



MARTINEZ, ROSARIO & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

# MAVERICK COUNTY SOLID WASTE AUTHORITY

## FINANCIAL STATEMENTS

September 30, 2012

**FILED**

AT 11:15 O'CLOCK A M

**MAR 12 2015**

SARA MONTEMAYOR

County Clerk Maverick County, Texas

By  Deputy

**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, 2012, 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.

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.

In our opinion, 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, 2012, and the respective change in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 21, 2015, 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

January 21, 2015

**Maverick County Solid Waste Authority  
Management's Discussion and Analysis (MD&A) - Unaudited  
For the Fiscal Year Ended September 30, 2012**

**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, 2012. 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 Auditors' Report,
- Management's Discussion and Analysis,
- Financial Statements and,
- Notes to the Financial Statements.

**Financial Highlights**

Solid Waste Authority Total Net Assets was \$4,303,345 as of September 30, 2012. This is primarily comprised of \$ 6,276,640, for investments in capital assets, net of debt, restricted net assets of \$0 and unrestricted net assets of (\$1,973,295). The total net assets of the Solid Waste Authority decreased by \$1,932,445, 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 show \$1,780,675 in operating revenue. Operating expenses show \$3,987,220 which is a \$978,371 increase over the prior year. These increases reflect the second year operating the landfill. Overall, the change in net assets is a decrease of \$1,932,445 which is a \$274,221 increase over the prior year.

The Statement of Cash Flows on pages 12 – 13 shows a decrease of \$470,261 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 are 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 – 25 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 2012 by \$1,932,445.

### Solid Waste Authority Net Assets

	<u>Fiscal Year</u>		<b>Difference</b>
	<u>2012</u>	<u>2011</u>	<b>Increase (Decrease)</b>
Current and Other Assets	\$ 693,016	\$ 1,082,670	\$ (389,654)
Capital Assets, Net	<u>7,188,213</u>	<u>7,619,758</u>	<u>(431,545)</u>
<b>Total Assets</b>	<b><u>\$ 7,881,229</u></b>	<b><u>\$ 8,702,428</u></b>	<b><u>\$ (821,199)</u></b>
Current Liabilities	\$ 564,740	\$ 611,176	\$ (46,436)
Noncurrent Liabilities	<u>3,013,144</u>	<u>1,855,462</u>	<u>1,157,682</u>
<b>Total Liabilities</b>	<b><u>3,577,884</u></b>	<b><u>2,466,638</u></b>	<b><u>1,111,246</u></b>
Investments in Capital Assets, Net of Related Debt	6,276,640	7,112,262	(835,622)
Restricted Net Assets	-	574,283	(574,283)
Unrestricted Net Assets	<u>(1,973,295)</u>	<u>(1,450,755)</u>	<u>(522,540)</u>
<b>Total Net Assets</b>	<b><u>\$ 4,303,345</u></b>	<b><u>\$ 6,235,790</u></b>	<b><u>\$ (1,932,445)</u></b>

## 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, 2012, and as compared to the prior fiscal year:

### Change in Net Assets

	<u>Fiscal Year</u>		<u>Difference</u>
	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
<b><u>Operating Revenues</u></b>			
Tipping Fees	\$ 1,780,675	\$ 1,202,173	\$ 578,502
<b>Total Operating Revenues</b>	<b>1,780,675</b>	<b>1,202,173</b>	<b>578,502</b>
<b><u>Operating Expenses</u></b>			
Operations & Administration	3,987,220	3,008,849	978,371
<b>Total Operating Expenses</b>	<b>3,987,220</b>	<b>3,008,849</b>	<b>978,371</b>
Operating Income (Loss)	(2,206,545)	(1,806,676)	(399,869)
<b><u>Non-Operating Revenue/(Expenses)</u></b>			
Investment Earnings	3,740	4,396	(656)
Interest Expense - Non-Operating	(13,953)	(20,008)	6,055
<b>Total Non-Operating Revenue (Expenses)</b>	<b>(10,213)</b>	<b>(15,612)</b>	<b>5,399</b>
Income (Loss) Before Transfers	(2,216,758)	(1,822,288)	(394,470)
Transfers In From County	2,355,563	1,848,596	506,967
Transfers Out To County	(2,071,250)	(2,232,974)	161,724
Change in Net Assets	(1,932,445)	(2,206,666)	274,221
Total Net Assets, Beginning of Year	6,235,790	7,205,327	(969,537)
Prior Period Adjustment	-	1,237,129	(1,237,129)
<b>Total Net Assets, End of Year</b>	<b>\$ 4,303,345</b>	<b>\$ 6,235,790</b>	<b>\$ (1,932,445)</b>

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, 2012, amounts to \$7,188,213 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, Cell 1 Landfill 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>2012</u>	<u>2011</u>
Land	\$ 308,919	\$ 308,919
Construction in Progress	166,109	15,020
Building	502,395	502,395
Vehicles and Equipment	2,237,955	1,594,889
Landfill Infrastructure	1,935,484	1,841,153
Landfill Cell One	2,550,092	2,550,092
Landfill Permitting	<u>2,175,360</u>	<u>2,175,360</u>
	9,876,314	8,987,828
Less Accumulated Depreciation	<u>(2,688,101)</u>	<u>(1,368,070)</u>
Total Capital Assets	<u>\$ 7,188,213</u>	<u>\$ 7,619,758</u>

There were several changes in capital assets as of September 30, 2012, when compared to the prior year. The changes were the purchase of a vehicle, reallocating construction in progress and recognition of donated equipment from the County which occurred in a prior year. Also, preliminary work started on Landfill Cell 2 which is shown in construction in progress. See Note 4 for more information.

## Debt

The Solid Waste Authority has two capital leases and a note payable. See Note 5 and 9 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 January 21, 2015, which is the date the financial statements were available to be issued. As of January 21, 2015, the following subsequent events discussed below were deemed to be necessary disclosures:

1. The construction of Landfill Cell 2 was substantially completed on December 23, 2013.
2. A total of eight current or former governing board members and employees of the Solid Waste Authority and the County, including the former Landfill Manager, have been arrested on varying criminal charges. The following is a breakdown of these arrests:
  - a) 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. He is scheduled to be sentenced in federal charges on February 24, 2015. Charges against the former County Purchasing Agent were dropped on April 11, 2013.
  - b) 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. He is scheduled to be sentenced in federal court on February 24, 2015.
  - c) 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.
  - d) 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.
  - e) 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.
  - f) 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. He is scheduled to be sentenced in federal court on February 26, 2015.
  - g) 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. He pled guilty on June 12, 2013 and is scheduled to be sentenced in federal court on February 26, 2015.

**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:

Mike Castillo  
Landfill Manager  
Maverick County  
PO Box 10  
El Indio, TX 78860

No. (830) 757-8191  
Fax (830) 757-6867  
County email: [mikecastillocdt@gmail.com](mailto:mikecastillocdt@gmail.com)  
County website: [www.co.maverick.tx.us](http://www.co.maverick.tx.us)

MAVERICK COUNTY SOLID WASTE AUTHORITY  
 STATEMENT OF NET ASSETS  
 AS OF SEPTEMBER 30, 2012

**ASSETS**

**Current Assets:**

Cash and Cash Equivalents	\$ 516,905
Cash and Cash Equivalents - Restricted	-
Accounts Receivable, Net	<u>176,111</u>

**Total Current Assets** 693,016

**Noncurrent Assets:**

Capital Assets	
Land	308,919
Construction in Progress	166,109
Building	502,395
Vehicles and Equipment	2,237,955
Landfill Infrastructure	1,935,484
Landfill Cell One	2,550,092
Landfill Permitting	2,175,360
Accumulated Depreciation	<u>(2,688,101)</u>

**Total Noncurrent Assets** 7,188,213

**TOTAL ASSETS** \$ 7,881,229

**LIABILITIES AND NET ASSETS**

**Current Liabilities:**

Accounts Payable	\$ 44,413
Accrued Payroll and Related Liabilities	24,539
Accrued Compensated Absences	2,350
Current Portion of Compromise and Settlement Agreement Note Payable	96,336
Due to County	51,830
Capital Leases Payable	<u>345,272</u>

**Total Current Liabilities** 564,740

**NonCurrent Liabilities:**

Capital Leases Payable	566,301
Accrued Compensated Absences	21,151
Compromise and Settlement Agreement Note Payable	674,355
Accrued Landfill Closure and Postclosure Care Costs	<u>1,751,337</u>

**Total NonCurrent Liabilities** 3,013,144

**Total Liabilities** 3,577,884

**NET ASSETS**

Investments in Capital Assets, Net of Related Debt	6,276,640
Restricted Net Assets	-
Unrestricted Net Assets	<u>(1,973,295)</u>

**TOTAL NET ASSETS** \$ 4,303,345

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, 2012**

<b>OPERATING REVENUES</b>	
Tipping Fees	\$ <u>1,780,675</u>
<b>TOTAL OPERATING REVENUES</b>	<b>1,780,675</b>
<b>OPERATING EXPENSES</b>	
Personnel Services	737,295
Purchased Professional & Technical Services	265,014
Repairs and Maintenance	30,186
Supplies	31,296
Regulatory Fees	78,230
Other Operating Expenses	570,360
Closure and Postclosure Care Costs	954,808
Depreciation	<u>1,320,031</u>
<b>TOTAL OPERATING EXPENSES</b>	<b><u>3,987,220</u></b>
<b>OPERATING LOSS</b>	<b>(2,206,545)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest Expense	(13,953)
Investment Earnings	<u>3,740</u>
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b><u>(10,213)</u></b>
Loss Before Transfers	(2,216,758)
Transfers In From County	2,355,563
Transfers Out To County	<u>(2,071,250)</u>
<b>CHANGE IN NET ASSETS</b>	<b>(1,932,445)</b>
<b>TOTAL NET ASSETS - OCTOBER 1 (BEGINNING)</b>	<b><u>6,235,790</u></b>
<b>TOTAL NET ASSETS - SEPTEMBER 30 (ENDING)</b>	<b>\$ <u><u>4,303,345</u></u></b>

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, 2012**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash Received from Customers	\$ 1,603,734
Cash Paid to Employees	(733,538)
Cash Paid to Suppliers and Contractors	<u>(963,230)</u>
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<b>(93,034)</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>	
Repayment of Advances to County Funds	(166,916)
Transfers In	2,355,563
Transfers Out	<u>(2,071,250)</u>
<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	<b>117,397</b>
<b>CASH FLOWS FROM CAPITAL &amp; RELATED FINANCING ACTIVITIES:</b>	
Acquisition of Capital Assets	(245,420)
Principal Paid on Capital Lease	(238,991)
Interest Paid on Capital Lease	<u>(13,953)</u>
<b>NET CASH USED FOR CAPITAL &amp; RELATED FINANCING ACTIVITIES</b>	<b>(498,364)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest Received on Investments	<u>3,740</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>3,740</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(470,261)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>987,166</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ <u>516,905</u></b>

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, 2012**

**RECONCILIATION OF OPERATING LOSS TO NET CASH**

**USED FOR OPERATING ACTIVITIES:**

Operating Loss: \$ (2,206,545)

**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH**

**USED FOR OPERATING ACTIVITIES:**

Depreciation 1,320,031  
Amortization of Compromise and Settlement Agreement Note Payable (96,336)  
Effect of Increases and Decreases in Operating Assets and Liabilities:  
Increase in Receivables (80,606)  
Increase in Accounts Payable 11,857  
Increase in Compensated Absences 1,573  
Increase in Wages and Salaries Payable 2,184  
Increase in Closure and Postclosure Care Costs 954,808

**NET CASH USED FOR OPERATING ACTIVITIES** \$ (93,034)

**SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING  
ACTIVITIES AND NONCASH CAPITAL & RELATED FINANCING ACTIVITIES:**

Solid Waste Useage Provided to Maverick County at No Cost \$ 174,626  
Acquisition of Equipment through Capital Lease \$ 643,066

**RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS:**

Cash and Cash Equivalents \$ 516,905  
Cash and Cash Equivalents -- Restricted -

**TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR** \$ 516,905

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, 2012**

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**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 Revenue Refund 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, 2012**

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**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 Revenue Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment, securing any benefit thereof, may be appropriate 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, 2012**

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**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 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, 2012**

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**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**

**Capital Assets**

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 using usage capacity.

**Interest & Transfers**

**Interest Income**

Total interest income is \$3,740.

**MAVERICK COUNTY SOLID WASTE AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS – Continued**  
**For the Year Ended September 30, 2012**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Continued**

**Transfers**

The County transferred \$2,355,563 in sales tax collected during the year. The Solid Waste Authority transferred to the County \$644,805 for bond payments and \$1,426,445 in regular transfers.

**NOTE 2: DEPOSITS AND INVESTMENTS**

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, 2012, the Solid Waste Authority had cash and cash equivalents totaling \$516,905.

**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) to 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*, contains 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, 2012**

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**NOTE 3: 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 6 for subsequent information concerning the letter of credit.

**MAVERICK COUNTY SOLID WASTE AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS – Continued**  
**For the Year Ended September 30, 2012**

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2012, was as follows:

	<u>Beginning Balance 9/30/11</u>	<u>Additions</u>	<u>Decreases</u>	<u>Ending Balance 9/30/12</u>
Capital Assets, not being depreciated:				
Land	\$ 308,919	\$ -	\$ -	\$ 308,919
Construction in Progress	<u>15,020</u>	<u>151,089</u>	<u>-</u>	<u>166,109</u>
<b>Total Capital Assets Not Being Depreciated</b>	323,939	151,089	-	475,028
Capital Assets, being depreciated:				
Building	502,395	-	-	502,395
Vehicles and Equipment	1,594,889	643,066	-	2,237,955
Infrastructure	1,841,153	94,331	-	1,935,484
Cell One	2,550,092	-	-	2,550,092
Permitting	<u>2,175,360</u>	<u>-</u>	<u>-</u>	<u>2,175,360</u>
<b>Total Capital Assets being depreciated</b>	8,663,889	737,397	-	9,401,286
<b>Less Accumulated Depreciation:</b>	<u>1,368,070</u>	<u>1,320,031</u>	<u>-</u>	<u>2,688,101</u>
<b>Total Capital Assets Being Depreciated, Net</b>	<u>7,295,819</u>	<u>(582,634)</u>	<u>-</u>	<u>6,713,185</u>
<b>TOTAL CAPITAL ASSETS, NET</b>	<u>\$ 7,619,758</u>	<u>\$ (431,545)</u>	<u>\$ -</u>	<u>\$ 7,188,213</u>

**MAVERICK COUNTY SOLID WASTE AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS – Continued**  
**For the Year Ended September 30, 2012**

**NOTE 5: 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 two lease purchase agreements with Caterpillar Financial Services Corporation with the first payment starting November 2010 for the first lease and starting October 2012 for the second lease. Lease payments for the fiscal year ended September 30, 2012, totaled \$238,988. The effective interest rate is 3.5% for the first lease and 3.2% for the second lease. Total cost of the assets acquired under the capital leases is \$1,362,065 and have accumulated depreciation of \$260,133.

At September 30, 2012, 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
2013	\$ 370,878
2014	139,016
2015	117,938
2016	117,938
2017	117,938
2018	<u>117,938</u>
Future Minimum Lease Payments	981,646
Less: Interest	<u>(70,073)</u>
Present Value of Future Minimum Lease Payments	911,573
Less: Current Portion	<u>(345,272)</u>
Capital Lease, Net of Current Portion	<u>\$ 566,301</u>

**MAVERICK COUNTY SOLID WASTE AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS – Continued**  
**For the Year Ended September 30, 2012**

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**NOTE 6: 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 \$1,751,337 reported as accrued landfill closure and post closure care costs at September 30, 2012, represents the cumulative amount reported to date based on the use of 61.31% of the estimated capacity of the landfill. The current change recognized in this fiscal year is \$954,808. The Solid Waste Authority will recognize the remaining estimated cost of closure and post closure care of \$1,105,217 as the remaining estimated capacity is filled. The Solid Waste Authority estimates the useful life as of September 30, 2012, to approximate three years (3). The estimated total current cost of the accrued 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, 2012. 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 external engineers and presented in a report dated April 2013.

**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

**MAVERICK COUNTY SOLID WASTE AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS – Continued**  
**For the Year Ended September 30, 2012**

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**NOTE 6: SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS -- Continued**

Insurance Performance Bond for \$2,856,515 which went into effect on May 1, 2012. The Performance Bond, which is renewed annually, was renewed on May 1, 2013, in the amount of \$2,907,932 and was last renewed on May 1, 2014, in the amount of \$3,638,851.

**NOTE 7: 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.

**NOTE 8: 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 \$1,200,000; and, the third fiscal year 2013-2014 will be in the amount of \$1,400,000. 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.

**MAVERICK COUNTY SOLID WASTE AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS – Continued**  
**For the Year Ended September 30, 2012**

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**NOTE 9: COMPROMISE AND SETTLEMENT AGREEMENT NOTE PAYABLE**

The Solid Waste Authority, 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.

**NOTE 10: SUBSEQUENT EVENTS**

Subsequent events were evaluated by the management office of the County and the Solid Waste Authority through January 21, 2015, which is the date the financial statements were available to be issued. As of January 21, 2015, the following subsequent events discussed below were deemed to be necessary disclosures:

- The construction of Landfill Cell 2 was substantially completed on December 23, 2013.
- A total of eight current and former governing board members and employees of the Solid Waste Authority and the County including the former Landfill Manager, were indicted and arrested, on varying criminal charges including charges involving Solid Waste Authority and County Business. Of the eight individuals, one had all charges dropped during April 2013, two pled guilty during January 2013 and one pled guilty during May 2013. The former landfill manager pled guilty during June 2013. Four individuals are scheduled to be sentenced in federal court during late February 2015. Management identified a total of \$63,818 in fraudulent payments, \$37,641 in 2012 and \$26,177 in 2013. Insurance coverage was not available to cover the losses.

**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, 2012, and have issued our report thereon dated January 21, 2015. 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 as Finding 2012-01 to be material weaknesses.

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 Finding 2012-02.

We noted certain matters that we reported to management of the Solid Waste Authority, in a separate letter dated January 21, 2015.

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

January 21, 2015

**MAVERICK COUNTY SOLID WASTE AUTHORITY  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended September 30, 2012**

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**SECTION I – INTERNAL CONTROL OVER FINANCIAL REPORTING**

**Finding 2012-01**

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

**Condition and Context:**

1. **Inadequate Controls over the Financial Reporting Process** – Manual journal entries were used to process routine accounting transactions throughout the year. The use of journal entries is generally considered to be high risk. Accordingly, the use of journal entries to process transactions should be kept to an absolute minimum.
2. **Inadequate Cash Controls** - Bank reconciliation at the year-end was not prepared for one bank account that were subsequently closed. There was no evidence of supervisory approval or preparer initials on any year end bank reconciliations.
3. **Lack of Proper Supporting Documentation** – There were no effective processes to ensure that all journal entries were properly supported therefore transactions related to accounts receivables, tipping fees, payroll and some expense items did not have the proper supporting documentation.

**Criteria:**

1. **Inadequate Controls over the Financial Reporting Process** – Reports produced by the systems that provide financial information, whether used internally or externally, shall provide financial data that can be traced directly to the individual accounts and sub-ledgers. The criteria (e.g., timing, processing rules/conditions) for recording financial events in all financial management systems shall be consistent with accounting transaction definitions and processing rules.
2. **Inadequate Cash Controls** - Procedures should be 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, 2012**

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**SECTION I – INTERNAL CONTROL OVER FINANCIAL REPORTING**

**Finding 2012-01 – Continued**

- 3. Lack of Proper Supporting Documentation** – GAO's *Standards for Internal Control* state internal controls and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. All documentation and records should be properly managed.

**Effect:**

- 1. Inadequate Controls over the Financial Reporting Process** – Financial statements amounts may be misstated or not properly supported. Failure to implement effective processes and procedures could increase the risks of fraud, violations of appropriation laws and mismanagement of funds.
- 2. Inadequate Cash Controls** - Failure to prepare 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 and weakening of internal controls over cash and the inability to detect material errors.
- 3. Lack of Proper Supporting Documentation** – Financial statements amounts may be misstated and/or not properly supported. Failure to implement effective processes and procedures could increase the risks of fraud, violations of appropriation laws and mismanagement of funds. In addition, payroll payments to employees may be inaccurate and weaken internal controls over the payroll process.

**Cause:**

- 1. Inadequate Controls over the Financial Reporting Process** – Policies and procedures are not in place to ensure the effectiveness of financial management and oversight. Specifically, there are not effective processes in place to ensure that journal entries are only used to record non-routine accounting transactions.
- 2. Inadequate Cash Controls** - No proper review and approval of bank reconciliations.

**MAVERICK COUNTY SOLID WASTE AUTHORITY  
SCHEDULE OF FINDINGS AND RESPONSES - Continued  
For the Year Ended September 30, 2012**

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**SECTION I – INTERNAL CONTROL OVER FINANCIAL REPORTING**

**Finding 2012-01 – Continued**

3. **Lack of Proper Supporting Documentation** – Effective policies and procedures are not in place to ensure the propriety and completeness of routine entries to the general ledger. Specifically, there are not effective processes in place to ensure that journal entries are only used for routine transactions and are properly prepared, supported, approved and monitored. Also, system controls are not in place to ensure proper segregation of duties related to the preparation and posting of journal entries.

**Recommendation:**

1. **Inadequate Controls over the Financial Reporting Process** – Record entries on a timely basis at the individual transaction level to maintain the integrity of the general ledger. In addition, journal entries should only be used to record non-routine transactions and should be kept to a minimum. Develop effective policies and procedures that will strengthen controls over the journal entry review and approval process to ensure that all journal entries are complete, accurate, properly supported and approved prior to posting in the general ledger.
2. **Inadequate Cash Controls** –Bank reconciliations should be reviewed and approved by a supervisor. Evidence of review should be documented on the bank reconciliations. Bank reconciliations should be prepared for all accounts, including the final reconciliation for closed ones and the reconciliations should be prepared on a timely basis.
3. **Lack of Proper Supporting Documentation** – Maintain an adequate filing system and develop policies and procedures to review all supporting documentation before approval or processing of transactions.

**Management Response:**

1. **Inadequate Controls over the Financial Reporting Process:** the reason manual journal entries were used to process routine accounting transactions is because STW, our accounting software, requires strong internet signal and at the time this was not available at the landfill site. However, we have been checking for a solution since we assumed accounting for solid waste books in March 2013. Currently, we are testing the software to see if we can set up at the site within the next couple of months. Also STW is a journal entry based software that requires journal entries for all entries (payroll, cash receipts, cash disbursements, etc.)

**MAVERICK COUNTY SOLID WASTE AUTHORITY  
SCHEDULE OF FINDINGS AND RESPONSES - Continued  
For the Year Ended September 30, 2012**

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**SECTION I – INTERNAL CONTROL OVER FINANCIAL REPORTING**

**Finding 2012-01 – Continued**

Expenses related to utilities are processed upon arrival and after verifying that the service address on the bill is the one corresponding to the landfill site. No PO is required to process these payments to avoid service interruption based on prior experiences where we have had disconnection of services. Charges for these expenses are verified by the Landfill Manager on a monthly basis. We will revise the procedures where the charges for services will be verified by the Landfill Manager and reviewed by the Treasurer.

2. **Inadequate Cash Controls:** Bank reconciliations are now prepared by the accountant in the County Auditor's office within 45 days of month end. As mentioned before we did not assume responsibility for the accounting until March 2013. The closed account was closed in May 2012.
3. **Lack of Proper Supporting Documentation:** Procedures have been established to ensure that proper documentation is obtained to support all transactions. Journal entries are being reviewed by a supervisor.

In reference to the findings related to payroll process, the Auditor's office does not prepare payroll. The payroll department processes all payroll and therefore all payroll findings will be directed by the Auditor's office to them.

**MAVERICK COUNTY SOLID WASTE AUTHORITY  
SCHEDULE OF FINDINGS AND RESPONSES - Continued  
For the Year Ended September 30, 2012**

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**SECTION II – COMPLIANCE AND OTHER MATTERS**

**Finding 2012-02**

**Type of Finding:** Material Weakness and Material Non-Compliance

The Maverick County Solid Waste Authority is required to comply with the Public Funds Investment Act (the Act). The Solid Waste Authority was not in compliance since the following requirements of the Act were not followed:

1. An investment policy was not adopted, implemented and publicized.
2. An Investment Officer was not designated.
3. The required training education in investment controls, security risks, strategy risk, and compliance with the Public Funds Investment Act was not obtained.
4. The lack of an investment policy indicates that there was no means to state that the officers and employees should refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. There is no policy that required Employees and investment officials to disclose any material interest in financial institutions or any personal financial/investment positions that could be related to the performance of the investment portfolio.
5. A list of authorized investments from where the investment officer may purchase, sell, and invest Solid Waste Authority's funds was not maintained.
6. Investment reports were not submitted to the Board of Directors, as required.
7. Solid Waste Authority staff did not submit to the governing board for their approval a separate written investment strategy for each of the funds under its control.

**Management Response:**

1. **Material Weakness and Material Non-Compliance:** At our next scheduled Board of Directors meeting, an item will be considered to appoint an Investment Officer to develop and bring to the Board an Investment Policy for the Maverick County Solid Waste Authority Board to review and consider for adoption in order to comply with Government Code, Title

**MAVERICK COUNTY SOLID WASTE AUTHORITY  
SCHEDULE OF FINDINGS AND RESPONSES - Continued  
For the Year Ended September 30, 2012**

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**SECTION II – COMPLIANCE AND OTHER MATTERS**

**Finding 2012-02**

10, Subtitle F, Chapter 2256 Sec. 2256.005. Investment Policies; Investment Strategies, Investment Officer.

**MAVERICK COUNTY SOLID WASTE AUTHORITY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended September 30, 2012**

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**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** –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, Landfill Cell One, infrastructure and permitting costs incurred in prior fiscal years. The allocation among 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.

**Status:**

1. **No Internal Control for Expenses** – Based on current year testing, all expenses except utility payments were properly approved by a supervisor or Solid Waste Authority management.
2. **Poor Cash Controls** - This finding was repeated in the current year. Refer to Finding 2012-01 for additional details.
3. **Improper Capital Asset Financial Reporting** – The prior period adjustment was adopted so the finding is considered to be cleared.

**MAVERICK COUNTY SOLID WASTE AUTHORITY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - Continued  
For the Year Ended September 30, 2012**

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**SECTION II – COMPLIANCE AND OTHER MATTERS**

**Finding 2011-02**

**Type of Finding:** Material Non-Compliance

**Condition:** There were indictments, arrests and convictions related to former and current officials and employees of the Solid Waste Authority and the County.

**Status:** This finding regarding the indictment and arrest of eight former and current governing board members and employees has not been completely resolved. Of the eight individuals, one had all charges dropped during April 2013, two pled guilty during January 2013, one pled guilty during May 2013 and the former landfill manager pled guilty during June 2013. Four are scheduled to be sentenced in federal court during late February 2015. Management identified a total of \$63,818 in fraudulent payments, \$37,641 in 2012 and \$26,177 in 2013. Insurance coverage was not available to cover the losses.