

Scott Dyer

**FANNIN COUNTY PUBLIC
FACILITY CORPORATION**

ANNUAL FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2011

RUTHERFORD, TAYLOR & COMPANY, P.C.
Certified Public Accountants
2802 Washington Street
Greenville, Texas 75401
(903) 455-6252

**FANNIN COUNTY PUBLIC FACILITY CORPORATION
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2011**

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INDEPENDENT AUDITOR'S REPORT

To the Directors of Trustees
Fannin County Public Facility Corporation

We have audited the accompanying statement of financial position of Fannin County Public Facility Corporation (a nonprofit organization) as of September 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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. 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 Fannin County Public Facility Corporation as of September 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

January 24, 2012
Greenville, Texas

Rutherford, Taylor & Company, P.C.

FINANCIAL STATEMENTS

FANNIN COUNTY PUBLIC FACILITY CORPORATION
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2011

ASSETS

Current Assets:	
Cash and Investments	\$ 574,408
Accounts Receivable	1,251,771
Restricted Assets:	
Restricted to pay Long-term Debt	1,388,398
Restricted to comply with Reserve Covenants	2,901,456
Non-Current Assets:	
Capitalized Bond and Other Debt Issuance Costs, Net	1,990,986
Buildings and Improvements, Net	21,278,949
Vehicles, Net	56,143
	<hr/>
Total Assets	\$ 29,442,111

LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 944,780
Interest Payable	593,147
Bonds Payable - Current	525,000
Noncurrent Liabilities:	
Bonds Payable	29,760,000
	<hr/>
Total Liabilities	\$ 31,822,927

NET ASSETS

Unrestricted	\$ (2,380,816)
Temporarily Restricted	-
Permanently Restricted	-
	<hr/>
Total Net Assets	\$ (2,380,816)

The accompanying notes are an integral part of this statement.

FANNIN COUNTY PUBLIC FACILITY CORPORATION
 STATEMENT OF ACTIVITIES
 YEAR ENDED SEPTEMBER 30, 2011

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UNRESTRICTED NET ASSETS

Net Assets Released from Restrictions:	
Restrictions Satisfied by Payment	\$ <u>11,491,919</u>
Total Unrestricted Revenues, Gains, and Other Support	\$ <u>11,491,919</u>
Expenses:	
Supporting Services	
Management and General	\$ <u>10,621,468</u>
Total Expenses	\$ <u>10,621,468</u>
Increase (Decrease) in Unrestricted Net Assets	\$ <u>870,451</u> *

TEMPORARILY RESTRICTED NET ASSETS

Temporarily Restricted Revenues and Gains:	
County Inmate Revenue and Other Fees	\$ 4,670,303
Federal Inmate Revenue and Other Fees	6,682,056
Interest Revenue	<u>139,560</u>
Total Temporarily Restricted Revenues and Gains	\$ <u>11,491,919</u>
Net Assets Released from Restrictions:	
Restrictions Satisfied by Payment	\$ <u>11,491,919</u>
Increase (Decrease) in Temporarily Restricted Net Assets	\$ <u>-</u>
Increase (Decrease) in Net Assets	\$ 870,451 *
Net Assets at Beginning of Period (October 1, 2010)	<u>(3,251,267)</u>
Net Assets at End of Period (September 30, 2011)	<u>\$ (2,380,816)</u>

The accompanying notes are an integral part of this statement.

FANNIN COUNTY PUBLIC FACILITY CORPORATION
STATEMENTS OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2011

Cash Flows from Operating Activities:	
Increase (Decrease) in Net Assets	\$ 870,451
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net	
Cash Provided by Operating Activities:	
Depreciation	571,587
Amortization	88,376
(Increase) Decrease in Operating Assets	
Accounts Receivable	(159,070)
Increase (Decrease) in Operating Liabilities	
Interest Payable	(8,043)
Accounts Payable	(341,091)
	<u>1,022,210</u>
Net Cash Provided by Operating Activities	\$ 1,022,210
Cash Flows from Investing Activities:	
NONE	<u>\$ -</u>
Net Cash Used by Investing Activities	<u>\$ -</u>
Cash Flows from Financing Activities	
Payments on Bonded Debt	<u>\$ (495,000)</u>
Net Cash Used by Financing Activities	<u>\$ (495,000)</u>
Net Increase (Decrease) in Cash and Investments	\$ 527,210
Cash and Investments - Beginning (October 1, 2010)	<u>4,337,052</u>
Cash and Investments - Ending (September 30, 2011)	<u><u>\$ 4,864,262</u></u>
Supplemental Information:	
Interest Paid during the year	\$ 2,388,675

The accompanying notes are an integral part of this statement.

FANNIN COUNTY PUBLIC FACILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

Nature of Activities and Significant Accounting Policies

1. Nature of Activities

Fannin County Public Facility Corporation (the Corporation) was formed on April 28, 2009 for the purpose of acting on behalf of Fannin County, Texas to finance, refinance or provide the costs of public facilities of the County pursuant to the provisions of the *Texas Public Facility Corporation Act*, Chapter 202 of the Local Government Code. The Corporation is authorized to issue bonds on behalf of the County for the purposes of Section 102, Internal Revenue Code of 1986, as amended. The Corporation is supported primarily through investment earnings and revenues received from imprisoning and housing inmates.

2. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. Property and Equipment

It is the Corporation's policy to capitalize property and equipment over \$ 5,000. Lesser amounts are expenses. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Corporation reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method.

4. Financial Statement Presentation

The Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- a. Unrestricted Net Assets – Net assets not subject to bond covenant imposed stipulations.
- b. Temporarily Restricted Net Assets – Net assets subject to bond covenant imposed stipulations that may or will be met, either by actions of the Corporation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- c. Permanently Restricted Net Assets – Net assets subject to bond covenant imposed stipulations that they be maintained permanently by the Corporation. Generally, the donors of these assets permit the Corporation to cause all or part of the income earned or any related investments for general or specific purposes.

FANNIN COUNTY PUBLIC FACILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

Nature of Activities and Significant Accounting Policies (Continued)

5. Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

6. Income Taxes

The Corporation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

7. Cash and Investments

For the purpose of the statements of cash flows, the Corporation considers highly liquid investments available for current use with an initial maturity of three months or less to be cash and investments. All cash and investments are included in the statement of cash flows whether restricted by debt covenant or not.

8. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair value in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investments income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

B. Restrictions of Net Assets

The Corporation did not report any temporarily or permanently restricted net assets at September 30, 2011.

C. Concentration of Credit Risk

The Corporation maintains its cash in bank deposit accounts and certificates of deposit at a banking depository. The risk of deposit loss is waived only to the extent of FDIC insurance coverage. Additional deposits may be secured only by pledged collateral. During the year, the Corporation's total deposits appear to have been secured by FDIC insurance coverage.

FANNIN COUNTY PUBLIC FACILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

Marketable Securities

The Corporation maintained marketable securities during the year. These investments are stated at fair values. Fair values and unrealized appreciation at September 30, 2011 for the Corporation's marketable securities are as follows:

Description	September 30, 2011				
	Interest Rate	Maturity Date	Cost	Fair Value	Unrealized Gain (Loss)
Local 2 Measurements:					
First American Government Obligation Fund CI D 31846V401	N/A	N/A	\$ 1,962,806	\$ 1,962,806	\$ -
U.S. Bank N.A. - Certificate of Deposit 0350095980	4.81%	7/1/2013	2,901,456	2,901,456	-
Totals			\$ 4,864,262	\$ 4,864,262	\$ -

Long-term Obligations

Long-term obligation activities during the period ended September 30, 2011 were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Special Obligation Bonds	\$ 30,780,000	\$ -	\$ 495,000	\$ 30,285,000	\$ 525,000
Totals	\$ 30,780,000	\$ -	\$ 495,000	\$ 30,285,000	\$ 525,000

Bonds

On June 19, 2009, the Corporation issued "Fannin County Public Facility Corporation Project Revenue Bonds, Series 2009," totaling \$ 30,780,000. The proceeds from the bond issuance will be used to construct a detention facility for Fannin County. The bonds require annual principal payments with semi-annual interest payments with an average interest cost over the life of the bonds of approximately 7.88%. The bonds will fully mature in 2033.

Bonded debt outstanding at September 30, 2011 is as follows:

Description	Interest Rate	Original Amount	Outstanding Balance
Fannin County Public Facility Corporation Project Revenue Bonds - Series 2008	7.88%	\$ 30,780,000	\$ 30,285,000

FANNIN COUNTY PUBLIC FACILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

Long-term Obligations (Continued)

Maturity requirements on bonded debt at September 30, 2011 are as follows:

<u>Periods Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2012	525,000	2,355,525	2,880,525
2013	560,000	2,320,263	2,880,263
2014	595,000	2,282,725	2,877,725
2015	635,000	2,239,178	2,874,178
2016	685,000	2,188,853	2,873,853
2017 - 2021	4,285,000	10,044,897	14,329,897
2022 - 2026	6,220,000	8,029,203	14,249,203
2027 - 2031	9,125,000	4,999,000	14,124,000
2032 - 2033	7,655,000	735,800	8,390,800
Totals	\$ 30,285,000	\$ 35,195,444	\$ 65,480,444

Bond Covenant Requirements/Restrictions

Paragraph 30

In accordance with bond covenants set forth in the issuance agreement, the Corporation is required to maintain a Reserve Fund with deposits equal to or greater than the maximum amount of principal and interest to come due within one year. The purpose of the Reserve Fund is to ensure debt service payments in the event of a deficiency in the Bond Fund. Bond covenant requirements are as follows:

Maximum amount of principal and interest due within one year	\$ 2,901,456
Balance in Reserve Fund at year end	<u>2,901,456</u>
Excess (Deficiency)	<u>\$ -</u>

Paragraph 34

In accordance with bond covenants set forth in the issuance agreement, the Corporation is required to maintain a Bond Fund with deposits sufficient enough to pay maturing principal and interest payments during the year. The Bond Fund may carryover a reasonable amount not to exceed the greater of one year's earnings on the fund or one-twelfth of average annual debt service on the bonds. Bond covenant restrictions are as follows:

One-twelfth of average annual debt service	\$ 237,248
Balance carried forward at year end	<u>1,228,362</u>
Excess (Deficiency)	<u>\$ 991,114</u>

FANNIN COUNTY PUBLIC FACILITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

Property and Equipment

Property and equipment activities during the period ended September 30, 2011 were as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Buildings and Improvements	\$ 22,398,893	\$ -	\$ -	\$ 22,398,893
Vehicles	81,309	-	-	81,309
Totals at Historical Cost	\$ 22,480,202	\$ -	\$ -	\$ 22,480,202
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ 559,972	\$ 559,972	\$ -	\$ 1,119,944
Vehicles	13,551	11,615	-	25,166
Total Accumulated Depreciation	\$ 573,523	\$ 571,587	\$ -	\$ 1,145,110
Property and Equipment, Net	\$ 21,906,679	\$ (571,587)	\$ -	\$ 21,335,092

Net

G. Investments Earnings

Investments earnings earned by the Corporation during the period consisted of interest earned on certificates of deposit and other investments maintained by the Corporation during the period. Interest earned is reported as temporary restricted assets until payment of debt service requirements is made. Investments earnings received by the Corporation during the period consisted of the following:

Interest Income \$ 139,560

H. Subsequent Events

The Corporation's management has evaluated subsequent events through January 24, 2012, the date which the financial statements were available for issue.

I. Concentrations

The Corporation contracts with the U.S. Government and Fannin County to provide incarceration services. This limited pool of customers constitutes a concentration risk. The Corporation has in place long term contracts to mitigate the concentration risk as well as limited competitors in the area to challenge these concentrations.