

**FANNIN COUNTY PUBLIC
FACILITY CORPORATION**

**Financial Statements
(with Independent Auditors' Report thereon)**

YEAR ENDED SEPTEMBER 30, 2015

FANNIN COUNTY PUBLIC FACILITY CORPORATION
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September 30, 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Fannin County Public Facility Corporation
Bonham, TX

We have audited the accompanying financial statements of Fannin County Public Facility Corporation (Corporation), a non-profit organization, which comprise the statement of financial position as of September 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



ACKER & COMPANY
Certified Public Accountants, PC
Tyler, Texas
November 17, 2015

FANNIN COUNTY PUBLIC FACILITY CORPORATION
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2015

ASSETS

Current Assets:	
Cash and Investments	\$ 2,259,645
Accounts Receivable	727,839
Total	2,987,484
Restricted Assets:	
Restricted for Operating Fund	350,000
Restricted - Surplus	141,213
Restricted to comply with Reserve Covenants	2,766,732
Other Non-Current Assets:	
Buildings and Improvements, Net	19,039,061
Equipment, Net	9,682
Total Assets	\$ 25,294,172

LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 1,335,950
Bonds Payable - Current Part (Note 5)	435,000
Accrued Interest	1,032,508
Total	2,803,458
Non-Current Liabilities:	
Bonds Payable (Note 5)	\$ 31,390,000
Capitalized Bond and Other Debt Issuance Cost, Net of Amortization of \$85,516	(1,966,523)
Less Current Part	(435,000)
Total Liabilities	28,988,477
Total Liabilities	31,791,935

NET ASSETS

Unrestricted	(6,497,763)
Total Liabilities and Net Assets	\$ 25,294,172

See accompanying notes to financial statements.

FANNIN COUNTY PUBLIC FACILITY CORPORATION
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2015

Revenues:

Federal inmate Revenue		
USMS-E	7,614,894	
USMS-N	161,778	
Transport USMS-E	101,355	
Transport USMS-N	8,403	
		7,886,430
County Inmate Revenue		
FCMS	430,110	
FCSA	1,057,630	
Transport	12,864	
		1,500,604
Interest Revenue		265
		9,387,299
Program Costs		
Fannin County Administrative	329,520	
CEC Operating Fee	6,568,386	
Depreciation	571,588	
Repairs and Other	-	
		7,469,494
Management and General		
Legal Fees	12,168	
Audit Fees	5,900	
Trust Fees	6,000	
Other Costs	1,481	
Amortization	68,998	
Interest Expense	2,065,013	
		2,159,560
Decrease in Unrestricted Net Assets		(241,755)
Unrestricted Net Assets at Beginning of Period (as previously reported)		(6,242,558)
Restatement of Retained Earnings		(13,450)
Unrestricted Net Assets at End of Period (September 30, 2015)		\$ (6,497,763)

See accompanying notes to financial statements.

FANNIN COUNTY PUBLIC FACILITY CORPORATION
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase (Decrease) in Net Assets	\$ (241,755)
Adjustments to Reconcile Increase in Net Assets to Net Cash provided by Operating Activities:	
Depreciation	571,588
Amortization	68,998
(Increase) Decrease in Operating Assets:	
Accounts Receivable	80,334
Increase (Decrease) in Operating Liabilities:	
Interest Payable	757,173
Accounts Payable	<u>190,486</u>
Net Cash Provided (Used) by Operating Activities	<u>1,426,824</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
None	<u>-</u>
Net Cash Provided (Used) by Investing Activities	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
None	-
Net Cash Provided (Used) by Financing Activities	<u>-</u>
Net Increase (Decrease) in Cash and Investments	1,426,824
Cash and Investments - Beginning October 1, 2014	<u>4,090,766</u>
Cash and Investments - Ending September 30, 2015	<u><u>\$ 5,517,590</u></u>
Supplemental Information:	
Interest Paid during the Year	<u><u>\$ 1,307,841</u></u>

See accompanying notes to financial statements.

FANNIN COUNTY PUBLIC FACILITY CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

Note 1 – Nature of Activities and Significant Accounting Policies

(a) Nature of Activities

Fannin County Public Facility Corporation (the Corporation) was formed on April 28, 2008 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.

(b) 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.

(c) Property and Equipment

It is the Corporation's policy to capitalize property and equipment over \$5,000. Lesser amounts are expensed. 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 assets 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, with lives ranging from 7 to 40 years.

FANNIN COUNTY PUBLIC FACILITY CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

Note 1 – Nature of Activities and Significant Accounting Policies (continued)

(d) 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 subjected to donor imposed stipulations. Although unrestricted, certain cash funds are restricted as to use by bond covenants.
- b. Temporarily Restricted Net Assets – Net assets subject to donor 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 donor 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 to be used for general or specific purposes.

(e) Contributions

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

(f) Income Taxes

The Corporation is a public corporation, constituted authority and authorized to issue bonds on behalf of Fannin County for the purposes of Section 103 of the Internal Revenue Code. As such it is exempt from income taxes.

(g) 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.

FANNIN COUNTY PUBLIC FACILITY CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

Note 1 – Nature of Activities and Significant Accounting Policies (continued)

(h) Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair value in the statements 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.

(i) Accounts Receivable

The Corporation allows for estimated losses on accounts receivable based on prior bad debt experience and a review of existing receivables. Based on these factors, no allowance for doubtful accounts is considered necessary for the year ended September 30, 2015.

Note 2 – Restrictions of Net Assets

The Corporation did not report any temporarily or permanently restricted net assets at September 30, 2015.

Note 3 – Concentration of Credit Risk

The Corporation maintains all of its marketable securities of \$5,517,590 in deposit accounts at a banking institution. The Corporation believes the institution to be high quality and risk of loss is minimal.

Note 4 – Marketable Securities

The Corporation maintained investments in Government obligation mutual funds during the year. These investments are stated at fair values based on quoted market prices (Level 1 measurements). Fair values and unrealized appreciation at September 30, 2015 for the Corporation's marketable securities are as follows:

FANNIN COUNTY PUBLIC FACILITY CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

Note 4 – Marketable Securities (continued)

Description	Interest Rate	Maturity Date	Cost	Fair Value	Unrealized Gain (Loss)
Level 1 Measurements:					
First American Government Obligation Fund CI D 31846V401	.006%	N/A	\$5,517,590	\$5,517,590	\$ -

Note 5 – Long-term Obligations

Bonds

In 2008, the Corporation issued “Fannin County Public Facility Corporation Project Revenue Bonds, Series 2008,” (2008 Bonds) totaling \$30,780,000. The proceeds from the bond issuance were used to construct a detention facility for Fannin County. The bonds required 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 were to fully mature in 2033. The bonds had issuance costs of \$2,289,634 which was being amortized over the life of the bonds on a straight line basis. During 2014, the Corporation issued \$31,390,000 of Fannin County Public Facility Corporation Senior Lien Revenue Refunding Bonds Taxable Series (2014 Bonds) to refund the 2008 Bonds in total. In conjunction with refunding the bonds, the Corporation reported the unamortized portion of the issuance cost (\$1,692,339) as expense in 2014.

In issuing the 2014 Bonds the Corporation incurred issuance costs of \$2,052,039 including original issue discount of \$778,317 underwriter discount of \$831,835 and issuance costs of \$441,887. The issuance costs are being amortized over the life of the bonds using the interest method.

The 2014 bonds require annual principal payments with semi-annual interest payments ranging from 2.95% to 7.1% with an average interest cost over the life of the bonds of approximately 6.8%. The bonds will fully mature in 2036.

FANNIN COUNTY PUBLIC FACILITY CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

Note 5 – Long-term Obligations (continued)

Bonded debt outstanding as of September 30, 2015 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Fannin County Public Facility Corporation Senior Lien Revenue Refunding Bonds Taxable - Series 2014	\$ -	\$ 31,390,000	\$ -	\$ 31,390,000	\$ -
Totals	<u>\$ -</u>	<u>\$ 31,390,000</u>	<u>\$ -</u>	<u>\$ 31,390,000</u>	<u>\$ -</u>

Maturity requirements on bonded debt at September 30, 2015 are as follows:

<u>Periods Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2016	\$ 435,000	\$ 2,058,596	\$ 2,493,596
2017	710,000	2,038,158	2,748,158
2018	740,000	2,007,115	2,747,115
2019	775,000	1,970,914	2,745,914
2020	815,000	1,930,542	2,745,542
2021-2025	4,795,000	8,885,864	13,680,864
2026-2030	6,550,000	7,046,975	13,596,975
2031-2035	9,165,000	4,335,330	13,500,330
2036-2038	7,405,000	629,592	8,034,592
Totals	<u>\$ 31,390,000</u>	<u>\$ 30,903,086</u>	<u>\$ 62,293,086</u>

Bond Covenant Requirements/Restrictions

In accordance with bond covenants set forth in the issuance agreements, the Corporation is required to maintain a Reserve Fund of \$2,766,741.

FANNIN COUNTY PUBLIC FACILITY CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

Note 5 – Long-term Obligations (continued)

In addition, the Corporation is required to maintain a Revenue/Repair/Contingency fund of \$350,000, a surplus account from which disbursements are restricted, and a Bond Fund with deposits sufficient enough to pay maturing principal and interest payments during the year.

Note 6 – Property and Equipment

Property and equipment activities during the period ended September 30, 2015 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	<u>22,480,202</u>	<u>-</u>	<u>-</u>	<u>22,480,202</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	2,799,860	559,972	-	3,359,832
Vehicles	60,011	11,616	-	71,627
Total Accumulated Depreciation	<u>2,859,871</u>	<u>571,588</u>	<u>-</u>	<u>3,431,459</u>
Property and Equipment, Net	<u>\$ 19,620,331</u>	<u>\$(571,588)</u>	<u>\$ -</u>	<u>\$ 19,048,743</u>

Note 7 – Investments and Earnings

Investments earnings earned by the Corporation during the period consisted of interest earned on Government Obligations maintained by the Corporation during the period. Investments earnings received by the Corporation during the period consisted of the following:

Interest Income \$ 265

**FANNIN COUNTY PUBLIC FACILITY CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

Note 8 – Subsequent Events

The Corporation's management has evaluated subsequent events through November 17, 2015, the date which the financial statements were available for issue.

Note 9 – 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.

Note 10 – Restatement of Retained Earnings

Retained earnings as of September 30, 2014 have been restated by \$13,450 to reflect an understatement of accounts payable in previously issued financial statements.