

**FANNIN COUNTY PUBLIC
FACILITY CORPORATION**

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

YEAR ENDED SEPTEMBER 30, 2019

FANNIN COUNTY PUBLIC FACILITY CORPORATION
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September 30, 2019

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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, 2019, and the related statements of activities and functional expenses 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, 2019, 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 21, 2019

FANNIN COUNTY PUBLIC FACILITY CORPORATION
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2019

ASSETS

Current Assets:	
Cash and Investments	\$ 2,975,325
Accounts Receivable	<u>1,185,333</u>
Total	4,160,658
Restricted Assets:	
Restricted for Operating Fund	286,166
Restricted - Surplus	182,089
Restricted to Comply with Reserve Covenants	2,770,316
Other Non-Current Assets:	
Buildings and Improvements, Net	<u>16,799,172</u>
Total Assets	<u><u>\$ 24,198,401</u></u>

LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 3,506,629
Bonds Payable - Current Part (Note 5)	815,000
Accrued Interest	<u>975,866</u>
Total	<u>5,297,495</u>
Non-Current Liabilities:	
Bonds Payable (Note 5)	\$ 28,730,000
Capitalized Bond and Other Debt Issuance Cost, Net of Amortization of \$435,717	(1,616,322)
Less Current Part	<u>(815,000)</u>
Total Liabilities	<u>26,298,678</u>
Total Liabilities	<u>31,596,173</u>

NET ASSETS

Without Donor Restrictions	<u>(7,397,772)</u>
Total Liabilities and Net Assets	<u><u>\$ 24,198,401</u></u>

See accompanying notes to financial statements.

FANNIN COUNTY PUBLIC FACILITY CORPORATION
STATEMENT OF ACTIVITIES AND FUNCTIONAL EXPENSES
For the Year Ended September 30, 2019

Revenues:

Federal Inmate Revenue		
USMS-E	9,026,113	
USMS-N	2,631,597	
Transport USMS-E	109,937	
Transport USMS-N	93,791	
	11,861,438	
County Inmate Revenue		
FCMJ	477,700	
FCSA	1,472,600	
Transport and Other	28,424	
	1,978,724	
Interest Revenue		91,221
		13,931,383

Program Costs:

Operating Fees	10,920,375	
Depreciation	559,972	
Repairs and Maintenance	116,005	
	11,596,352	

Management and General

Legal Fees	95,017	
Audit Fees	6,750	
Trust Fees	7,102	
Amortization	71,696	
Interest Expense	1,951,732	
Other	11,591	
	2,143,888	

Increase in Net Assets Without Donor Restrictions 191,143

Net Assets Without Donor Restrictions at Beginning of Period (7,588,915)

Net Assets Without Donor Restrictions at End of Period (September 30, 2019) \$ (7,397,772)

See accompanying notes to financial statements.

FANNIN COUNTY PUBLIC FACILITY CORPORATION
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES		\$ 191,143
Increase (Decrease) in Net Assets		
Adjustments to Reconcile Increase in Net Assets to		
Net Cash Provided by Operating Activities:		
Depreciation	559,972	
Amortization	71,696	
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(198,999)	
Increase (Decrease) in Operating Liabilities:		
Interest Payable	(19,182)	
Accounts Payable	314,412	
	<u>919,042</u>	
Net Cash Provided (Used) by Operating Activities		
 CASH FLOWS FROM INVESTING ACTIVITIES		
None	<u>-</u>	
Net Cash Provided (Used) by Investing Activities	<u>-</u>	
 CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Bonds	<u>(775,000)</u>	
Net Cash Provided (Used) by Financing Activities	<u>(775,000)</u>	
Net Increase (Decrease) in Cash and Investments	144,042	
Cash and Investments - Beginning October 1, 2018	<u>6,069,854</u>	
Cash and Investments - Ending September 30, 2019	<u><u>\$ 6,213,896</u></u>	
 Supplemental Information:		
Interest Paid During the Year	<u><u>\$ 1,970,914</u></u>	

See accompanying notes to financial statements.

FANNIN COUNTY PUBLIC FACILITY CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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. Property and equipment are depreciated using the straight-line method, with lives ranging from 7 to 40 years.

(d) Financial Statement Presentation

The Corporation is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

- a. Net Assets Without Donor Restrictions – Net assets not subjected to donor imposed stipulations. Although unrestricted, certain cash funds are restricted as to use by bond covenants.
- b. Net Assets with Donor Restrictions – 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. The Corporation typically receives no contributions and has no net assets with donor restrictions.

FANNIN COUNTY PUBLIC FACILITY CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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

(e) 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.

(f) 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.

(g) 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.

(h) 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, 2019.

Note 2 – Restrictions of Net Assets

The Corporation did not report any net assets with donor restrictions at September 30, 2019.

Note 3 – Concentration of Credit Risk

The Corporation maintains all of its marketable securities of \$6,213,896 in deposit accounts at a single banking institution. The Corporation believes the institution to be high quality and risk of loss is minimal.

FANNIN COUNTY PUBLIC FACILITY CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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, 2019 for the Corporation's marketable securities are as follows:

Description	Maturity Date	Cost	Fair Value	Unrealized Gain (Loss)
Level 1 Measurements:				
First American Government Obligation Fund CI D 31846V401	N/A	\$6,213,896	\$6,213,896	\$ -

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, 2019

Note 5 – Long-Term Obligations (continued)

Bonded debt outstanding as of September 30, 2019 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	\$29,505,000	\$ -	\$ 775,000	\$28,730,000	\$ 815,000
Totals	<u>\$29,505,000</u>	<u>\$ -</u>	<u>\$ 775,000</u>	<u>\$28,730,000</u>	<u>\$ 815,000</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>
2020	815,000	1,930,542	2,745,542
2021	855,000	1,885,840	2,740,840
2022	900,000	1,836,903	2,736,903
2023	955,000	1,782,827	2,737,827
2024	1,010,000	1,722,867	2,732,867
2024-2028	6,135,000	7,481,651	13,616,651
2029-2033	8,565,000	4,958,130	13,523,130
2034-2036	9,495,000	1,229,543	10,724,543
Totals	<u>\$ 28,730,000</u>	<u>\$ 22,828,303</u>	<u>\$ 51,558,303</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.

In addition, the Corporation is required to maintain a Revenue/Repair/Contingency fund, 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.

FANNIN COUNTY PUBLIC FACILITY CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

Note 6 – Property and Equipment

Property and equipment activities during the period ended September 30, 2019 were as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Buildings and Improvements	\$ 22,398,893	\$ -	\$ -	\$ 22,398,893
Totals at Historical Cost	<u>22,398,893</u>	<u>-</u>	<u>-</u>	<u>22,398,893</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	5,039,748	559,972	-	5,599,720
Total Accumulated Depreciation	<u>5,039,748</u>	<u>559,972</u>	<u>-</u>	<u>5,599,720</u>
Property and Equipment, Net	<u>\$ 17,359,145</u>	<u>\$ (559,972)</u>	<u>\$ -</u>	<u>\$ 16,799,173</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 \$ 91,221

Note 8 – Subsequent Events

The Corporation's management has evaluated subsequent events through November 21, 2019, the date which the financial statements were available for issue.

The Corporation has hired a consultant to investigate the possibility of refinancing the outstanding bonds with the USDA at a lower interest rate. In conjunction with the refinancing, the corporation is considering the possibility of dissolving and transferring all assets and liabilities to a new corporation.

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. All accounts receivable are from the U.S. Government.

FANNIN COUNTY PUBLIC FACILITY CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

Note 10 – Newly Issued Accounting Standards

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Not-for-Profit entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the presentation of the Corporation's financial statements by changing from three categories of net assets to two categories of net assets and requires various changes in financial statement presentation and disclosures. The Corporation has implemented ASU 2016-14 and has adjusted the presentation in their financial statements accordingly.

Note 11 – Contingencies

In 2018, the operator of the Facility terminated their contract. A new operator was hired. The Corporation believes it has a claim from the prior operator in excess of \$1,000,000 due to the termination. At September 30, 2019, no claim had been filed on the prior operator. However, the facility had accrued liabilities to the prior operator of \$1,623,483 at September 30, 2018, which have not been paid. Although payment is not anticipated, the accrued liabilities are reported in Accounts Payable in these financial statements pending resolution of the claim.

Note 12 – Availability and Liquidity

The Corporation closely monitors liquidity required to meet its operating needs, while also striving to maximize the investment of its available funds. It has various sources of liquidity at its disposal, including cash and cash equivalents.

In addition to financial assets available to meet general expenditures over the next twelve months, the Corporation anticipates collecting sufficient revenue to cover general expenditures.

The following represents the Corporation's financial assets that could readily be made available within one year of the balance sheet date to meet general expenditures:

Financial assets at year end:	
Cash and Cash Equivalents	\$6,213,896
Accounts Receivable	<u>1,185,333</u>
Total financial assets	7,399,229
Less amounts not available to be used within one year:	
Net assets restricted by bonds	<u>3,238,571</u>
Financial assets available to meet general expenditures over the next twelve months	<u><u>\$4,160,658</u></u>