOLID WASTE AUTHORITY

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Maverick County Solid Waste Authority
Eagle Pass, Texas

We have audited the accompanying financial statements of the Maverick County Solid Waste Authority ("the Solid Waste Authority"), a component unit of Maverick County, Texas (the "County"), as of and for the year ended September 30, 2011, which comprise the Solid Waste Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Solid Waste Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of the inadequacy of accounting records, for the year ended September 30, 2011, we were unable to obtain sufficient appropriate audit evidence for expenses, and as discussed in Note 11 to the financial statements, eight current and former Solid Waste Authority or County governing board members and employees of the County, including the former Landfill Manager, have been indicted and arrested on various criminal charges, including charges involving Solid Waste Authority or County business. One individual had all charges dropped. Four of these individuals have pled guilty; however, the resolution of the remaining three is currently not determinable. In addition, we were unable to obtain sufficient appropriate audit evidence related to expenses and the above described contingencies by other auditing procedures.

In our opinion, except for the effects of adjustments, if any, as might have been determined to be necessary had the accounting records discussed in the third paragraph above, been adequate for us to satisfy ourselves about the expenses and the contingent liabilities reported in the financial statements, the financial statements referred to above present fairly, in all material respects, the financial position of the Solid Waste Authority, a component unit of the County, as of September 30, 2011, and the respective change in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the financial statements, an analysis and corrective reconciliation, that was completed in May 2013, disclosed certain errors that had occurred in the years prior to October 1, 2010 resulting in the understatement of capital assets, net assets categories of investments in capital assets, net of related debt and unrestricted net assets and total net assets and the overstatement of accounts payable as of September 30, 2010. Accordingly, adjustments have been made to net assets as of September 30, 2010, to correct the errors.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 5, 2014 on our consideration of the Solid Waste Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Martinez, Rosario & Company, LLP

Martinez, Rosario & Company, LLP
Certified Public Accountants
San Antonio, Texas

May 5, 2014

**Maverick County Solid Waste Authority
Management's Discussion and Analysis (MD&A) - Unaudited
For the Fiscal Year Ended September 30, 2011**

General Information

The Maverick County Solid Waste Authority, (the "Solid Waste Authority") is a component unit of Maverick County, Texas (the "County"). The Solid Waste Authority is one of three major business-like activity funds of the County, which as such, will be blended and reported as an enterprise fund in the County's Annual Financial Report (AFR).

Please refer to the Notes to the Financial Statements on pages 14 – 16 (Note 1: *Reporting Entity*) for an overview of the:

- Solid Waste Authority,
- The composition of the Board of Directors of the Solid Waste Authority and the County Commissioners' Court and their powers; and,
- A brief discussion of its financial activities and operations management structure.

Solid Waste Authority Basic Financial Statements

By means of this report, we offer citizens and readers of the Solid Waste Authority's financial statements this narrative overview and analysis of the financial activities of the Solid Waste Authority for the fiscal year ended September 30, 2011. This discussion and analysis is intended to assist in focusing on significant financial issues and changes in the Solid Waste Authority's financial position as well as serve as an introduction to the Solid Waste Authority's basic financial statements. The Solid Waste Authority's basic financial statements are comprised as follows:

- Independent Auditor's Report,
- Management's Discussion and Analysis,
- Financial Statements and,
- Notes to the Financial Statements.

Financial Highlights

Solid Waste Authority Total Net Assets was \$6,235,790 as of September 30, 2011. This is primarily comprised of \$7,112,262, for investments in capital assets, net of debt, restricted net assets of \$574,283 and unrestricted net assets of (\$1,450,755). The total net assets of the Solid Waste Authority decreased by \$969,537 from last year. Over time, increases or decreases in total net assets may serve as a useful indicator of whether the financial position of the Solid Waste Authority is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets reports \$1,202,173 in operating revenue. Operating expenses show \$3,008,849 which is a \$2,836,957 increase over the prior year. These increases reflect the first year operating the landfill. Overall, the change in net assets is a decrease of \$2,206,666 which is a \$2,043,485 decrease over the prior year.

The Statement of Cash Flows on pages 12 – 13 shows an increase of \$219,797 in the Cash and Cash Equivalents. Again, this statement shows the movement of cash to and from operating and non-operating Solid Waste Authority activities.

Overview of the Financial Statements

The Solid Waste Authority is a single enterprise fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private-sector business enterprises. This discussion and analysis is intended to serve as an introduction to the Solid Waste Authority's basic financial statements, which include the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, Statement of Cash Flows, and Notes to the Financial Statements.

The Statement of Net Assets on page 10 presents information on the Solid Waste Authority's assets and liabilities, 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 Solid Waste Authority is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets on page 11 is the basic statement of activities for proprietary funds. This statement provides the user information on the Solid Waste Authority's operating revenues and expenses, non-operating revenues and expenses and whether the Solid Waste Authority's financial position has improved or deteriorated as a result of each year's operations.

The Statement of Cash Flows on pages 12 – 13 presents the change in the Solid Waste Authority's cash and cash equivalents during each fiscal year. This information can assist the user of the report in determining how the Solid Waste Authority financed its activities and how it met its cash requirements.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data in the financial statements. The Notes to the Financial Statements can be found on pages 14 – 27 of this report.

Solid Waste Authority Financial Analysis

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Solid Waste Authority's financial position. The Solid Waste Authority's total net assets decreased during fiscal year 2011 by \$969,537. This decrease is attributed to a decrease in net assets of \$2,206,668 and an increase due to prior period adjustments of \$1,237,129, which is further explained in Note 12.

Solid Waste Authority Net Assets

	Fiscal Year		Difference Increase (Decrease)
	<u>2011</u>	<u>2010</u>	
Current and Other Assets	\$ 1,082,670	\$ 862,431	\$ 220,239
Capital Assets, Net	<u>7,619,758</u>	<u>7,284,776</u>	<u>334,982</u>
Total Assets	<u>\$ 8,702,428</u>	<u>\$ 8,147,207</u>	<u>\$ 555,221</u>
Current Liabilities	\$ 611,176	\$ 941,880	\$ (330,704)
Noncurrent Liabilities	<u>1,855,462</u>	<u>-</u>	<u>1,855,462</u>
Total Liabilities	<u>2,466,638</u>	<u>941,880</u>	<u>1,524,758</u>
Investments in Capital Assets, Net of Debt	7,112,262	7,284,776	(172,514)
Restricted Net Assets	574,283	570,000	4,283
Unrestricted Net Assets	<u>(1,450,755)</u>	<u>(649,449)</u>	<u>(801,306)</u>
Total Net Assets	<u>\$ 6,235,790</u>	<u>\$ 7,205,327</u>	<u>\$ (969,537)</u>

Analysis of Solid Waste Authority Operations

Changes in Net Assets

The following table provides a summary of the Solid Waste Authority's operations for the year ended September 30, 2011, as compared to the prior fiscal year:

	<u>Change in Net Assets</u>		Difference Increase (Decrease)
	Fiscal Year		
	<u>2011</u>	<u>2010</u>	
<u>Operating Revenues</u>			
Tipping Fees	\$ 1,202,173	\$ -	\$ 1,202,173
Total Operating Revenues	1,202,173	-	1,202,173
<u>Operating Expenses</u>			
Operations & Administration	3,008,849	171,892	2,836,957
Total Operating Expenses	3,008,849	171,892	2,836,957
Operating Income (Loss)	(1,806,676)	(171,892)	(1,634,784)
<u>Non-Operating Revenue/(Expenses)</u>			
Investment Earnings	4,396	8,711	(4,315)
Interest Expense - Non-Operating	(20,008)	-	(20,008)
Total Non-Operating Revenue (Expenses)	(15,612)	8,711	(24,323)
Income (Loss) Before Transfers	(1,822,288)	(163,181)	(1,659,107)
Transfers In From County	1,848,596	-	1,848,596
Transfers Out To County	(2,232,974)	-	(2,232,974)
Change in Net Assets	(2,206,666)	(163,181)	(2,043,485)
Total Net Assets, Beginning of Year	7,205,327	2,859,322	4,346,005
Prior Period Adjustment	1,237,129	4,509,186	(3,272,057)
Total Net Assets, End of Year	<u>\$ 6,235,790</u>	<u>\$ 7,205,327</u>	<u>\$ (969,537)</u>

The focus of the Solid Waste Authority is to provide information on near-term inflows, outflows, and the balances of available resources. Such information is useful in assessing the Solid Waste Authority's financing requirements. In particular, the net revenue realized, after deducting the cost of operations and required transfers, to the Solid Waste Authority may serve as a useful measure of the Solid Waste Authority's net resources available.

Capital Assets and Debt Administration

Capital Assets: The Solid Waste Authority's investment in capital assets as of September 30, 2011, amounts to \$7,619,758 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, landfill, Cell 1, and construction in progress. The following schedule shows the Solid Waste Authority's capital assets at year end.

Solid Waste Authority Capital Assets at Year End

	<u>2011</u>	<u>2010</u>
Land	\$ 308,919	\$ 308,919
Construction in Progress	15,020	6,893,630
Building	502,395	-
Vehicles and Equipment	1,594,889	82,227
Landfill Infrastructure	1,841,153	-
Landfill Cell One	2,550,092	-
Landfill Permitting	<u>2,175,360</u>	<u>-</u>
	8,987,828	7,284,776
Less Accumulated Depreciation	<u>(1,368,070)</u>	<u>-</u>
Total Capital Assets	<u>\$ 7,619,758</u>	<u>\$ 7,284,776</u>

There were several changes in capital assets as of September 30, 2011, when compared to the prior year. The changes were the purchase of a vehicle during the year, reallocation of construction in progress, and recognition of donated equipment from the County which occurred in a prior year. Also, preliminary work started on Cell 2 which is shown in construction in progress. See Note 3 for more information.

Debt

The Solid Waste Authority has a note payable, capital lease and a letter of credit. See Notes 5, 6 and 7 for more information.

Changes in Debt Rating

The County's bond rating is currently unrated status.

Subsequent Events

Subsequent events were evaluated by the management office of the County and the Solid Waste Authority through May 5, 2014, which is the date the financial statements were available to be issued. As of May 5, 2014, the subsequent events discussed below were deemed to be necessary disclosures.

A total of 8 (eight) current or former employees of the County have been arrested on varying charges. The following is a breakdown of these arrests:

1. The former County Purchasing Agent and the current Precinct 1 Foreman were arrested October 11, 2012. The Foreman is related to the County Commissioner for Precinct 4. They are charged with two counts of wire fraud and one count of theft concerning programs receiving federal funds. These charges involve their work with the County. The Foreman pleaded guilty on January 24, 2013. Charges were dropped against the former County Purchasing Agent on April 11, 2013.
2. The County Commissioner for Precinct 2 was arrested October 18, 2012, on cash smuggling and money laundering charges. None of the charges involve his work with the County. On January 22, 2013, the County Commissioner was indicted in connection with alleged bribery, kickback and bid-rigging scheme involving his work with the County.
3. The former Assistant County Auditor was arrested on November 2, 2012 in connection with an alleged bribery scheme involving her work with the County. She pled guilty on January 24, 2013, and was sentenced on March 31, 2014.
4. A current employee was arrested November 8, 2012 on a charge of receiving bribes in his role as a liaison between the County and private contractors hired to perform work for the County. He pled guilty on January 24, 2013.
5. The County Commissioner for Precinct 1 was arrested on December 6, 2012, in connection with an alleged bribery, kickback and bid-rigging scheme involving his work with the County. He resigned his position on March 1, 2013 and pled guilty on May 2, 2013. He was sentenced on April 8, 2014.
6. The County Commissioner for Precinct 4 was arrested on January 17, 2013, in connection with an alleged bribery, kickback and bid-rigging scheme involving his work with the County. He resigned on March 15, 2013, and pled guilty on September 5, 2013.
7. The former Landfill manager, who tendered his resignation on January 8, 2013, was arrested on April 11, 2013, on one count of possessing forged securities and one count of theft. The indictment alleges the former Landfill Manager forged County checks to himself worth \$62,000.

Prior Period Restatements

The Solid Waste Authority had prior period restatements totaling \$1,237,129. These restatements increased net assets at September 30, 2010 by \$1,237,129. For a detailed discussion, see Note 12 of the financial statements.

Request for Information

The accompanying report of our audited financial statements is designed to provide our citizens, customers, investors, and creditors with a general overview of the Solid Waste Authority's operations and financial position. If there are any questions about this report or any additional information is needed, please contact:

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MAVERICK COUNTY SOLID WASTE AUTHORITY
 STATEMENT OF NET ASSETS
 AS OF SEPTEMBER 30, 2011

ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 412,883
Cash and Cash Equivalents - Restricted	574,283
Accounts Receivable, Net	<u>95,504</u>
Total Current Assets	1,082,670
Noncurrent Assets:	
Capital Assets	
Land	308,919
Construction in Progress	15,020
Building	502,395
Vehicles and Equipment	1,594,889
Landfill Infrastructure	1,841,153
Landfill Cell One	2,550,092
Landfill Permitting	2,175,360
Accumulated Depreciation	<u>(1,368,070)</u>
Total Noncurrent Assets	<u>7,619,758</u>
TOTAL ASSETS	\$ <u><u>8,702,428</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts Payable	\$ 32,557
Accrued Payroll and Related Liabilities	22,355
Accrued Compensated Absences	2,194
Current Portion of Compromise and Settlement Agreement Note Payable	96,336
Due to County, Net	218,746
Capital Lease Payable	<u>238,988</u>
Total Current Liabilities	611,176
NonCurrent Liabilities:	
Capital Lease Payable	268,508
Accrued Compensated Absences	19,735
Compromise and Settlement Agreement Note Payable	770,691
Accrued Landfill Closure and Postclosure Care Costs	<u>796,528</u>
Total NonCurrent Liabilities	<u>1,855,462</u>
Total Liabilities	<u>2,466,638</u>
NET ASSETS	
Investments in Capital Assets, Net of Related Debt	7,112,262
Restricted Net Assets	574,283
Unrestricted Net Assets	<u>(1,450,755)</u>
TOTAL NET ASSETS	\$ <u><u>6,235,790</u></u>

The notes to the financial statements are an integral part of these financial statements.

MAVERICK COUNTY SOLID WASTE AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended September 30, 2011

OPERATING REVENUES	
Tipping Fees	\$ 1,202,173
TOTAL OPERATING REVENUES	<u>1,202,173</u>
OPERATING EXPENSES	
Personnel Services	482,910
Purchased Professional & Technical Services	265,240
Repairs and Maintenance	62,950
Supplies	81,458
Other Operating Expenses	229,043
Closure and Postclosure Care Costs	796,528
Depreciation	1,090,720
TOTAL OPERATING EXPENSES	<u>3,008,849</u>
OPERATING LOSS	(1,806,676)
NON-OPERATING REVENUES (EXPENSES)	
Interest Expense	(20,008)
Investment Earnings	4,396
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(15,612)</u>
Loss Before Transfers	(1,822,288)
Transfers In From County	1,848,596
Transfers Out To County	<u>(2,232,974)</u>
CHANGE IN NET ASSETS	(2,206,666)
TOTAL NET ASSETS - OCTOBER 1 (BEGINNING)	7,205,327
PRIOR PERIOD ADJUSTMENT	<u>1,237,129</u>
TOTAL NET ASSETS - SEPTEMBER 30 (ENDING)	<u><u>\$ 6,235,790</u></u>

The notes to the financial statements are an integral part of these financial statements.

MAVERICK COUNTY SOLID WASTE AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Customers	\$ 1,010,332
Cash Paid to Employees	(449,668)
Cash Paid to Suppliers and Contractors	<u>(613,082)</u>
NET CASH USED FOR OPERATING ACTIVITIES	(52,418)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Transfers In	1,848,596
Transfers Out	<u>(1,269,610)</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	578,986
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:	
Acquisition of Capital Assets	(79,305)
Principal Paid on Capital Lease	(211,854)
Interest Paid on Capital Lease	<u>(20,008)</u>
NET CASH USED FOR CAPITAL & RELATED FINANCING ACTIVITIES	(311,167)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Received on Investments	<u>4,396</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	4,396
NET INCREASE IN CASH AND CASH EQUIVALENTS	219,797
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR:	<u>767,369</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	\$ <u>987,166</u>

The notes to the financial statements are an integral part of these financial statements.

MAVERICK COUNTY SOLID WASTE AUTHORITY
STATEMENT OF CASH FLOWS -- Continued
For the Year Ended September 30, 2011

**RECONCILIATION OF OPERATING LOSS TO NET CASH
 USED FOR OPERATING ACTIVITIES:**

Operating Loss: \$ (1,806,676)

**ADJUSTMENTS TO RECONCILIATE OPERATING INCOME TO NET CASH
 USED FOR OPERATING ACTIVITIES:**

Depreciation 1,090,720
 Amortization of Compromise and Settlement Agreement Note Payable (96,336)
 Effect of Increases and Decreases in Operating Assets and Liabilities:
 Decrease (Increase) in Receivables (95,504)
 Decrease (Increase) in Due From County 95,062
 Increase (Decrease) in Accounts Payable (183,059)
 Increase (Decrease) in Due To County 113,605
 Increase (Decrease) in Compensated Absences 21,929
 Increase (Decrease) in Wages and Salaries Payable 11,313
 Increase (Decrease) in Closure and Postclosure Care Costs 796,528

NET CASH USED FOR OPERATING ACTIVITIES \$ (52,418)

SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES:

Assumption of Compromise and Settlement Agreement Note Payable \$ 963,364

RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS:

Cash and Cash Equivalents \$ 412,883
 Cash and Cash Equivalents -- Restricted 574,283

TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR \$ 987,166

The notes to the financial statements are an integral part of these financial statements.

MAVERICK COUNTY SOLID WASTE AUTHORITY

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MAVERICK COUNTY SOLID WASTE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Maverick County Solid Waste Authority (the "Solid Waste Authority") have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Solid Waste Authority applies all GASB pronouncements as well as the Financial Accounting Standards Board (FASB) Statements and Interpretations; ARB Opinions, and ARBs issued on or before November 30, 1989, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The Solid Waste Authority has elected not to apply any FASB Statements and Interpretations issued after November 30, 1989. The more significant of the Solid Waste Authority's accounting policies are described below.

Reporting Entity

On August 10, 2009, the Maverick County Commissioners' Court approved creation of the Solid Waste Authority (a Texas non-profit corporation) for the purpose of operating the County's Type I landfill. This Corporation was formed pursuant to the Texas Transportation Code, which authorizes the Corporation to assist and act on behalf of Maverick County to accomplish any governmental purpose of Maverick County. The bylaws of the Corporation call for the Maverick County Commissioners' Court appointment and approval of the Corporation's five member Board of Directors. The Solid Waste Authority was formed on August 25, 2009 and commenced its operations on October 7, 2009. The Solid Waste Authority assumed operation of the County's landfill on October 1, 2010.

In order to construct the landfill operations and cell one, the County issued Prior Lien Bonds. These bonds state that the County hereby covenants and agrees that all Gross Revenue derived from the operation of the Solid Waste Management System shall be kept separate and apart from all other funds, accounts and money of the County and shall be deposited as collected into the "MAVERICK COUNTY SOLID WASTE MANAGEMENT SYSTEM REVENUE FUND" (the "Reserve Fund"). All money deposited in the Reserve Fund shall be pledged and appropriated to the extent required for the following purposes and in order of priority shown:

MAVERICK COUNTY SOLID WASTE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS – Continued
For the Year Ended September 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

First: to the payment of the reasonable and proper Maintenance and Operating Expenses of the Solid Waste Management System required by statute or orders authorizing the issuance of any indebtedness of the County to be a first charge on and claim against the Gross Revenues of the Solid Waste Management System;

Second: to the payment of all amounts required to be deposited in the special fund and account established for the payment, security, and benefit of any Prior Lien Bond hereafter issued by the County in accordance with the terms and provisions of any orders authorizing their issuance;

Third: to the payment of all amounts required to be deposited in the special funds and accounts established for the payment, security, and benefit of any Additional Revenue Obligations hereafter issued by the County in accordance with the terms and provisions of any orders authorizing their issuance; and

Fourth: to the payment of the amounts required to be deposited in the special funds and accounts created and established for the payment, security, and benefit of the Obligations Similarly Secured or any Additional Parity Obligations hereafter issued by the County in accordance with the terms and provisions of the orders authorizing their issuance.

Any Net Revenues remaining in the Reserve Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment, securing any benefit thereof, may be appropriated and used for any other County purpose now or hereinafter permitted by law.

The County is a public corporation and a political subdivision of the State of Texas. The general governing body of the County is the Commissioners' Court, which has none of the functions of a court, but has powers and duties defined by the Texas Constitution and state statutes. The court is comprised of five elected officials consisting of the County Judge (elected county-wide) and four Commissioners elected by precinct. The County Judge is the administrative officer of the County. The general functions of the Commissioners' Court as established by State statutes are to establish a courthouse and jail, appoint numerous minor public officials, fill vacancies in certain County offices, authorize contracts in the name of the County, build roads and bridges, administer

MAVERICK COUNTY SOLID WASTE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS – Continued
For the Year Ended September 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

the County's public welfare services, perform numerous duties in regard to elections, set the County tax rate, issue bonds or other forms of debt, adopt the County's budget, and perform any other functions authorized by law.

The Solid Waste Authority is a component unit of the County. The Solid Waste Authority is a major business-like activity fund of the County, which as such, will be blended and reported as an enterprise fund in the County's Annual Financial Report (AFR).

Fund Financial Statements

GASB 34 requires that basic financial statements and required supplementary information consist of Management's Discussion and Analysis (MD&A), Enterprise Fund Financial Statements, Notes to Financial Statements, and Required Supplementary Information other than MD&A, if applicable. Required fund basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

The Solid Waste Authority's basic financial statements are presented as a single Enterprise Fund. This Enterprise Fund accounts for the acquisition, operation, and maintenance of the Solid Waste Authority's facilities and services and is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of net assets. The Enterprise Fund is accounted for using the accrual basis of accounting. Its revenue is recognized when it is earned and its expenses are recognized when they are incurred.

The Solid Waste Authority distinguishes *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services. The Solid Waste Authority had operating revenues for the year. Operating expenses for the Solid Waste Authority include operation expenses and administrative expenses. All revenues and expenses not meeting these criteria are reported as non-operating revenues and expenses.

MAVERICK COUNTY SOLID WASTE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS – Continued
For the Year Ended September 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits as well as highly liquid and short-term investments with an original maturity date of approximately three months or less from the date acquired by the Solid Waste Authority.

State statutes and bond covenants authorize the Solid Waste Authority to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, and repurchase agreements.

Neither the County nor the Solid Waste Authority has adopted a formal investment policy; however, all cash and temporary investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. Investments are stated at cost or amortized costs, which approximates market value.

Assets, Liabilities and Net Assets

Investments

Investments consist of a CD with a one year maturity with an interest rate of .5%. The CD was renewed in August of 2011. See Note 2.

Capital Assets

As discussed in Note 1 in the section titled “Reporting Entity”, the Solid Waste Authority was created by the County to operate the County’s Type I landfill and is authorized to assist and act on behalf of the County to accomplish any governmental purpose of the County. All of the landfill capital assets of the Solid Waste Authority acquired prior to the current fiscal year ended September 30, 2011, were acquired in the name of the County. The County or lessor currently has title or ownership of these landfill capital assets. Due to the Solid Waste Authority fiduciary and custodial relationship with the County, these landfill capital assets and related activity and depreciation expense are reported on the financial statements of the Solid Waste Authority.

MAVERICK COUNTY SOLID WASTE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS – Continued
For the Year Ended September 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The Solid Waste Authority is responsible for the maintenance and upkeep of these landfill capital assets. Also, the Solid Waste Authority makes all capital lease payments related to these landfill capital assets. Any future acquisitions, improvements or expansions of the landfill capital assets will be carried out by the Solid Waste Authority.

Capital assets include land, construction in progress, building, vehicles and equipment, infrastructure, cell one and permitting. Buildings are depreciated using the straight-line method over 30 years, vehicles and equipment are 5-10 years, and the landfill infrastructure and permitting are 30 years. Cell one is being depreciated based on usage capacity.

Interest & Transfers

Interest Income

Total interest income is \$4,396.

Transfers

The County transferred \$1,848,596 in sales tax collected during the year. Solid Waste Authority transferred to the County \$659,610 for bond payments, \$610,000 in regular transfers and \$963,364 in the assumption of the compromise and settlement note payable.

NOTE 2: DEPOSITS AND INVESTMENTS

As of September 30, 2011, the Solid Waste Authority had a certificate of deposit (CD) totaling \$574,283. This CD matured on June 13, 2012. See Note 3.

The Solid Waste Authority is authorized to make investments as permitted by the Solid Waste Authority bond indenture which are comparable to investments listed in Chapter 2256 of the Texas Government Code following the “prudent person rule”. There were no significant violations of legal provisions during the period. At September 30, 2011, the Solid Waste Authority had cash and cash equivalents totaling \$987,166.

MAVERICK COUNTY SOLID WASTE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS – Continued
For the Year Ended September 30, 2011

NOTE 2: DEPOSITS AND INVESTMENTS -- Continued

Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) in a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Neither the Solid Waste Authority, nor the County has a formal policy on credit risk, custodial risk, and concentration of credit risk; however, the Solid Waste Authority's investment policy and Government Code Chapter 2257, *Collateral for Public Funds*, contain legal or policy requirements that would limit the exposure to custodial risk for deposits or investments.

The Solid Waste Authority is not exposed to custodial risk for its deposits as all are covered by depository insurance and collateral coverage.

MAVERICK COUNTY SOLID WASTE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS – Continued
For the Year Ended September 30, 2011

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Prior Period Restatements and Reallocations	Restated Balance at 9/30/2010	Additions	Decreases	Ending Balance
Capital Assets, not being depreciated:						
Land	\$ 308,919	\$ -	\$ 308,919	\$ -	\$ -	\$ 308,919
Construction in Progress	-	-	-	15,020	-	15,020
Total Capital Assets Not Being Depreciated	308,919	-	308,919	15,020	-	323,939
Capital Assets, being depreciated:						
Building	-	502,395	502,395	-	-	502,395
Vehicles and Equipment	82,227	1,448,377	1,530,604	64,285	-	1,594,889
Infrastructure	6,893,630	(5,052,477)	1,841,153	-	-	1,841,153
Cell One	-	2,550,092	2,550,092	-	-	2,550,092
Permitting	-	2,175,360	2,175,360	-	-	2,175,360
Total Capital Assets being depreciated	6,975,857	1,623,747	8,599,604	64,285	-	8,663,889
Less Accumulated Depreciation:	-	277,350	277,350	1,090,720	-	1,368,070
Total Capital Assets Being Depreciated, Net	6,975,857	1,346,397	8,322,254	(1,026,435)	-	7,295,819
TOTAL CAPITAL ASSETS, NET	\$ 7,284,776	\$ 1,346,397	\$ 8,631,173	\$ (1,011,415)	\$ -	\$ 7,619,758

MAVERICK COUNTY SOLID WASTE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS – Continued
For the Year Ended September 30, 2011

NOTE 4: DUE FROM COUNTY

	<u>Amount</u>
Due From County Funds	
Road and Bridge Fund	\$ 30,218
Water Utility Fund	<u>40,421</u>
Total Due From County	70,639
Due To County Funds	
General Fund	(81,188)
Landfill/Detention Center Fund	<u>(208,197)</u>
Total Due To County	<u>(289,385)</u>
Total Due To County, Net	<u>\$ (218,746)</u>

NOTE 5: COMPROMISE AND SETTLEMENT AGREEMENT NOTE PAYABLE

The Solid Waste Authority, the County, and the City of Eagle Pass, TX (City) entered into a Compromise and Settlement Agreement on November 16, 2010. With this agreement, the County settled any outstanding debt for landfill and fire related protection and emergency ambulance services by the City through September 8, 2008 amounting to \$963,364 (\$869,663 plus 6% simple interest from January 30, 2009 through October 31, 2010 (\$93,701)). The agreement states that in lieu of cash payments by the County, the City will be able to deposit 2,408.41 tons (\$963,364/10years/\$40) of Type I refuse in the Solid Waste Authority's Landfill for ten (10) years at a credit to the City of \$40 per ton. The agreement also states that the Solid Waste Authority will assume the debt. The Solid Waste Authority is amortizing this note payable based upon tons of Type I refuse received at a rate of \$40 per ton. The amount amortized each year is capped at \$96,366. The Solid Waste Authority anticipates it will amortize this note payable over 10 years. If the Solid Waste Authority is not able to fulfill its obligations, then the County will assume the debt.

MAVERICK COUNTY SOLID WASTE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS – Continued
For the Year Ended September 30, 2011

NOTE 6: CAPITAL LEASES

The Solid Waste Authority has entered into a lease purchase agreement for the acquisition of machinery and equipment.

The Solid Waste Authority has entered into a lease purchase agreement with Caterpillar Financial Services Corporation with the first payment starting November 2010. Lease payments for the fiscal year ended September 30, 2011 totaled \$231,862. The effective interest rate is 3.5%. Total cost of the assets acquired under this capital lease is \$719,350, and accumulated depreciation totaled \$89,875.

At September 30, 2011, the Solid Waste Authority had future minimum lease payments under capital leases with a remaining term in excess of one year as follows:

Year End September 30,	Amount
2012	\$ 252,940
2013	252,940
2014	<u>21,078</u>
Future Minimum Lease Payments	526,958
Less: Interest	<u>(19,462)</u>
Present Value of Future Minimum Lease Payments	507,496
Less: Current Portion	<u>(238,988)</u>
Capital Lease, Net of Current Portion	<u>\$ 268,508</u>

MAVERICK COUNTY SOLID WASTE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS – Continued
For the Year Ended September 30, 2011

NOTE 7: LETTER OF CREDIT

At September 30, 2011, the Solid Waste Authority had an unused irrevocable standby letter of credit in the amount of \$570,000. The letter of credit was effective on August 31, 2010, with an expiration date of August 31, 2011 that automatically extends for a period of at least one year at August 31, 2011 and on each successive expiration date, unless, at least 120 days before the expiration date the financial institution notifies the Solid Waste Authority that it has decided not to extend the letter of credit. The letter of credit was collateralized by a certificate of deposit totaling \$574,283.

On April 28, 2011, the financial institution sent the Solid Waste Authority a non-renewal notice. On August 12, 2011 the financial institution rescinded the non-renewal notice and renewed the letter of credit for another one year period as of the expiration date of August 31, 2011. In June 2012, the letter of credit was cancelled with the permission of the Texas Commission on Environmental Quality. The letter of credit was replaced by an Insurance Performance Bond which went into effect May 1, 2012.

The letter of credit is for the County's Solid Waste Facility landfill and is pledged to the Texas Commission on Environmental Quality. See Note 8 for subsequent information concerning the letter of credit.

NOTE 8: SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The Solid Waste Authority at year-end operated one active cell at the landfill site. State and federal laws and regulations require the Solid Waste Authority to place a cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years (30) after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the landfill capacity used as of each statement of net assets date. These future closure and post closure care costs will be paid only near or after the date the landfill no longer accepts waste. The \$796,528 reported as accrued landfill closure and post closure care costs at September 30, 2011, represents the cumulative amount reported to date based on the use of 27.9% of the estimated capacity of the landfill. The current change recognized in this fiscal year is \$796,528. The Solid Waste Authority will recognize the remaining estimated cost of closure and post closure care of \$2,039,993 as the remaining estimated capacity is filled. The Solid Waste Authority estimates the useful life as of September 30, 2011, to approximate three years (3). The estimated total current cost of the accrued

MAVERICK COUNTY SOLID WASTE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS – Continued
For the Year Ended September 30, 2011

NOTE 8: SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS --
Continued

landfill closure and post closure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor and maintain the landfill were acquired as of September 30, 2011. However, the actual cost of closure and post closure care may change due to inflation, changes in technology, or changes in landfill laws and regulations. The above estimated charges are based on a study conducted by SCS Engineers and presented in a report dated January 2012.

Texas Commission on Environmental Quality (TCEQ) Financial Assurance

The Solid Waste Authority is required under the provision of the Texas Administrative Code to provide financial assurance to the Texas Commission on Environmental Quality (TCEQ), formerly known as the Texas Natural Resource Conservation Commission, related to the closure of municipal solid waste operations including, but not limited to, storage, collection, handling, transportation, processing, and disposal of municipal solid waste. As such, financial assurance is required to ensure that funds are available, when needed, to meet costs associated with the closure of the County's landfill. The Solid Waste Authority pledged to the TCEQ a Letter of Credit in the amount of \$570,000.

On June 13, 2012, the TCEQ gave authorization to International Bank of Commerce to cancel the Letter of Credit. The Letter of Credit was replaced by an Insurance Performance Bond for \$2,856,515 which went into effect on May 1, 2012. The Performance Bond was renewed on May 1, 2013 in the amount of \$2,907,932.

NOTE 9: RISK MANAGEMENT

The Solid Waste Authority relies on the County to manage all of its risks through the County's risk management process. The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County has contracted with insurance companies for certain coverage in order to minimize risk. However, the County retains full risk of law enforcement, auto, and airport liability.

MAVERICK COUNTY SOLID WASTE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS – Continued
For the Year Ended September 30, 2011

NOTE 10: INTERLOCAL GOVERNMENTAL AGREEMENT

On July 19, 2011, the Solid Waste Authority entered into an Interlocal Governmental Agreement with the County whereby the Solid Waste Authority agreed to pledge monetary funds from tipping fees and the County has agreed to accept the monetary funds pledged by the Solid Waste Authority.

Per the terms of the agreement, the Solid Waste Authority has agreed to pledge and transfer monetary funds from its tipping fees collection for a period of three fiscal years commencing in the fiscal year 2011-2012. The amounts pledged by the Solid Waste Authority are as follows: the first fiscal year 2011-2012 will be in the amount of \$1,000,000; the second fiscal year 2012-2013 will be in the amount of \$1,200,00; and the third fiscal year 2013-2014 will be in the amount of \$1,400,00. No amounts shall be pledged and/or transferred following the expiration of the 2013-2014 fiscal year.

The monies pledged are contingent upon the Solid Waste Authority receiving sufficient tipping revenues for the respected fiscal years indicated and the Solid Waste Authority maintains the right to annually review its ability to satisfy any pledge at the end of each fiscal year in order to make a determination that a pledge can in fact be satisfied without financial detriment to the operation and maintenance of the Solid Waste Authority for each fiscal year.

NOTE 11: SUBSEQUENT EVENTS

Subsequent events were evaluated by the management office of the County and the Solid Waste Authority through May 5, 2014, which is the date the financial statements were available to be issued. As of May 5, 2014, the following subsequent events were deemed to be necessary disclosures.

Debt Issuance 2013

On May 20, 2013, the County issued Tax Notes Series 2013 for \$3,090,000. The proceeds will be used to finance the construction of the MCSWA's cell two.

MAVERICK COUNTY SOLID WASTE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS – Continued
For the Year Ended September 30, 2011

NOTE 11: SUBSEQUENT EVENTS – Continued

Other Matters

A total of 8 (eight) current or former employees of the County have been arrested on varying charges. The following is a breakdown of these arrests:

1. The former County Purchasing Agent and the current Precinct One Foreman were arrested on October 11, 2012. The Foreman is related to the County Commissioner for Precinct 4. They were charged with two counts of wire fraud and one count of theft concerning programs receiving federal funds. These charges involved their work with County. The Foreman pled guilty on January 24, 2013. Charges against the former County Purchasing Agent were dropped on April 11, 2013.
2. The County Commissioner for Precinct 2 was arrested on October 18, 2012, on cash smuggling and money laundering charges. None of the charges appear to involve his work with the County. On January 23, 2013, the County Commissioner was indicted in connection with an alleged bribery, kickback and bid-rigging scheme involving his work with the County.
3. A former Assistant County Auditor was arrested on November 2, 2012, in connection with an alleged bribery scheme involving her work with the County. She pled guilty on January 24, 2013, and was sentenced on March 31, 2014.
4. A current employee was arrested November 8, 2012, on a charge of receiving bribes in his role as a liaison between the County and private contractors hired to perform work for the County. He pled guilty on January 24, 2013.
5. The County Commissioner for Precinct 1 was arrested on December 6, 2012, in connection with an alleged bribery, kickback and bid-rigging scheme involving his work with the County. He resigned his position on March 1, 2013 and pled guilty on May 2, 2013. He was sentenced on April 8, 2014.
6. The County Commissioner for Precinct 4 was arrested on January 17, 2013, in connection with an alleged bribery, kickback and bid-rigging scheme involving his work with the County. He resigned his position on March 15, 2013, and pled guilty on September 5, 2013.

MAVERICK COUNTY SOLID WASTE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS – Continued
For the Year Ended September 30, 2011

NOTE 11: SUBSEQUENT EVENTS – Continued

Other Matters – Continued

7. The former Landfill Manager, who tendered his resignation on January 8, 2013, was arrested on April 11, 2013, on one count of possessing forged securities and one count of theft. The indictment alleges the former Landfill Manager forged County checks to himself worth \$62,000.

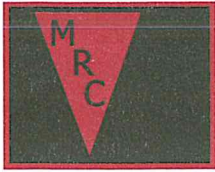
NOTE 12: PRIOR PERIOD RESTATEMENTS

The following prior period restatements resulted from an analysis and corrective reconciliation, completed on May 5, 2014, that disclosed errors that had occurred in the fiscal years ended prior to September 30, 2011.

	<u>Amount</u>
Net Assets, As Previously Reported at September 30, 2010	\$ 7,205,327
Understatement of Maverick County Contributed Equipment	446,447
Understatement of Accumulated Depreciation related to Maverick County Contributed Equipment	(277,350)
Overstatement of Construction in Progress	(13,700)
Understatement of Capitalized Interest	1,076,694
Overstatement of Accounts Payable	5,038
	<u>1,237,129</u>
Total Prior Period Restatements	1,237,129
Net Assets, As Restated at September 30, 2010	<u>\$ 8,442,456</u>

The above prior period restatement of \$1,237,129 restated and increased the net assets category of investment in capital assets, net of related debt by \$1,232,091 and unrestricted net assets by \$5,038.

REPORT REQUIRED BY
GOVERNMENTAL AUDITING STANDARDS



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Maverick County Solid Waste Authority
Eagle Pass, Texas

We have audited the financial statements of the Maverick County Solid Waste Authority (the "Solid Waste Authority"), a component unit of Maverick County, Texas (the "County"), as of and for the year ended September 30, 2011, and have issued our report thereon dated May 5, 2014. The report was qualified because of a scope limitation due to lack of adequate accounting records related to expenses and contingencies related to indictments, arrests and guilty pleas of current and former Solid Waste Authority and County governing board, members, management and employees. Also, our report contains an explanatory paragraph referring to prior period restatements. Except as discussed above, 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

Management of the Solid Waste Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit we considered the Solid Waste 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 Solid Waste Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Solid Waste Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. Findings 2011-01, and 2011-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Solid Waste 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as Findings 2011-01, and 2011-02.

We noted certain matters that we reported to management of the Solid Waste Authority, in a separate letter dated May 5, 2014.

The Solid Waste Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Solid Waste Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of the Maverick County Solid Waste Authority, Maverick County Commissioners Court, the Board of Directors, federal and state regulatory agencies; and is not intended to be, and should not be used by, anyone other than these specified parties.

Martinez, Rosario & Company, LLP

Martinez, Rosario & Company, LLP
Certified Public Accountants
San Antonio, Texas

May 5, 2014

MAVERICK COUNTY SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended September 30, 2011

SECTION I – INTERNAL CONTROL OVER FINANCIAL REPORTING

Finding 2011-01

Solid Waste Authority Accounting, Internal Controls and Financial Reporting Deficiencies
Type of Finding: Material Weakness and Material Non-Compliance

Condition and Context:

1. **No Internal Controls for Expenses** – During our audit, we noted 38 out of 70 transactions totaling approximately \$815,615 had no evidence of being properly approved by a supervisor or Solid Waste Authority management.
2. **Poor Cash Controls** – During our audit of the Solid Waste Authority, we noted that bank reconciliations were not being prepared on a timely basis, and there was no evidence of supervisory review or approval for the bank reconciliations.
3. **Improper Capital Asset Financial Reporting** – During our audit, we noted that capital assets were not properly classified. We noted construction in progress totaling \$6.8 million consisted of vehicle and equipment, building, Cell One, infrastructure and permitting costs incurred in prior fiscal years. The allocation amongst these capital assets categories had not been performed in order to report the amounts properly or record and calculate annual depreciation expense. Also, we determined that interest costs incurred by the County on the debt used to finance the construction of the landfill were not properly capitalized. As a result, a prior period restatement of \$1,237,129 was required to total net assets as of September 30, 2010

Criteria:

1. **No Internal Controls for Expenses** – The Solid Waste Authority should have procedures in place to ensure that all transactions are properly approved by a supervisor prior to disbursement.
2. **Poor Cash Controls** – The Solid Waste Authority should have procedures in place to ensure bank reconciliations for all cash accounts are prepared within 45 days of month end. Also, all bank reconciliations should be reviewed and approved by a supervisor on a monthly basis.

MAVERICK COUNTY SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES - Continued
For the Year Ended September 30, 2011

SECTION I - INTERNAL CONTROL OVER FINANCIAL REPORTING - Continued

Finding 2011-01 – Continued

3. **Improper Capital Asset Financial Reporting** – The Solid Waste Authority should have policy or procedures in place to properly classify and disclose balances into the proper capital asset categories.

Effect:

1. **No Internal Controls for Expenses** – By failing to properly authorize purchase orders the Solid Waste Authority could incur unauthorized purchases and unbudgeted purchases.
2. **Poor Cash Controls** – Failure to prepare and review bank reconciliations on a timely basis and failure for bank reconciliations to be reviewed and approved by a supervisor could result in the misstatement or misappropriation of cash.
3. **Improper Capital Asset Financial Reporting** – Failure to keep track of capital assets will result in the financial statements being misstated. Failure to record depreciation will result in an understatement of expense and an overstatement of assets.

Cause:

1. **No Internal Controls for Expenses** – Inadequate supervision and review of finance staff.
2. **Poor Cash Controls** – No proper review and approval of bank reconciliations.
3. **Improper Capital Asset Financial Reporting** – Inadequate review and controls over financial reporting.

Recommendation:

1. **No Internal Controls for Expenses** – The Solid Waste Authority should strengthen their policies and procedures regarding accounts payable to ensure internal controls are sufficient to enable propriety and approval of all purchases.

**MAVERICK COUNTY SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES - Continued
For the Year Ended September 30, 2011**

SECTION I - INTERNAL CONTROL OVER FINANCIAL REPORTING - Continued

Finding 2011-01 – Continued

2. **Poor Cash Controls** – The Solid Waste Authority should review its policies and procedures regarding the completion of bank reconciliations to include all cash accounts are reconciled within 45 days of the end of the month and are reviewed and approved by a supervisor.
3. **Improper Capital Asset Financial Reporting** – The Solid Waste Authority should review its policies and procedures to ensure that capital assets are properly classified in the appropriate categories for the financial statement reporting.

Management response:

1. **No Internal Control for Expenses** – All expenses are now approved by the Landfill Manager before a purchase is let and these are approved by the Board before payment is authorized and processed. All documents are reviewed by the accountant in the County Auditor's Office. Checks are stored at the County Auditor's office and are provided to Landfill's staff only when needed, generally on approval of the Warrant List by the Board. Check procedures as approved by the Board, requires all checks over \$1,000 be written on two (2) signatures.
2. **Poor Cash Controls** – Bank reconciliations are now prepared by the accountant in the County Auditor's office within 30 days of month end. A detail spreadsheet is prepared for deposits made and is reviewed by Landfill manager.
3. **Improper Capital Asset Financial Reporting** – Capital Assets are now being properly classified. List of Capital Assets provided by the external auditors is being kept up to date. As soon as expense is reviewed by the accountant in the County Auditor's office and a realization is made of a capital asset purchase, accountant proceeds with the accounting of the asset. All property is tagged.

**MAVERICK COUNTY SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES - Continued
For the Year Ended September 30, 2011**

SECTION II – COMPLIANCE AND OTHER MATTERS

Finding 2011-02

Type of Finding: Material Weakness and Material Non-Compliance

Condition: During our audit, we noted the following indictments, arrests and convictions related to former and current officials and employees of the Solid Waste Authority and the County.

1. The former County Purchasing Agent and the current Precinct 1 Foreman were arrested October 11, 2012. The Foreman is related to the County Commissioner for Precinct 4. They are charged with two counts of wire fraud and one count of theft concerning programs receiving federal funds. These charges involve their work with the County. The Foreman pleaded guilty on January 24, 2013. Charges were dropped against the former County Purchasing Agent on April 11, 2013.
2. The County Commissioner for Precinct 2 was arrested October 18, 2012, on cash smuggling and money laundering charges. None of the charges involve his work with the County. On January 22, 2013, the County Commissioner was indicted in connection with alleged bribery, kickback and bid-rigging scheme involving his work with the County.
3. The former Assistant County Auditor was arrested on November 2, 2012 in connection with an alleged bribery scheme involving her work with the County. She pled guilty on January 24, 2013, and was sentenced on March 31, 2014.
4. A current employee was arrested November 8, 2012 on a charge of receiving bribes in his role as a liaison between the County and private contractors hired to perform work for the County. He pled guilty on January 24, 2013
5. The County Commissioner for Precinct 1 was arrested on December 6, 2012, in connection with an alleged bribery, kickback and bid-rigging scheme involving his work with the County. He resigned his position on March 1, 2013 and pled guilty on May 2, 2013. He was sentenced on April 8, 2014.
6. The County Commissioner for Precinct 4 was arrested on January 17, 2013, in connection with an alleged bribery, kickback and bid-rigging scheme involving his work with the County. He resigned on March 15, 2013, and pled guilty on September 5, 2013.
7. The former Landfill manager, who tendered his resignation on January 8, 2013, was arrested on April 11, 2013, on one count of possessing forged securities and one count of theft. The indictment alleges the former Landfill Manager forged County checks to himself worth \$62,000.

**MAVERICK COUNTY SOLID WASTE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES - Continued
For the Year Ended September 30, 2011**

SECTION II – COMPLIANCE AND OTHER MATTERS – Continued

Finding 2011-02– Continued

Criteria:

All Solid Waste Authority employees and County officials must comply with requisite laws.

Effect:

Weakening of all internal controls and leading to numerous instances of material noncompliance.

Cause:

The collusion by County elected officials, management and employees for their personal benefit and to conduct illegal practices.

Recommendation:

The Solid Waste Authority should develop and implement stronger policies and procedures to prevent and detect any future misconduct.

Management response:

Material Weakness and Material Non-Compliance – Numerous procedures have been written and others are currently being written and updated.