

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY

FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
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INDEPENDENT AUDITORS' REPORT

To the Authority Members,
Leon County Educational Facilities Authority:

We have audited the accompanying financial statements of the business-type activities of Leon County Educational Facilities Authority, as of and for the year ended September 30, 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Leon County Educational Facilities 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 the 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 respective financial position of the business-type activities of Leon County Educational Facilities Authority, as of September 30, 2009 and the respective changes in financial position and cash flows thereof 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 our report dated January 13, 2010, on our consideration of Leon County Educational Facilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 on 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.

The Management's Discussion and Analysis on pages 3 -- 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied *certain limited procedures*, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

James Moore & Co., P.L.

Tallahassee, Florida
January 13, 2010

Management's Discussion and Analysis

As management of the Leon County Educational Facilities Authority, we offer readers of the Leon County Educational Facilities Authority's financial statements this narrative overview and analysis of the financial activities of the Leon County Educational Facilities Authority for the fiscal year ended September 30, 2009.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Leon County Educational Facilities Authority's basic financial statements. The Leon County Educational Facilities Authority's basic financial statements are comprised of two components: 1) fund financial statements and 2) notes to the financial statements.

Fund financial statements. *A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.* The Leon County Educational Facilities Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Leon County Educational Facilities Authority has three proprietary funds.

Proprietary funds. The Leon County Educational Facilities Authority maintains three proprietary funds. The Leon County Educational Facilities Authority uses the proprietary funds to account for its student housing operations. The proprietary fund financial statements provide separate information for the Southgate, Heritage Grove and Administrative funds.

The basic proprietary fund financial statements can be found on pages 6 – 8 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 9 – 20 of this report.

Fund Financial Analysis

Net assets may serve over time as a useful indicator of the Authority's financial position. In the case of Leon County Educational Facilities Authority, liabilities exceeded assets by \$27,045,576 at the close of the most recent fiscal year. This reported deficit net assets is created by the unpaid principal and accrued interest on the Southgate Residence Hall 1998 Series B subordinated revenue refunding bonds of approximately \$36,000,000. In the event of a default of the 1998 Series A bonds, the Series B bonds are subject to extinguishment and cancellation, without recourse against the Authority. The Authority's Southgate Residence Hall has Subordinate Revenue Refunding Bonds in the amount of \$20,500,000 with an average interest rate of 7.283 percent. The Authority, in some years, has not had enough cash flow from the operations of the residence hall to pay interest due on the subordinated bonds. Per the bond documents, the unpaid interest then becomes additional principal to accrue interest. The annual interest accrues at approximately \$1,560,000 per year on these bonds. With the unpaid amount of interest also accruing interest, the amount of accrued interest on the financials from the subordinated bonds is approximately \$16,000,000. This is also the approximate amount of the unrestricted deficit in the Southgate Fund. **EXCLUDING THE SERIES B BONDS AND RELATED ACCRUED INTEREST, THE NET ASSETS OF THE AUTHORITY IS APPROXIMATELY \$7,000,000.**

A portion of the Leon County Educational Facilities Authority's net assets reflects a deficit in investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Leon County Educational Facilities Authority utilizes its capital assets to provide housing services to students; consequently, these assets are not available for future spending. The Southgate fund will continue to have a deficit in the near term. Occupancy in the student market is low for all providers. With internal changes in the management company, and the new marketing plan and new budgets implemented, the deficits should begin to decrease as the economic landscape improves over the next few years.

Leon County Educational Facilities Authority's Net Assets

	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 4,533,018	\$ 7,287,879
Capital assets	35,782,996	34,640,110
Total assets	<u>40,316,014</u>	<u>41,927,989</u>
Long-term liabilities outstanding	48,351,776	48,800,576
Other liabilities	19,134,787	16,721,079
Total liabilities	<u>67,486,563</u>	<u>65,521,655</u>
Net assets:		
Invested in capital assets, net of related debt	(15,308,378)	(14,160,466)
Restricted	2,903,134	2,704,813
Unrestricted	(14,640,332)	(12,138,013)
Total net assets (deficit)	<u>\$ (27,045,576)</u>	<u>\$ (23,593,666)</u>

The decrease in total assets from 2008 to 2009 is largely due to current year depreciation and amortization of approximately \$1,700,000 increasing the accumulated depreciation and amortization on noncurrent assets.

An additional portion of the Leon County Educational Facilities Authority's net assets represents resources that are subject to external restrictions on how they may be used.

Leon County Educational Facilities Authority's Changes in Net Assets

	<u>2009</u>	<u>2008</u>
Revenues:		
Program revenues:		
Charges for services	\$ 5,486,438	\$ 6,168,843
Interest and other income	115,380	121,607
Total revenues	<u>5,601,818</u>	<u>6,290,450</u>
Expenses:		
Student housing	9,053,728	9,374,457
Decrease in net assets	(3,451,910)	(3,084,007)
Net assets (deficit), beginning of year	(23,593,666)	(20,509,659)
Net assets (deficit), end of year	<u>\$ (27,045,576)</u>	<u>\$ (23,593,666)</u>

The \$3,451,910 decrease in net assets from 2008 to 2009 includes \$1,602,153 of depreciation expense, \$695,250 of interest expense on the 1998 Series A Bonds, and \$1,563,125 of interest expense on the 1998 Series B Bonds.

Capital Asset and Debt Administration

Capital assets. The Leon County Educational Facilities Authority's investment in capital assets for its business type activities as of September 30, 2009, amounts to \$ 33,043,398 net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements, and equipment.

Additional information on the Leon County Educational Facilities Authority's capital assets can be found in note II.C. on page 13 of this report.

Long-term debt. At the end of the current fiscal year, the Leon County Educational Facilities Authority had long-term debt consisting of revenue bonds outstanding of \$48,351,776. These bonds are secured solely by specified revenue sources.

THESE BONDS, TOGETHER WITH INTEREST THEREON, ARE NOT GENERAL OBLIGATIONS OF THE AUTHORITY AND DO NOT CONSTITUTE OBLIGATIONS, EITHER GENERAL OR SPECIAL, OF THE STATE OF FLORIDA, LEON COUNTY, FLORIDA OR ANY POLITICAL SUBDIVISION THEREOF, BUT ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY AND ONLY FROM THE PLEDGED REVENUES, AS SPECIFICALLY PROVIDED IN ALL FINANCING RELATED AGREEMENTS OF THE AUTHORITY. BOND OBLIGATIONS ARE NOT PAYABLE OUT OF ANY FUND OR PROPERTIES OTHER THAN THOSE OF THE AUTHORITY, AND THEN ONLY AS TO THE PARTICULAR PROJECT TO WHICH THE BONDS RELATE. NEITHER THE FAITH AND CREDIT NOR THE REVENUES OR TAXING POWER OF LEON COUNTY, FLORIDA, THE STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF ANY AUTHORITY ISSUED BONDS OR THE INTEREST THEREON OR OTHER COSTS INCIDENT THERETO.

Additional information on the Leon County Educational Facilities Authority's long-term debt can be found in note II.D. on pages 13 - 17 of this report.

Economic Factors and Next Year's Budgets and Rates

During 2010, the Authority will continue to maintain 2009 rates and try to minimize expenses while maintaining quality of service to the student community. In addition, the Authority will continue to study the needs for student housing in Leon County. These factors were considered in preparing the Leon County Educational Facilities Authority's budget for the 2010 fiscal year.

Southgate Fund revenues are expected to be significantly higher in 2010. As of September 30, 2009, the Authority had reached over 95% occupancy at Southgate, a significant increase over the occupancy during the year ending September 30, 2009.

Requests for Information

This financial report is designed to provide a general overview of the Leon County Educational Facilities Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Executive Director, 3263 Robinhood Road, Tallahassee, Florida 32312.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
SEPTEMBER 30, 2009

Attachment # 1
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ASSETS	Business-type Activities - Enterprise Funds			
	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
Current assets				
Cash and cash equivalents	\$ 390,815	\$ 74,723	\$ 48,178	\$ 513,716
Certificates of deposit	-	-	237,434	237,434
Investments	-	553,416	-	553,416
Accounts receivable, net	187,956	5,595	-	193,551
Due from other funds	-	-	37,109	37,109
Inventories and prepaid items	52,813	41,845	-	94,658
Restricted assets:				
Cash	33,364	113,822	-	147,186
Investments	588,291	2,167,657	-	2,755,948
Total current assets	1,253,239	2,957,058	322,721	4,533,018
Noncurrent assets				
Capital assets, not being depreciated	2,400,000	-	-	2,400,000
Capital assets, net of accumulated depreciation	11,658,084	18,985,314	-	30,643,398
Debt issue costs, net	460,374	2,279,224	-	2,739,598
Total noncurrent assets	14,518,458	21,264,538	-	35,782,996
Total Assets	15,771,697	24,221,596	322,721	40,316,014
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	281,865	23,731	130,468	436,064
Deferred revenue	1,552,522	111,713	-	1,664,235
Accrued interest payable	16,637,205	180,000	-	16,817,205
Deposits payable	62,250	117,924	-	180,174
Due to other funds	28,109	9,000	-	37,109
Current portion of revenue bonds payable	275,000	450,000	-	725,000
Total current liabilities	18,836,951	892,368	130,468	19,859,787
Noncurrent liabilities				
Revenue bonds payable, less current portion	26,176,776	21,450,000	-	47,626,776
Total liabilities	45,013,727	22,342,368	130,468	67,486,563
Net assets				
Invested in capital assets, net of related debt	(12,393,692)	(2,914,686)	-	(15,308,378)
Restricted for debt service	621,655	2,281,479	-	2,903,134
Unrestricted	(17,345,020)	2,512,435	192,253	(14,640,332)
Total net assets (deficit)	\$ (29,117,057)	\$ 1,879,228	\$ 192,253	\$ (27,045,576)

The accompanying notes to financial statements
are an integral part of this statement.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS (DEFICIT)
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Business-type Activities - Enterprise Funds

	<u>Southgate Fund</u>	<u>Heritage Grove Fund</u>	<u>Administrative Fund</u>	<u>Total</u>
Operating revenues	\$ 3,291,675	\$ 2,194,763	\$ -	\$ 5,486,438
Operating expenses				
Personnel costs	930,553	253,020	52,000	1,235,573
Other operating costs	796,562	173,206	54,907	1,024,675
Food costs	475,859	-	-	475,859
Utilities	557,445	110,697	-	668,142
Repairs and maintenance	179,427	184,371	-	363,798
Depreciation and amortization	634,588	1,088,229	-	1,722,817
Total operating expenses	<u>3,574,434</u>	<u>1,809,523</u>	<u>106,907</u>	<u>5,490,864</u>
Operating income (loss)	<u>(282,759)</u>	<u>385,240</u>	<u>(106,907)</u>	<u>(4,426)</u>
Nonoperating revenues (expenses)				
Interest expense	(2,469,575)	(1,093,289)	-	(3,562,864)
Interest and other income	1,120	72,354	41,906	115,380
Total nonoperating revenues (expenses)	<u>(2,468,455)</u>	<u>(1,020,935)</u>	<u>41,906</u>	<u>(3,447,484)</u>
Loss before operating transfers	<u>(2,751,214)</u>	<u>(635,695)</u>	<u>(65,001)</u>	<u>(3,451,910)</u>
Transfers				
Transfers in of issuer and management fees per trust indenture	-	-	116,067	116,067
Transfers out of issuer and management fees per trust indenture	(60,317)	(55,750)	-	(116,067)
Total transfers	<u>(60,317)</u>	<u>(55,750)</u>	<u>116,067</u>	<u>-</u>
Change in net assets	<u>(2,811,531)</u>	<u>(691,445)</u>	<u>51,066</u>	<u>(3,451,910)</u>
Net assets (deficit), beginning of year	(26,305,526)	2,570,673	141,187	(23,593,666)
Net assets (deficit), end of year	<u>\$ (29,117,057)</u>	<u>\$ 1,879,228</u>	<u>\$ 192,253</u>	<u>\$ (27,045,576)</u>

The accompanying notes to financial statements
are an integral part of this statement.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009
Increase (Decrease) in Cash and Cash Equivalents

	Business-type Activities - Enterprise Funds			Total
	Southgate Fund	Heritage Grove Fund	Administrative Fund	
Cash flows from operating activities				
Cash received from residents and customers	\$ 4,049,296	\$ 2,151,006	\$ -	\$ 6,200,302
Cash paid to suppliers	(2,841,774)	(749,282)	(156,439)	(3,747,495)
Net cash provided by (used in) operating activities	<u>1,207,522</u>	<u>1,401,724</u>	<u>(156,439)</u>	<u>2,452,807</u>
Cash flows from noncapital financing activities				
Transfers in	-	-	87,958	87,958
Transfers out	(32,208)	(55,750)	-	(87,958)
Net cash provided by (used in) noncapital financing activities	<u>(32,208)</u>	<u>(55,750)</u>	<u>87,958</u>	<u>-</u>
Cash flows from capital and related financing activities				
Purchases of capital assets	(5,441)	-	-	(5,441)
Principal payments on long-term debt	(260,000)	(400,000)	-	(660,000)
Interest paid	(695,250)	(1,093,289)	-	(1,788,539)
Net cash used in capital and related financing activities	<u>(960,691)</u>	<u>(1,493,289)</u>	<u>-</u>	<u>(2,453,980)</u>
Cash flows from investing activities				
Purchase of certificates of deposit and investments	(124,973)	(96,160)	(139,690)	(360,823)
Proceeds from certificates of deposit and investments	1,887	-	165,483	167,370
Interest and other proceeds	1,120	72,354	41,906	115,380
Net cash provided by (used in) investing activities	<u>(121,966)</u>	<u>(23,806)</u>	<u>67,699</u>	<u>(78,073)</u>
Net increase (decrease) in cash and cash equivalents	<u>92,657</u>	<u>(171,121)</u>	<u>(782)</u>	<u>(79,246)</u>
Cash and cash equivalents, beginning of year	<u>331,522</u>	<u>359,666</u>	<u>48,960</u>	<u>740,148</u>
Cash and cash equivalents, end of year	<u>\$ 424,179</u>	<u>\$ 188,545</u>	<u>\$ 48,178</u>	<u>\$ 660,902</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ (282,759)	\$ 385,240	\$ (106,907)	\$ (4,426)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	634,588	1,088,229	-	1,722,817
Changes in assets and liabilities:				
(Increase) decrease in accounts payable and accrued expenses	115,133	(14,319)	(49,532)	51,282
Increase in deposits	58,050	13,409	-	71,459
Increase (decrease) in deferred revenue	752,071	(52,338)	-	699,733
Increase in accounts receivable	(52,500)	(4,828)	-	(57,328)
Increase in inventory and prepaid items	(17,061)	(13,669)	-	(30,730)
Total adjustments	<u>1,490,281</u>	<u>1,016,484</u>	<u>(49,532)</u>	<u>2,457,233</u>
Net cash provided by (used in) operating activities	<u>\$ 1,207,522</u>	<u>\$ 1,401,724</u>	<u>\$ (156,439)</u>	<u>\$ 2,452,807</u>

The accompanying notes to financial statements
are an integral part of this statement.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

I. Summary of Significant Accounting Policies:

(a) Reporting Entity

The Leon County Educational Facilities Authority (the "Authority") is a public instrumentality created by the Higher Educational Facilities Authorities Law, Chapter 69-345, Laws of Florida, 1969 (Chapter 243, Part II, Florida Statutes), as revised and amended, to assist institutions of higher education within Leon County, Florida in the construction, financing or refinancing of projects (structures and machinery and equipment related to the operation of the structure) required or useful for the instruction of students or the operation of an institution of higher education. The accompanying financial statements present the Authority only since there are no component units for which the Authority is considered to be financially accountable.

(b) Measurement focus, basis of accounting, and financial statement presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Authority reports the following major proprietary funds:

The *Southgate fund* accounts for the activities of the Authority's Southgate Residence Hall rental operations.

The *Heritage Grove fund* accounts for the activities of the Authority's largely fraternal organization oriented rental operations at that site.

The *Administrative fund* accounts for the activities of the Authority's administration of the rental operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for rents, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise funds are charges to customers for rents and services.

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LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

I. Summary of Significant Accounting Policies: (Continued)

(b) Measurement focus, basis of accounting, and financial statement presentation
(Continued)

Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first.

(c) Assets, Liabilities and Equity

1. *Deposits and Investments*

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Authority to invest in direct obligations of the U.S. Treasury, Local Government Surplus Trust Fund, SEC registered money market funds with the highest credit quality rating, and savings and CD accounts in state-certified public depositories.

Investments are stated at fair value.

2. *Inventories and Prepaid Items*

Inventories are valued at the lower of cost or market using the first-in/first-out (FIFO) method.

Certain prepayments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. *Capital Assets*

Capital assets for business type activities include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). For financial reporting purposes, capital assets are defined by the Authority as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

I. Summary of Significant Accounting Policies: (Continued)

(c) Assets, Liabilities and Equity (Continued)

3. *Capital Assets* (Continued)

Property, plant, and equipment of the Authority is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	40
Furniture, fixtures and equipment	5 - 15

4. *Long-term Debt*

Revenue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the revenue bonds using the effective interest method. Revenue bonds are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

5. *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e., the current portion of interfund loans) or "advances to / from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds."

6. *Restricted Assets*

Certain proceeds of the Authority's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

7. *Deferred Revenue*

Deferred revenue consists of operating revenues collected from Southgate and Heritage Grove residents for the 2009-2010 school year. The revenue is recognized as earned on a monthly basis.

8. *Use of Estimates*

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

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2009

II. Detailed Notes on all Funds:

(a) Deposits

Deposits. At September 30, 2009, the Authority's carrying amount of deposits was \$656,872 and the bank balance was \$762,222. Of the bank balance, the Authority's deposits are entirely collateralized by Federal depository insurance or by collateral held by the Authority's custodial bank which is pledged to a state trust fund that provides security in accordance with Florida Security for Deposits Act, Chapter 280, for amounts held in excess of FDIC coverage.

The Florida Security for Public Deposits Act established guidelines for qualification and participation by banks and savings associations, procedures for the administration of the collateral requirements and characteristics of eligible collateral.

Investments. At September 30, 2009 the Authority had the following investments:

	Fair Value
U.S. Treasury money market funds	\$ 3,309,364

Custodial Credit Risk – The Authority's policies limit deposits and investments to those instruments allowed by applicable state laws.

Credit Risk – The Authority's policies are designed to maximize investment earnings while protecting the security of the principal and providing adequate liquidity, in accordance with applicable state laws.

Interest Rate Risk – In accordance with investment policy, the Authority manages its exposure to interest rate risk by limiting the maturity of its investments.

(b) Receivables

Receivables as of September 30, 2009, including the applicable allowances for uncollectible accounts, are as follows:

	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
Gross receivables	\$ 187,956	\$ 5,595	\$ –	\$ 193,551
Less: allowance for uncollectibles	–	–	–	–
Net total receivables	\$ 187,956	\$ 5,595	\$ –	\$ 193,551

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

II. Detailed Notes on all Funds: (Continued)

(c) **Capital Assets**

The following is a summary of capital assets at September 30, 2009:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 2,400,000	\$ -	\$ -	\$ 2,400,000
Total capital assets not being depreciated	<u>2,400,000</u>	<u>-</u>	<u>-</u>	<u>2,400,000</u>
Capital assets being depreciated				
Buildings and improvements	39,976,074	5,441	(53,200)	39,928,315
Equipment	6,501,404	-	-	6,501,404
Total capital assets being depreciated	46,477,478	5,441	(53,200)	46,429,719
Less accumulated depreciation				
Buildings and improvements and equipment	(14,237,368)	(1,602,153)	53,200	(15,786,321)
Total capital assets being depreciated, net	<u>32,240,110</u>	<u>(1,596,712)</u>	<u>-</u>	<u>30,643,398</u>
Business-type capital assets, net	<u>\$ 34,640,110</u>	<u>\$ (1,596,712)</u>	<u>\$ -</u>	<u>\$ 33,043,398</u>

Depreciation and amortization expense were charged as follows:

Southgate Fund	\$ 634,588
Heritage Grove Fund	<u>1,088,229</u>
	<u>\$ 1,722,817</u>

(d) **Long-term Debt**

Southgate Fund

Revenue Refunding Bonds

On May 29, 1998, the Authority issued \$12,000,000 in Revenue Refunding Bonds Series 1998A and \$20,500,000 in Subordinated Revenue Refunding Bonds Series 1998B with an average interest rate of 7.283 percent to advance refund \$23,075,000, of 1991 Senior Certificates of Participation and \$1,145,000 of 1991 Subordinate Certificates of Participation. The net proceeds of \$30,408,190 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1991 Senior and Subordinate Certificates of Participation. At September 30, 2009, the amount of insubstance defeased debt which remained outstanding was \$10,510,000.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

II. Detailed Notes on all Funds: (Continued)

(d) Long-term Debt

THESE BONDS, TOGETHER WITH INTEREST THEREON, ARE NOT GENERAL OBLIGATIONS OF THE AUTHORITY AND DO NOT CONSTITUTE OBLIGATIONS, EITHER GENERAL OR SPECIAL, OF THE STATE OF FLORIDA, LEON COUNTY, FLORIDA OR ANY POLITICAL SUBDIVISION THEREOF, BUT ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY AND ONLY FROM THE PLEDGED REVENUES, AS PROVIDED IN THE INDENTURE. NEITHER LEON COUNTY, FLORIDA NOR THE STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION ARE LIABLE THEREON; NOR IN ANY EVENT ARE THESE BONDS PAYABLE OUT OF ANY FUND OR PROPERTIES OTHER THAN THOSE OF THE AUTHORITY, AND THEN ONLY TO THE EXTENT PROVIDED IN THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE REVENUES OR TAXING POWER OF LEON COUNTY, FLORIDA, THE STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF THESE BONDS OR THE INTEREST THEREON OR OTHER COSTS INCIDENT THERETO.

These Revenue Refunding Bonds were issued pursuant to an indenture of trust between the Authority and the Bank (the "indenture"). This indenture requires the Authority to establish and maintain restricted accounts and follow certain procedures for bond issuance and payments. The Authority deposits all receipts into a "revenue fund" which is used to pay operating expenses and then to fund the restricted bond accounts.

A summary of the Southgate Fund long-term debt at September 30, 2009 is as follows:

Revenue Refunding Bonds Series 1998A issued May 1998 in the amount of \$12,000,000 at an interest rate of 6.75% due in 30 annual installments. Interest is due semi-annually with principal maturity paid from September 1, 1999 through September 1, 2028. The aggregate net amount includes an unamortized deferred advance refunding of \$4,088,224 at September 30, 2009.	\$ 10,040,000
Subordinated Revenue Refunding Bonds Series 1998B issued May, 1998 in the amount of \$20,500,000 at an interest rate of 7.625%. Interest is due annually on September 15th with principal maturity paid from 2022 through 2028.	20,500,000
Total Revenue Refunding Bonds	30,540,000
Less current portion	275,000
Total Revenue Refunding Bonds, noncurrent	\$ 30,265,000

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

II. Detailed Notes on all Funds: (Continued)

(d) Long-term Debt (Continued)

THE SERIES 1998B BONDS ARE SECURED ONLY TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE. THE OWNERS OF THE SERIES 1998B BONDS HAVE LIMITED RIGHTS TO EXERCISE REMEDIES UNDER THE INDENTURE. IN THE EVENT OF A DEFAULT AND ACCELERATION OF THE SERIES 1998A BONDS AND INSUFFICIENT MONEYS REMAIN IN THE TRUST ESTATE TO PAY THE SERIES 1998B BONDS AFTER PAYMENT IN FULL OF THE SERIES 1998A BONDS, THE SERIES 1998B BONDS IN EXCESS OF REMAINING AMOUNTS IN THE TRUST ESTATE ARE SUBJECT TO EXTINGUISHMENT AND CANCELLATION AS PROVIDED IN THE INDENTURE.

The Series 1998B Bonds are subordinated and subject in right of payment to the prior payment in full of the Series 1998A Bonds and any Parity Bonds. No payment on account of principal, premium, if any, or interest on any Series 1998B Bonds shall be made, nor shall any of the Trust Estate pledged under the Indenture be applied to the purchase or other acquisition or retirement of any Series 1998B Bonds, unless full payment of amounts then due and payable for principal, premium, if any, sinking funds, if any, and interest on the Series 1998A Bonds and any Parity Bonds has been made or duly provided for in accordance with the terms of the Indenture. In addition, no payment on account of principal, premium, if any, or interest on any Series 1998B Bonds shall be made, nor shall any of the Trust Estate pledged under the Indenture be applied to the purchase or other acquisition or retirement of any Series 1998B Bonds, if, at the time of such payment or application or immediately after giving effect thereto, (i) there are Series 1998A Bonds and any Parity Bonds Outstanding and unpaid and the Trustee or the Owners of the Series 1998A Bonds and any Parity Bonds have declared the acceleration of the Maturity thereof or (ii) there are Series 1998A Bonds and any Parity Bonds Outstanding and there has occurred an Event of Default which permits the Trustee or the Owners of Series 1998A Bonds and any Parity Bonds to declare the acceleration of the Maturity of the Series 1998A Bonds and any Parity Bonds, unless such acceleration (if declared) has been rescinded or such Event of Default has been cured or waived as permitted in the Indenture, or the Owners of a majority in aggregate principal amount of Series 1998A Bonds and any Parity Bonds Outstanding have consented to such payment.

The Series 1998A and 1998B Revenue bond debt service to maturity, excluding interest accrued on past due interest of the 1998B Bonds, is as follows:

	<u>1998 A</u>		<u>1998 B</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 275,000	\$ 677,700	\$ -	\$ 1,563,125
2011	295,000	659,138	-	1,563,125
2012	315,000	639,225	-	1,563,125
2013	335,000	617,963	-	1,563,125
2014	360,000	595,350	-	1,563,125
2015-2019	2,180,000	2,580,526	-	7,815,625
2020-2024	3,030,000	1,736,776	7,500,000	7,275,394
2025-2028	3,250,000	566,326	13,000,000	2,574,200
	<u>\$ 10,040,000</u>	<u>\$ 8,073,004</u>	<u>\$ 20,500,000</u>	<u>\$ 25,480,844</u>

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

Attachment # 1
Page 18 of 76

II. Detailed Notes on all Funds: (Continued)

(d) Long-term Debt (Continued)

Heritage Grove Fund

Student Housing Revenue Bonds (Series 2003)

In December 2003, the Authority issued Heritage Grove Project (the "Project") Student Housing Revenue Bonds (Series 2003) in the amount of \$23,315,000, with interest rates ranging from 3 - 5.125%. These bonds were issued to provide funds (i) to finance the cost of developing, designing, acquiring, constructing and equipping a 384 bed student housing facility, including the buildings, furniture, fixtures and equipment to be located near the campus of Florida State University, (ii) to fund interest on the Series 2003 Bonds during construction and for a period after construction of the Project, (iii) to fund the Debt Service Reserve Fund and (iv) pay a portion of the costs of issuance of the Series 2003 Bonds.

THESE BONDS, TOGETHER WITH INTEREST THEREON, ARE NOT GENERAL OBLIGATIONS OF THE AUTHORITY AND DO NOT CONSTITUTE OBLIGATIONS, EITHER GENERAL OR SPECIAL, OF THE STATE OF FLORIDA, LEON COUNTY, FLORIDA OR ANY POLITICAL SUBDIVISION THEREOF, BUT ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY AND ONLY FROM THE PLEDGED REVENUES, AS PROVIDED IN THE INDENTURE. NEITHER LEON COUNTY, FLORIDA, NOR THE STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION ARE LIABLE THEREON; NOR IN ANY EVENT ARE THESE BONDS PAYABLE OUT OF ANY FUND OR PROPERTIES OTHER THAN THOSE OF THE AUTHORITY, AND THEN ONLY TO THE EXTENT PROVIDED IN THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE REVENUES OR TAXING POWER OF LEON COUNTY, FLORIDA, THE STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF THESE BONDS OR THE INTEREST THEREON OR OTHER COSTS INCIDENT THERETO.

These Revenue Bonds were issued pursuant to an indenture of trust between the Authority and the Bank (the "indenture"). This indenture requires the Authority to establish and maintain restricted accounts and follow certain procedures for bond issuance and payments. The Authority deposits all receipts into a "revenue fund" which is used to pay operating expenses and then to fund the restricted bond accounts.

Attachment # 1
Page 19 of 76

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

II. Detailed Notes on all Funds: (Continued)

(d) **Long-term Debt** (Continued)

The Series 2003 Revenue bond debt service to maturity is as follows:

	Principal	Interest
2010	\$ 450,000	\$ 1,082,789
2011	505,000	1,060,289
2012	560,000	1,040,089
2013	585,000	1,016,989
2014	605,000	992,126
2015-2019	2,720,000	4,615,993
2020-2024	4,205,000	3,985,188
2025-2029	-	3,144,186
2030-2033	12,270,000	3,515,350
	\$ 21,900,000	\$ 19,452,999

Changes in long-term liabilities:

Long-term liability activity for the year ended September 30, 2009, was as follows:

Business-type activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 1998A revenue bonds payable	\$ 10,300,000	\$ -	\$ 260,000	\$ 10,040,000	\$ 275,000
Series 1998B revenue bonds payable	20,500,000	-	-	20,500,000	-
Series 2003 revenue bonds payable	22,300,000	-	400,000	21,900,000	450,000
Less deferred amounts on refunding	(4,299,424)	-	(211,200)	(4,088,224)	-
Total bonds payable	\$ 48,800,576	\$ -	\$ 448,800	\$ 48,351,776	\$ 725,000

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

II. Detailed Notes on all Funds: (Continued)

(e) **Management Agreement**

Southgate Fund

The Authority, with the consent, approval and joinder of the Series 1998 A and B bondholders of Southgate, renewed the management agreement with Asset Campus Housing, Inc. ("the Manager"), to provide dormitory management, retail space management, parking garage management and manual food service for the Southgate Residence Hall. The agreement is for a term of three years and commenced August 1, 2009, terminating July 31, 2012, with one year renewal options thereafter. Since the 1998 financing of Southgate, the active participation, consent and approval of the Series 1998 A and B bondholders has been required for the selection and retention of a management company by the Authority for the Southgate Residence Hall. The participation of the bondholders in the selection and retention of management at Southgate, as well as their regular monitoring of the financial activities and performance of the management of the facility, is considered by the Authority as a benefit and safeguard to the Southgate Residence Hall in that the bondholder representatives are possessed with expertise in the finances of student housing projects such as Southgate and therefore are able to provide an extra level of analysis and scrutiny of the management company and its operations, serving both the Southgate Residence Hall and its investors.

Together with the Authority, the Series A and B bondholders must also specifically approve all budgets for the Southgate Residence Hall operations proposed by the Manager, as well as any deviations or changes to the budget. The Trustee is prohibited from disbursing any funds to the management company, or otherwise on behalf of Southgate, without ascertaining that such disbursements are consistent with the approved budget, or, if not, are specifically approved by the appropriate bondholder representative, in addition to the Authority.

The Manager is compensated in the form of a base compensation fee (the "*Base Management Fee*") equal to 3.0% of gross monthly receipts if occupancy is below 90%. In addition, the Authority is to pay, in arrears, an additional 0.25% of gross monthly receipts if the property reaches between 91.0% and 95.0% occupancy. If occupancy reaches 95.0% or greater, the fee will increase another 0.25% and remain at 3.5% of gross monthly receipts, unless property occupancy falls below 95.0%. Payment of the Base Management Fee will be made from the Operating Account monthly beginning on August 1, 2009, and thereafter on or before the fifth (5th) day of each succeeding month during the term of this Agreement. Upon the termination of this Agreement on a day other than the last day of the calendar month, the Base Management Fee shall be prorated on a per diem basis up to the date of termination.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2009

II. Detailed Notes on all Funds: (Continued)

(e) **Management Agreement** (Continued)

Southgate Fund (Continued)

In addition to the Base Management Fee (and any other fees paid to and expenses reimbursed to the Manager) and in order to provide incentive to the Manager to generate increased revenue at the Property, the Authority has agreed to pay to the Manager incentive fees (the "Incentive Fees") in the following manner: If the property should reach 90.0% occupancy, \$45,000 shall be paid to the Manager. If the property should reach 95.0% occupancy, an additional \$10,000 (a total of \$55,000) shall be paid to the Manager. The term "gross receipts" for the purposes of this Agreement shall include all proceeds from rent and from business interruption insurance, if any, but shall not include tenant security deposits unless forfeited and recognized as income by the Authority, nor shall such gross receipts include insurance loss proceeds, or any award or payment made by any governmental Authority in connection with the exercise of any right of eminent domain or any proceeds from the sale, exchange, mortgaging or refinancing of the Property. With regard to any Incentive Fee which would be owed to the Manager for any partial fiscal year (because of expiration or termination of this Agreement prior to the end of the applicable fiscal year), the calculation of the Incentive Fee for such a partial fiscal year will be determined based upon the gross receipts from the Property (on a cumulative annualized basis) for such partial fiscal year, and the Incentive Fee shall not exceed twenty percent (20%) of the total compensation payable to the Manager, including the Base Management Fee and the Incentive Fee, for such partial fiscal year. The Authority shall pay the Incentive Fee to the Manager only upon completion of the annual audit for the applicable fiscal year.

Heritage Grove Fund

The Authority entered into an agreement with a corporation to rent, operate and manage the Project for a term of three years commencing on October 1, 2009 provided, however, that notwithstanding anything to the contrary, this agreement will terminate earlier if the Project is sold by the Authority. The owner has the right to terminate the Management Agreement on the last day of every contract year without cause and without penalty. The Manager will be compensated as follows:

<u>% of Total Gross Revenue</u>		
3.0%	If the economic occupancy is	Below 90%
3.5%	If the economic occupancy is	90% – 94%
4.0%	If the economic occupancy is	95% – 96%
4.5%	If the economic occupancy is	97% – 98%
5.0%	If the economic occupancy is	99% – 100%

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

III. Other Information:

(a) **Risk Management**

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries various insurance coverages.

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,
Leon County Educational Facilities Authority:

We have audited the financial statements of the business-type activities of Leon County Educational Facilities Authority as of and for the year ended September 30, 2009 and have issued our report thereon dated January 13, 2010. 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

In planning and performing our audit, we considered Leon County Educational Facilities 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 Leon County Educational Facilities Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Leon County Educational Facilities Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Leon County Educational Facilities 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of Authority, and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

James Moore & Co., P.L.

Tallahassee, Florida
January 13, 2010

**INDEPENDENT AUDITORS' MANAGEMENT LETTER REQUIRED BY CHAPTER
10.550, RULES OF THE STATE OF FLORIDA OFFICE OF THE AUDITOR GENERAL**

To the Authority Members:
Leon County Educational Facilities Authority:

We have audited the financial statements of the Leon County Educational Facilities Authority, as of and for the fiscal year ended September 30, 2009, and have issued our report thereon dated January 13, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters. Disclosures in the report, which is dated January 13, 2010, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule.

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. The Authority is in the process of correcting the significant findings and recommendations made in the preceding annual financial audit report.

Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Leon County Educational Facilities Authority complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we noted the following: The loan agreement related to the financing of the Heritage Grove Project requires in Section 8.08 entitled "Rate Covenant," that the project be operated in such a manner that the Fixed Charges Coverage Ratio be at least 1.2. In the event that it falls below the 1.2, the Authority is required to engage a financial consultant to submit a report containing recommendations to remedy the Ratio. The Fixed Charges Coverage Ratio for the year ended September 30, 2009 was 1.04. Since the Fixed Charges Coverage Ratio remained above 1.0, there is no event of default, as more fully described in Section 10.01 of the loan agreement entitled "Events of Default Defined."

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. There are no component units of the Leon County Educational Facilities Authority to be disclosed as required by accounting principles generally accepted in the United States of America.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Leon County Educational Facilities Authority met the conditions described in Section 218.503(1)(e), Florida Statutes. The Authority reported deficit net assets of \$27,045,576, as of September 30, 2009. This reported deficit net assets is created by the unpaid principal and accrued interest on the 1998 Series B subordinated revenue refunding bonds of approximately \$36,000,000. In the event of a default of the 1998 Series A bonds, these bonds are subject to extinguishment and cancellation.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the Leon County Educational Facilities Authority for the fiscal year ended September 30, 2009, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2009. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

James Moore & Co., P.L.

Tallahassee, Florida
January 13, 2010

MANAGEMENT'S RESPONSE TO INDEPENDENT AUDITOR'S MANAGEMENT LETTER REQUIRED BY CHAPTER 10.550, RULES OF THE STATE OF FLORIDA OFFICE OF THE AUDITOR GENERAL

Management of the Leon County Educational Facilities Authority (the Authority) provides the following response to pertinent provisions of the Independent Auditor's Management Letter Required by Chapter 10.550, Rules of the State of Florida Office of the Auditor General, in order that readers of the Authority's financial statements and the Independent Auditor's letter may be assured that the Auditor's required comments have been thoroughly reviewed and acknowledged, and that noted matters have been acted upon as appropriate.

Corrective actions continue to be taken by the Authority to address significant findings and recommendations made in the audit report. The Authority maintains the services of a financial advisor who is intimately familiar with the background and financing of its projects, particularly the Southgate project, and is in regular consultation with such advisor as to potential options for restructuring of the Authority projects as may be prudent for the protection of the particular assets and the Authority's and bondholder's interests. The Authority is also in regular communication with the trustee for its projects, as well as bondholder representatives. All parties are acutely aware of current challenges in the student housing market and the unique financing arrangements at issue, particularly as pertain to the Southgate project. **The bondholder representatives continue to express confidence in the Authority's management of its projects.**

As noted in the preceding financials, and pointed out by the Auditor, the Authority has a deficit net asset of \$27,045,576.00 as of September 30, 2009. This deficit relates exclusively to the unpaid principal and accrued interest on the 1998 Series B Subordinated Revenue Refunding Bonds issued for the Southgate project. The Series B bonds were a unique financing component arising from the refinancing and associated defeasance of the original Southgate bonds in 1998. Though "unpaid principal and interest" on the Series B bonds is so referenced carried on the books, the Series B bondholders are only entitled to actually receive such payments under certain conditions upon the occurrence of particular events as set forth in the Trust Indenture and other financing agreements pertaining to the Southgate project. If the certain conditions are not met, the Series B bondholders are not entitled to receive the payments The Series B bondholders previously have, and continue to be, paid when the required triggering events occur. The Series B bondholders have no right or option to declare an event of default, or to take any action against the project or to require the trustee to do so on account of any monies unpaid to them when the required conditions precedent have in fact not been met. Due to current financial and market conditions, the Authority does not foresee any significant change in this status. Accordingly, the current deficit status does not impact the present financial operations of the Southgate project. Additionally, it should be noted that in the event of any default in the 1998 Series A bonds concluding in a foreclosure or other terminating action against the project, the Series B bonds would be subject to extinguishment and cancellation, with no liability as against the Authority or any other entity. Though the stated deficit net asset figure is notable and may automatically trigger an offer of assistance from the State of Florida as a part of its review of this audit; under the particular circumstances at hand **the Authority does not believe that a "financial emergency" as contemplated by Chapter 10.550 and applicable law exists, and accordingly no state or other governmental intervention is necessary, advisable or desired.**

Internal management procedures and personnel have been significantly restructured over the past year at the Southgate project and the management company has been tasked with new marketing approaches, which has resulted in significantly improved occupancy and revenue rates for Southgate over the past year, as indicated in the preceding financials.

The Auditor has accurately pointed out that the Authority's Heritage Grove project requires as a part of its loan and related financing agreements, that the project be operated in such a manner that the Fixed Charges Coverage Ratio be at least 1.2, and in the event that it falls below that level, that the Authority would engage a financial consultant to make recommendations as to a remedy. The Fixed Charges Coverage Ratio has in fact remained below 1.2, but at no time has fallen below the level which would constitute an actual event of default. This status has been recognized and effectively waived by the bondholders and bond insurers in consideration of the fact that the inability to maintain the desired premium over coverage ratio results directly from the business decision by the Authority to not raise rental rates over recent years, as had originally been contemplated in the financing structure of the project. Due to recent and current market conditions, the Authority has determined to maintain rental rates at a level consistent with past years, which has allowed the property to maintain very high occupancy rates and overall financial stability. A raising of the rates as had been originally projected, would, in today's market, have resulted in significant reductions in occupancy and a corresponding reduction in overall revenues for the Heritage Grove project. Current financial and marketing advice provided to and relied upon by the Authority, suggests that this is the most prudent course of action to maintain in this regard, and all affected parties are in agreement.

The Authority wishes to emphasize that as to both its Southgate and Heritage Grove project, that they continue to operate well above occupancy and revenue averages for similarly situated local area student housing properties, and neither project is presently at risk of any failure which would terminate operations or involuntarily divest ownership from the Authority. There is not now nor has there been any investment of taxpayer monies and associated risks of loss, in the Authority's projects. As has always been the case since the inception of the Authority's projects, **there are no assets or funds of the taxpaying public, Leon County, or any other political or governmental subdivision at risk, and there is no exposure to or financial liability of the public or local government for any of the obligations, operations or defaults of the Authority's projects.**

Leon County Educational Facilities Authority

Robert E. Kellam, Chair

Liz Maryanski, Vice-Chair – Craig Fletcher – Randy Guemple – William W. Hilaman

Henry Lewis, III – Anne Peery – Terrell C. Madigan, General Counsel

Calvin P. Ogburn, Executive Director

Mr. Scott Ross, Budget Director
Office of Management and Budget
301 S. Monroe St.
Tallahassee, FL 32301

Dear Mr. Ross:

Attached is the Educational Facilities Authority's 2009 Annual Report. Information contained in the Southgate and Heritage Grove reports has been updated through February 28, 2010. An update of EFA plans activities for 2010 is being sent in a separate communication but not part of the annual report.

Thank you,
Bob Kellam, Chairman

Leon County Educational Facilities Authority

2009 Annual Report

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Leon County Educational Facilities Authority

Robert E. Kellam, Chair

Liz Maryanski, Vice-Chair – Craig Fletcher – Randy Guemple – William W. Hilaman

Henry Lewis, III – Anne Peery – Terrell C. Madigan, General Counsel

Calvin P. Ogburn, Executive Director

Mr. Robert Rackleff, Chairman
Leon County Board of County Commissioners
301 S. Monroe St.
Tallahassee, FL 32301

Dear Mr. Rackleff:

This report is in response to Commissioner Bryan Desloge’s letter of October 15, 2009; Mr. Scott Ross’ letter of September 8, 2009; the County Commission’s “Ratification of Board Actions Taken at the September 22, 2009 Leon Educational Facilities Authority Workshop;” and some issues and questions from the Authority to the County.

A key issue that seems to have been lost in the fog of discussions, reviews and inquiries is that the taxpayers of Leon County have never paid even one cent (\$.01) for any activity, contract or bond issue of the Leon County Educational Facilities Authority. Also, the idea that a default by an LCEFA project has had a negative effect on the credit standing or reputation of Leon County is without merit. There is absolutely no evidence that the 1993 Southgate default or the “technical default” of earlier this year has ever caused any negative consequence for Leon County or its taxpayers. The Authority certainly does not desire a default at any time but sophisticated, astute investors that buy municipal bonds are going to know that bonds issued by an authority such as the LCEFA are not obligations of the county or the state.

Furthermore, the laws of the State of Florida make it abundantly clear that there is no obligation on the part of the state or the county for bonds issued by the LCEFA (emphasis added):

243.29 Payment of bonds.--Revenue bonds issued under the provisions of this part shall not be deemed to constitute a debt or liability of the state or of the county or a pledge of the faith and credit of the state or of any such county, but shall be payable solely from the funds herein provided therefore from revenues. All such revenue bonds shall contain on the face thereof a statement to the effect that neither the State of Florida nor the authority shall be obligated to pay the same or the interest thereon except from revenues of the project or the portion thereof for which they are issued and that neither the faith and credit nor the taxing power of the state or of any political subdivision thereof is pledged to the payment of the principal of or the interest on such bonds. The issuance of revenue bonds under the provisions of this part shall not directly or indirectly or contingently obligate the state or any political subdivision thereof to levy or to pledge any form of taxation whatever therefore or to make any appropriation for their payment.

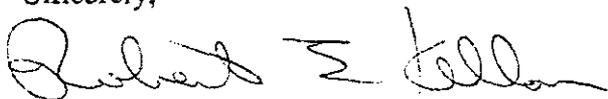
3263 Robinhood Road, Tallahassee, FL 32312
(850) 386-4848 - fax (850) 385-9324

The page immediately following this cover letter is a copy of questions raised by the Authority for the County dated January 2, 2009. These questions have been copied to various County staffers and all the County Commissioners on several occasions throughout the year since the original inquiry, without a response. We hope that this report is the vehicle that will result in our questions finally being answered.

As you know, James Moore and Company has completed the draft of the EFA's annual audit. The final audit report will be presented for approval to the Authority at its quarterly meeting on January 14, 2010. After the audit is approved by the Authority, it will be sent to the Clerk of the Court, the County Administrator and the Chairman of the County Commission.

This draft copy of the Business Plan (and responses to questions from the Commissioners) is attached as called for in the ratification. The ratification also calls for a "formal presentation" by the Authority before the Board in January; however, your attendance at our quarterly meeting would present a much more effective forum for information to be exchanged between the Authority and the Commissioners. Our attorney, auditor, "A" bondholder representative and management representatives of both Southgate and Heritage Grove will be in attendance. I hope you and several other Commissioners can attend. We have already adjusted our agenda to accommodate Commissioner Desloge's schedule in order that he can be present for the audit presentation. The meeting will start at 11 am in the Southgate ballroom, Thursday, January 14, 2010. The agenda includes lunch at Southgate and will adjourn no later than 3:00 pm so that we can attend the Turnbull Center dedication at 3:30 pm.

Sincerely,



Robert E. Kellam, Chairman
Leon County Educational Facilities Authority

EFA Report by Leon OMB

From: **Bob Kellam** (lcefa1@hotmail.com)
Sent: Mon 1/05/09 12:59 AM
To: 'Cristina Long' (LongC@leoncountyfl.gov)
Cc: 'Calvin Ogburn' (cogburn924@comcast.net)
#1 attachment
LCEFA - T...pdf (289.7 KB)
To: Christina M. Long, Senior Management and Budget Analyst, Office of Management and Budget

From: Bob Kellam, Chairman, Leon County Educational Facilities Authority

Re: Leon County OMB Review of LCEFA

This is a request from the LCEFA for the OMB to provide a copy of their report to us and allow our response to be included in the final report to the County Commissioners. We believe this would be the only fair way for a final report to be produced.

The Leon County website states:

"Citizen participation, by way of community input, advice, and/or recommendations regarding matters to be brought before the Board for approval, is important in developing Leon County's programs and policies, and in providing quality, effective, and efficient delivery of public services to the community."

Also, "increasing citizen input" was recently announced as one of the Commission's highest priorities for 2009.

Our response to the recommendations in the report would fulfill the above stated requirement for citizen participation in matters going before the Commission. Denying the EFA this chance would make a mockery of the commitment by Leon County to value "citizen input, advice and recommendations."

This process has been completely one-sided thus far, and now, the EFA has a number of questions and requests for information of the County that should be answered before any report or recommendations are made final.

1. What is the total amount of money appropriated or donated by the Leon County Commission to the Leon County Educational Facilities Authority since its inception in 1990?
2. Please provide a list of all guidance, advice, technical assistance and consultation Leon County has provided to the EFA since 1990.
3. In 1993, the bonds issued for the Southgate Campus Centre project went into default.
 - a. Does the historical record show that the 1993 Southgate default negatively affected Leon County's bond rating or credit rating?
 - b. If yes, was the negative effect due solely to Southgate or were there any other issues or causes of the negativity? (e.g. Fallschase)
 - c. What was the net effect of this default on the taxpayers of Leon County?
4. Leon County issued \$4 million in conduit financing (Economic Development bonds) for the Holy Comforter Episcopal School.
 - a. Describe the application process used by Leon County for this private, religious organization?
 - b. What criteria were used to judge the merits of this application?
 - c. Did Leon County consult with the Leon County Board of Education concerning this bond issue?
 - d. Did Leon County obtain the approval of the Leon County Board of Education before issuing these bonds?
5. According to County Attorney Herb Thiele, in 1996 or 1997, a number of County officials made a trip to New York City. "The main purpose of the meeting was to explain the circumstances of the bond defaults for the Fallschase Taxing District and the Educational Facilities Authority, to overview Leon County's financial status, and to overview of County's strong governmental functions and structure." The EFA did not receive any notice or report of this meeting until eleven or twelve years after it took place. The travel records for the officials travel expenses could not be found and a copy of the report or findings of the meeting have never been shared with the Educational Facilities Authority or the public. We respectfully request that any and all records, reports, recommendations and findings concerning this meeting be shared with us as soon as possible. For reference, a copy of Mr. Thiele's letter is attached to this memo.

Leon County Educational Facilities Authority

Responses to "Ratification of the Board Actions Taken at the September 22, 2009 Leon County Educational Facilities Authority Workshop"

The County requested the Authority submit a business plan. The Business Plan is to include the following:

A. Consideration towards the Authority divesting its real estate holdings.

Divestiture of the EFA's holdings would be an incredibly complex, expensive and unpredictable enterprise.

If the Commission wants the Authority to "sell" Southgate, it will have to assume the financial responsibility for the process. The Authority cannot afford the legal and professional fees and costs required to ensure the "sale" is legal and financially prudent for the Authority. This process would include considerable professional and legal time spent negotiating with the bondholders and other stakeholders. If the bondholders cannot be persuaded that it is in their interest to sell, proceeding in such an effort would be futile.

Even after all legal, financial and equity questions are answered, the Commission must then consider the costs associated with actually marketing or "selling" the property. Southgate is a "specialty" property and would require considerable advertising, on a nationwide (or even worldwide) basis, to find a buyer.

The Commission should be keenly aware that in order for Southgate to have any chance of being financially viable, it (SG) must be exempt from property taxes. If the buyer is not an organization that qualifies as "tax exempt," the County must provide an exemption from property taxes and persuade all the other taxing entities (city, school board, etc.) to do the same.

Also, please see Page 9 , Hypothetical Sale of Property - "Southgate Campus Centre - Information Regarding 1998 Bond Refinance, Summary of Audited Financials, Long Term Plan for Capital Improvements," which is Appendix "S" of this report. This analysis assigns a \$10,065,142 Net Sales Value to Southgate which is far below the amount owed to the "A" and "B" bondholders. The plan to "sell" Southgate at a loss and default on the remaining debt is absurd, dangerous to the credit reputation of the County and probably illegal. Just the attempt to do so would prompt immediate legal action from the bondholders.

The Business Plan is to include the following:

A. Consideration towards the Authority divesting its real estate holdings, cont.

Divestiture or sale of Heritage Grove would abrogate extensive legal, financial and contractual obligations of the Authority, Florida State University, the State of Florida and several private housing corporations. The EFA has a 50 year lease with the State of Florida with option to renew for an "indefinite" period of time and concomitant subleases with (currently) five non-profit housing corporations. (This number could increase through the acquisition of chapter houses and apartment buildings by other housing corporations.)

Heritage Grove is an extremely complex legal and financial development based upon the Authority acting as liaison, agent and mediator between the state of Florida, FSU and the student affinity groups. Heritage Grove exists and provides an outstanding student educational residential experience only because of this central role played by the Authority. Anything that might threaten the Authority's viability in regards to Heritage Grove would undoubtedly result in manifold lawsuits and other adversarial reactions from stakeholders.

The Business Plan is to include the following:

B. Ideas to constructively reduce Southgate and Heritage Grove's operating budgets

The business philosophy of the EFA is summarized as follows: We want to maximize revenue and minimize expenses. The Authority's oversight of both properties and their respective management companies focuses on implementing this principle.

For example, in early 2008, the Authority mandated that Campus Asset (Southgate's management company) adopt and implement a much more aggressive and comprehensive marketing effort. The plan approved by the Authority resulted in an increase in occupancy from 52% (08-09) to 95% + (09-10) with an accompanying increase in revenue.

Also, to minimize costs and greatly increase energy efficiency, we are investing \$26,000 to replace all public area lights with efficient bulbs. The savings in cost of electricity will result in a short three year payback. After that, Southgate will realize approximately \$8,000 annually in reduction of electricity costs.

Heritage Grove presents a much greater challenge in the revenue area due to its greatly restricted market, i.e. FSU students only. Also, the oversupply of student apartments makes it currently impossible to raise the rent at Heritage Grove. Our current occupancy rate is 89% far above average for student complexes. HG is usually at 95%+ but one fraternity made a late exit last spring and cost HG approximately 7% higher than usual vacancy rate.

The Business Plan is to include the following:

B. Ideas to constructively reduce Southgate and Heritage Grove's operating budgets, cont.

Our Heritage Grove property manager, Coastal Properties, has significantly reduced costs in personnel, lawn care and maintenance over the last three years, without sacrificing quality. Coastal not only answers to the EFA at Heritage Grove but also to the five housing corporations that each pay 1/13th of the "Common Area Maintenance" fee. This fee pays for all expenses associated with the common areas and amenities such as the pool, parking lot maintenance, storm water pond maintenance, etc. This is like having five more sets of eyes watching the bottom line. Every expense at Heritage Grove is closely scrutinized and analyzed in terms of our common goals.

The Business Plan is to include the following:

C. The establishment of a "risk tolerance level" for projects.

The request for the Authority to "establish a risk tolerance level for projects" is quite ill-defined.

Is the Commission asking for a pre-determined score or grade on some kind of scale or index? What metrics would be used to establish the different levels of risk?

Would this be a general level of risk tolerance or would it change with the projects being presented?

In our research, the Authority has recently discovered a probability impact matrix developed by the Office of Government Commerce (OGC) that uses project risk information to generate a profile. The use of this profile appears to require a high level of financial and actuarial expertise to employ effectively. The County would have to fund this expertise if this option is chosen.

The Authority is certainly open to the Commission providing a model or established risk tolerance measurement device for our use.

The County requested the Authority to answer the questions submitted by the Board in the September 8, 2009 letter in the Authority's plan:

1. What is the current value of the Authority's real estate holdings?

According to the Property Appraiser's office:

Heritage Grove is worth \$18,985,314 for the improvements. No value is listed for the land.

Southgate is worth \$11,658,084; the land is worth \$2,400,000 for a total of \$14,058,084.

2. Does the Authority have any real estate holdings on the tax roll?

No.

3. If not, what is the taxable value of the exempt property?

See answer to #1 above.

4. What is the current pay off for all of the Authority's bonds (both Southgate and Heritage Grove)?

From the Authority's audit report: Southgate "A's" - \$10,040,000

Southgate "B's" - \$20,500,000 Heritage Grove - \$21,900,000

The County requested the Authority to answer the questions submitted by the Board in the September 8, 2009 letter in the Authority's plan, cont.:

5. Is there an exit plan for all the real estate?

Since 1991, the Authority has operated using Florida Statutes Chapter 243 as its guiding document. The law clearly allows Authorities to own and operate projects in perpetuity. This was affirmed by the Circuit Court in the 1991 decision, "LCEFA vs. State of Florida."

The provisions of the bond documents governing the Southgate bonds specifies that when the bonds are paid off, the property will be offered to Florida State University for \$1.00.

It was never contemplated that the Authority would "exit" from Heritage Grove before the 50 year lease*with the State of Florida ends. *(with option to renew for an "indefinite" time period)

6. Should the Authority be a real estate holding company?

The Authority is not quite sure what is meant by a "real estate holding company." . If the question is, "should the Authority own real estate?" the answer, based on the law, court decisions and 18 years of experience, is "yes."

If the Commission mandates the Authority to divest itself of Southgate, the Authority will be presented with quite a dilemma. The Commission should be aware that such actions would probably engender liability and accountability that does not now exist on the part of the County for the Authority's debts

According to the laws of the state of Florida, "**243.29 Payment of bonds.**--Revenue bonds issued under the provisions of this part shall not be deemed to constitute a debt or liability of the state or of the county or a pledge of the faith and credit of the state or of any such county, but shall be payable solely from the funds herein provided therefore from revenues."

However, if the County should act in such a way as to usurp the independence of the Authority, which is also dictated by the law, financial and legal liability could accrue to the County Commission and the taxpayers of Leon County.

7. Is this consistent with the enabling resolution?

Ownership of real estate by the Authority is consistent with the law and court decisions. The resolution allows Leon County to use F.S. Chapter 243 but has no prohibition against the ownership of real estate.

The County requested the Authority to answer the questions submitted by the Board in the September 8, 2009 letter in the Authority's plan, cont.:

8. Does the Authority have a five year plan? If yes please explain?

The Authority has members representing all three major institutions of higher learning in Leon County. These members have their ears to the ground at their respective institutions as to possible joint projects with the EFA.

Separate five year plans for both Southgate and Heritage Grove are included in Appendices "S" and "H."

9. Please explain the "default status of the Southgate Bonds?

The Southgate "A" bonds are not currently in default. The Southgate "B" bonds are "non-defaulting" bonds and can only cause a default if the "A" bonds are first in default. The "technical default" which occurred in April, 2009, was cured in the month of September, 2009.

10. What are the plans for the repayment of the Southgate" B" bonds?

The Southgate bond documents specify no set amount to be paid each year. The "B" bonds are paid whatever is left over after all operating expenses and the "A" bond payments are made. Some years, there is nothing left over so no "B" bond payments are made. Again, a non-payment of the "B's" is allowed by provisions of the issuance without causing a default.

The "A" bonds are scheduled to be paid off 18 years from now, the year 2028. At that time, the payments previously made to the "A" bond holders will then be paid to the "B" bondholders along with the funds after all operating expenses are paid. The bond documents are not clear as to what length of time or in what amounts payments must be made on the remaining balance of these bonds.

11. What refinancing plans are under consideration by the Authority?

Refinancing has been discussed with the Southgate bondholders and with consultants concerning the Heritage Grove bonds. In both cases, the consensus is that now is not an advantageous time to enter the credit market for refinancing. The Authority will re-visit this issue periodically as market conditions change.

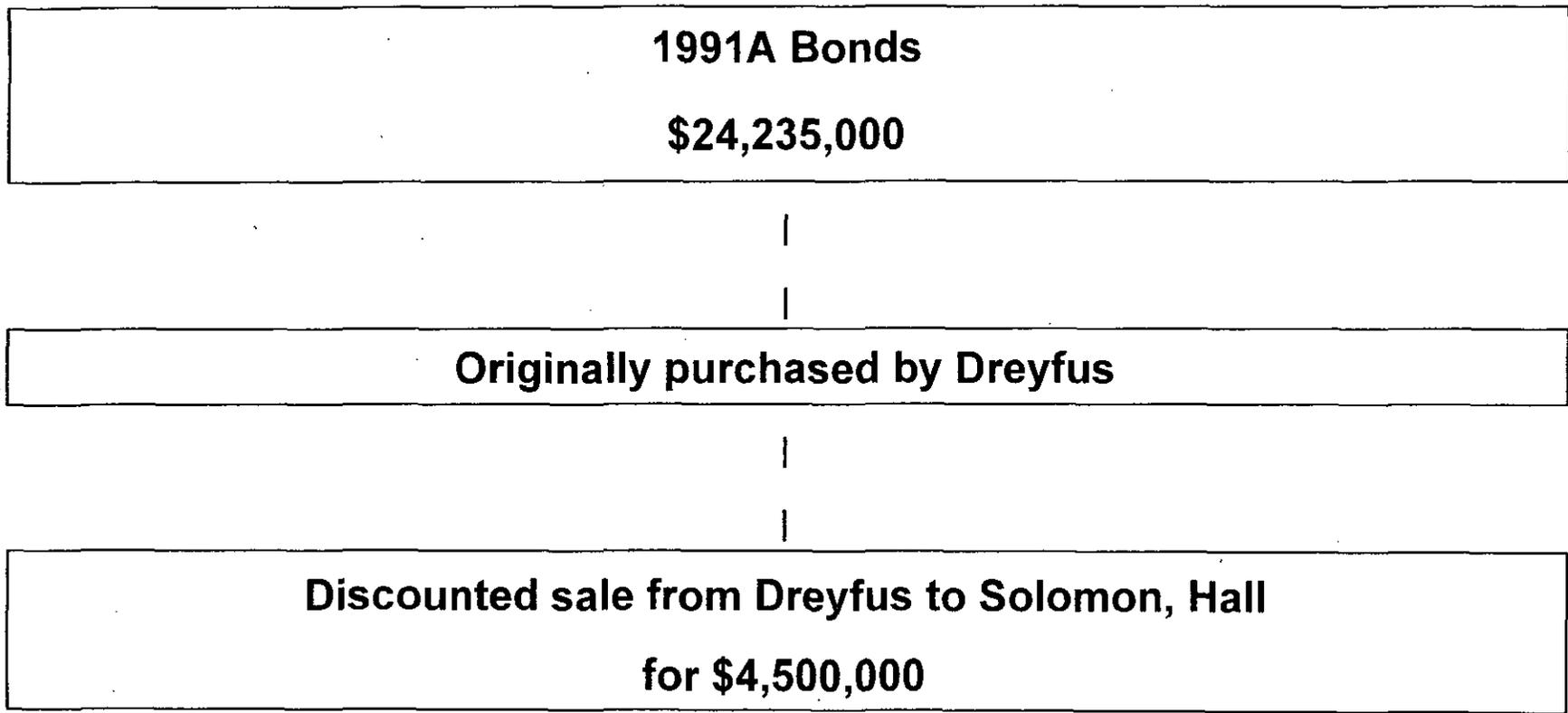
APPENDIX "S"
SOUTHGATE CAMPUS CENTRE
2009 REPORT

Southgate Campus Centre

Information Regarding 1998 Bond Refinance, Summary of Audited Financials, Long Term Plan for Capital Improvements

Prepared by Asset Campus Housing for and Presented to the Leon County Educational Facility Authority on January 14, 2010

Southgate Campus Centre



Prepared by Asset Campus Housing for and Presented to the Leon County Educational Facility authority on January 14, 2010

Southgate Campus Centre

1998 REFINANCE

1991A Bonds

**1991A Bonds Small
Group \$8 Million**

**1991A Bonds Large
Group \$16 Million**

**Van Kampen,
Oppenheimer
purchase 1998A
Bonds for \$12
Million**

**Solomon, Hall
"purchase" 1998B
Bonds for \$20.5
Million**

Southgate Campus Centre

Trustee purchases \$10.4 Million US Treasury Notes as collateral for 1991A Bonds

Trustee purchases \$20 Million US Treasury Notes as collateral for 1991A Bonds

Net effect: Solomon, Hall collect \$10.4 Million of US Treasury Notes for \$4.5 Million Investment

Net Effect: Solomon, Hall "out" \$500,000

Solomon, Hall have received \$4.7 Million in Interest Income to date

Southgate Campus Centre

Operations Summary - Audited Financial Statements

Year	Income	Net Operating		B Bonds	Net Cash
		Income *	A Bonds		
		A	B	C	= A - B - C
2000	4,705,360	1,224,748	955,000	-	269,748
2001	4,859,118	1,531,167	955,213	-	575,954
2002	4,702,619	1,644,531	954,750	54,981	634,800
2003	5,171,993	2,178,732	953,613	706,152	518,967
2004	5,301,275	2,104,445	951,800	1,056,261	96,384
2005	5,536,251	2,140,681	954,313	1,120,836	65,532
2006	5,904,893	2,228,637	950,813	1,012,429	265,395
2007	5,401,784	1,652,219	951,638	775,286	(74,705)
2008	3,982,234	798,151	951,450	-	(153,299)
2009 **	3,341,401	(28,398)	955,250	-	(983,648)
	48,906,928	15,474,913	9,533,840	4,725,945	1,215,128

Estimated interest on
Capital Lease (10,000)

Net Interest Paid to B
Bondholders 4,715,945

* Net Income adding back Depreciation & Amortization

** Unaudited

Southgate Campus Centre

<u>Year</u>	<u>Income</u>	<u>Operating Income *</u>	<u>A Bonds</u>	<u>Net</u>
Average years 2005 - 2007	5,614,309	2,007,179	952,255	1,054,924
Total for 2 Average years	11,228,619	4,014,358	1,904,509	2,109,849
2008	3,982,234	798,151	951,450	(153,299)
2009	3,341,401	(28,398)	955,250	(983,648)
Total 2008 & 2009	7,323,635	769,753	1,906,700	(1,136,947)
Difference	(3,904,984)	(3,244,605)	2,191	(3,246,796)
2010 Budget	4,866,370	1,397,736	946,475	451,261

Prepared by Asset Campus Housing for and Presented to the Leon County Educational Facility authority on January 14, 2010

Southgate Campus Centre

March 2009 Unpaid Interest Expense - Paid Sep 2009		(244,625)
Reserve Fund contribution - Paid Sep 2009 (\$350,853 + \$247,484 = \$598,337)		(247,484)
Use of Funds Originally Not Projected		(492,109)
<hr/>		
Roof Replacement (estimate - may be spread over 2 school years)		(200,000)
Reserve additional contribution to meet \$955,000 balance		(356,663)
Use of Funds needed Immediately		(556,663)
<hr/>		
Funds either Used or Needed Within One Year		(1,048,772)
<hr/>		
10 Year Capital Improvements (next slide)	(1,270,500)	
Less: Roofs (included above)	200,000	
	<hr/>	
Balance of Capital Improvements		(1,070,500)
Projected Additional Funds Needed over next 10 Years		(2,119,272)
<hr/>		

Prepared by Asset Campus Housing for and Presented to the Leon County Educational Facility authority on January 14, 2010

Southgate Campus Centre

- **10 Year Capital Improvement Budget**

- Roof	\$	200,000
- Exterior	\$	121,000
- Lobby/Amenities	\$	206,000
- Office FF&E	\$	23,500
- Interior/Units/Kitchen	\$	640,000
- Mechanical	\$	73,000
- Landscaping	\$	7,000

Total 10 Year Capital Outlay **\$ 1,270,500**

Prepared by Asset Campus Housing for and Presented to the Leon County Educational Facility authority on January 14, 2010

Southgate Campus Centre

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Rent Inflation:		3.34%	3.34%	4.00%
Expense Inflation:		3.00%	3.00%	3.00%
Total Revenue	4,941,118	5,098,181	5,122,237	5,195,327
Budgeted Expenses	(3,368,634)	(3,374,589)	(3,474,476)	(3,577,361)
Replacement Reserve	(100,000)	(100,000)	(100,000)	(100,000)
Distribution from (Contribution to) Reserve Fund	291,366	(100,000)	(300,000)	(300,000)
Capital Improvements (Roof 2009-10)	(200,000)		(200,000)	(200,000)
Net Cash Flow	1,563,850	1,523,592	1,047,761	1,017,966
Beginning Cash	1,373,161	1,745,910	2,326,083	2,429,663
Available Cash	2,937,010	3,269,502	3,373,845	3,447,630
Series A Debt Service	(1,191,100)	(943,419)	(944,181)	(943,594)
Series B Debt Service	0	0	0	0
Ending Cash	1,745,910	2,326,083	2,429,663	2,504,036
Next School Year Deposits	2,233,665	2,308,198	2,400,526	2,448,536
Ending Cash Current Year	(487,755)	17,886	29,138	55,500
Reserve Fund Balance	59,487	159,487	459,487	759,487

Southgate Campus Centre

Hypothetical Sale of Property

Total Revenue		4,941,118
Budgeted Expenses		(3,368,634)
Replacement Reserve @ \$400 per Unit		(72,000)
Net Operating Income (NOI) (not reduced for Property taxes)		<u>1,500,484</u>
Sales Cap Rate	8.50%	
Property tax rate	3.20%	
Combined Rate		<u>11.70%</u>
Sales Value		<u>12,824,646</u>
Less:		
Closing Costs	5.00%	(641,232)
Capital Improvements Reserve 10		(2,119,272)
Net Sales Value		<u>10,064,142</u>
Net Sales Value @ 9.50% Sales Cap rate		<u>9,105,818</u>

Prepared by Asset Campus Housing for and Presented to the Leon County Educational Facility authority on January 14, 2010

Southgate Campus Centre

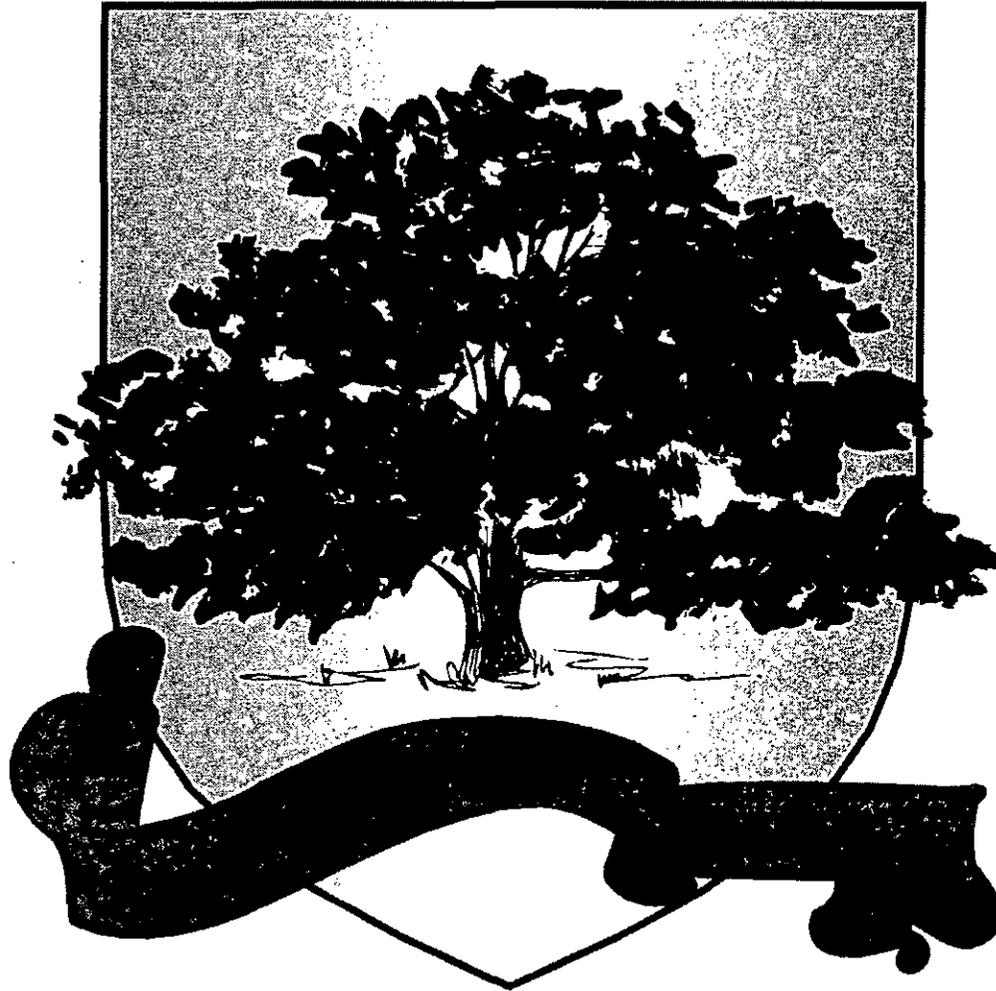
- **Assumptions**

- Reserve Fund used to fund March 2010 Interest payment and Roof Repair/Replacement of \$200,000

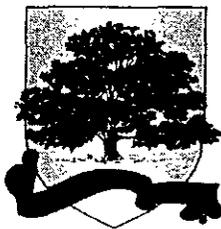
Prepared by Asset Campus Housing for and Presented to the Leon County Educational Facility Authority on January 14, 2010

APPENDIX "H"
HERITAGE GROVE PARK
2009 REPORT

HERITAGE GROVE



SPRING 2010!



FSU's PREMIER ADDRESS!

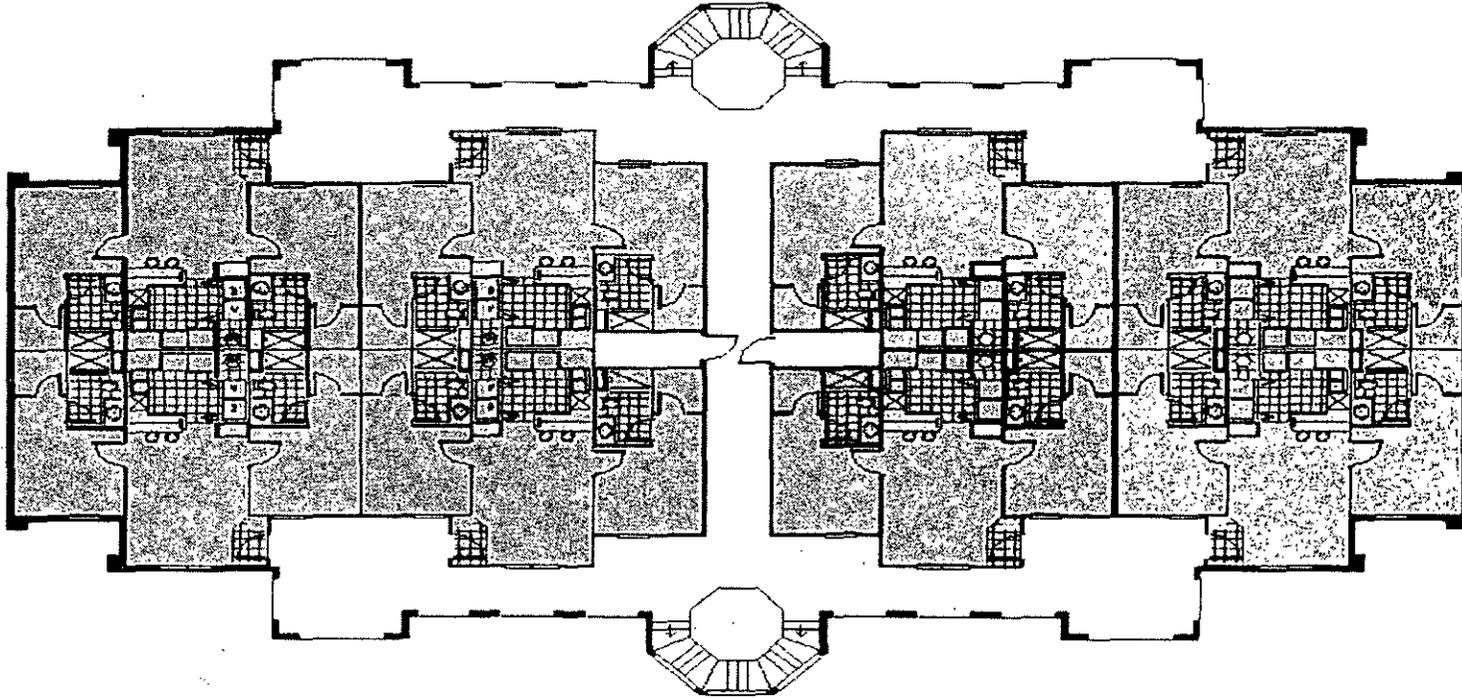
At **HERITAGE GROVE**, organizations enjoy the luxury of a multi-million dollar address that you will be proud of. Built in the architectural style of Florida State University, **HERITAGE GROVE** is the top fraternity community in the Nation! Years of planning have gone into the design of this project and all the work has paid off. *The Grand Entrance* to **HERITAGE GROVE** will lead you through the rolling hills to the 13 houses, eight with a private 2,000 sq.ft. chapter house. Our beautiful, historic Heritage Oak and Magnolia trees compliment the professionally landscaped grounds and the green areas are focal point of the community. How about a game of football, a pre-game tailgate party or other social event on the **Central Green** area? The surrounding sidewalk provides front door access to the Chapter House of each represented organization. This design element is one of the signature features of **HERITAGE GROVE.**

RESIDENTIAL BUILDING



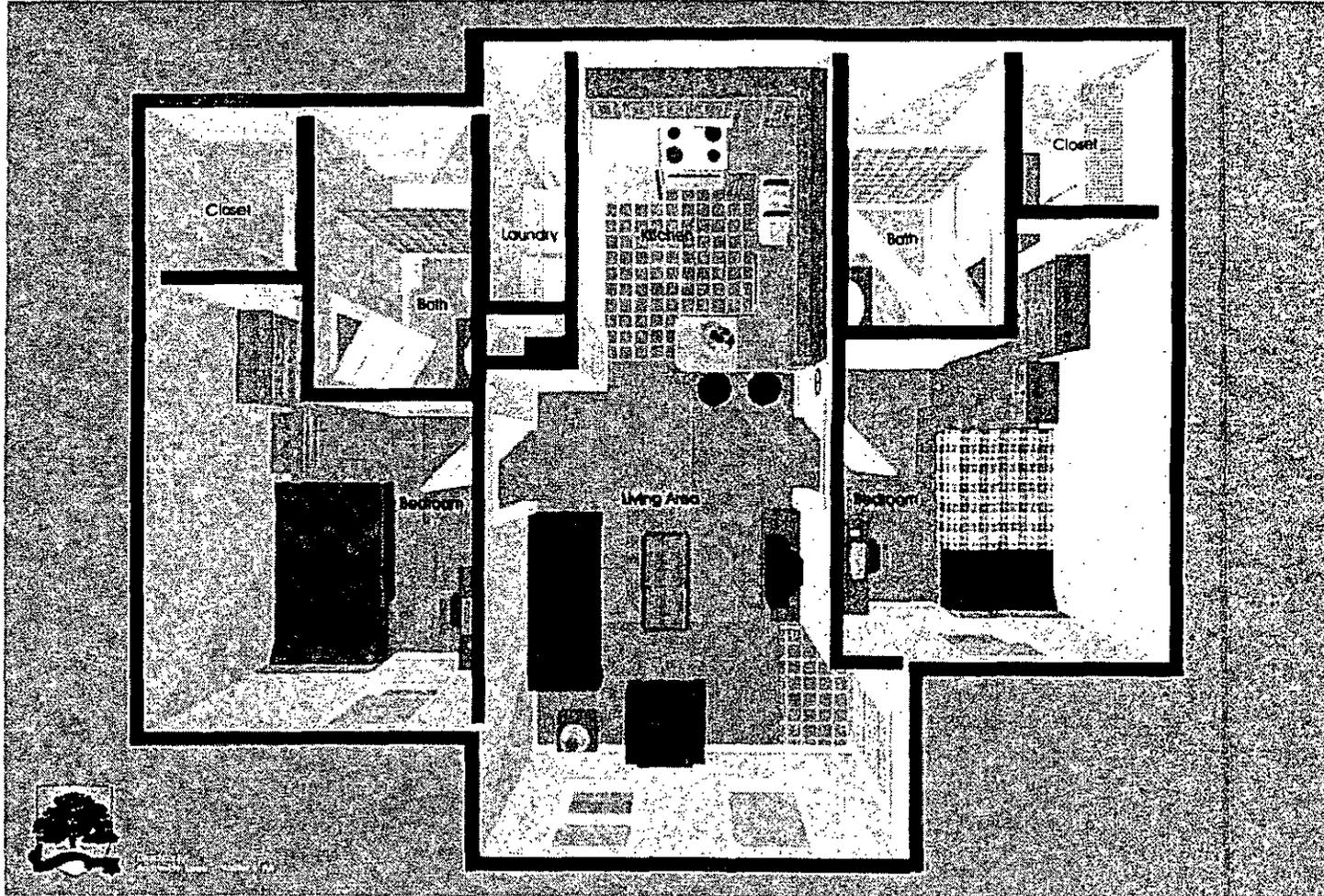
- TWO BUILDING DESIGNS AVAILABLE
- MULTIPLE BRICK COLOR DESIGNS
- MULTIPLE SHINGLE COLOR DESIGNS

BUILDING LAYOUT



- 8-TWO BEDROOM UNITS PER FLOOR
- 24 UNITS PER BUILDING
- MAXIMUM OF 48 RESIDENTS PER BUILDING

2 BEDROOM/2 BATHROOM FLOOR PLAN



APARTMENT FURNITURE PACKAGE



The luxurious furniture package has been custom designed, specifically, for Heritage Grove and includes:

Bedroom

- Mattress/Box spring set
- Desk
- Desk Chair
- 4 Drawer Chest

Living Room

- Sofa
- Chair
- Coffee Table
- End Table
- Entertainment Center

This package is not the traditional poor quality “apartment style” furniture. We have worked closely with the designer who has designed furniture you will be very happy with!

CHAPTER HOUSE



Attachment #

Page 59 of 76



Architectural rendering of the Chapter House building.

COMMUNITY SITE PLAN



O c a l a R o a d

ONLY 13 BUILDINGS ON 37 ACRES!

COMMUNITY SETTING



- 37 Acre Site on Ocala Road
- On-Campus Location
- Natural Landscape Features
- 8 Residential Buildings Each with Private Chapter House
- 3 Fraternity Houses with 2 Future houses planned
- "CENTRAL GREEN" AREA
- Ample Student Parking; 1000+ Spaces
- Campus Type Blue Light Safety Trail
- "Grand Entrance" off Ocala Road

***Quite Possibly the Most Prestigious
Community of its Kind in the Nation!***

AMENITIES



- Swimming Pool
- Very Large Pool Deck
- Sand Volleyball Courts
- High-Speed Internet Available
- Cable TV Available
- Input on Community Events Including Alumni Weekend, Homecoming, Parent's Weekend
- FSU Bike Path
- Public Transportation Center
- Near Food & Entertainment
- Trash Compactor On-Site
- 2000+ Sq. Ft, Private Chapter House!

RENT INCLUSIONS



- Management On-Site
 - 12-Month Term
 - Water/Sewer/Trash
 - Washer & Dryer in Each Unit
 - Dishwasher
 - Garbage Disposal
 - Great Parking
 - Refrigerator w/ Icemaker
 - Lawn Care & Landscaping
 - Maintenance on all Buildings
 - Pest Control Services
 - Full Furniture Package
 - Use of All Amenities
- 2000+ Sq. Ft., Private Chapter House!

CURRENT PARTICIPANTS



ΦΚΤ

ΠΛ

ΘΧ

ΚΣ

ΣΠ

ΑΕΠ

ΤΚΕ

ΦΔΘ

ΛΧΑ

ΠΚΑ

ΑΤΩ

ΣΕ

FUTURE

FUTURE

ONE OPPORTUNITY REMAINS! EMAIL INFO@HERITAGE-GROVE.COM FOR DETAILS



Changes in the City and University.

- The city has experienced 8,600 job losses since September 2008
- Unemployment rate 8.1% this is an all time high for Tallahassee. This is still below the statewide average of 11.5%.
- \$65 million in budget cuts forced Florida State University to lay off nearly 200 employees

TALLAHASSEE MARKET SURVEY



- Current vacancy rate for Tallahassee is 11.2% over all.
- Heritage Grove is currently at a 7 % vacancy rate including equity and non equity units
- Phoenix Property delivered all 200 units at Grand Marc at Tallahassee in August. This is considered a main competitor for Heritage Grove. The high end properties with a close location to the campus have steadily increased in the past few years with new properties being built and older properties being renovated.
- The development pipe line has slowed and there is one project in the works at this time.
- The average rent is currently \$903 per month per unit
- The average per bedroom rent is \$447 - \$509. This number has a variable due to different packages (furniture, electric, cable, internet) offered in the student market.
- In the past two years rents have declined 1%
- Heritage Grove has maintained its rental rate of \$960 per month. The property has not had a rental decrease since it opened.
- 40% of communities are offering some type of rental concession in response to the high vacancy rate.

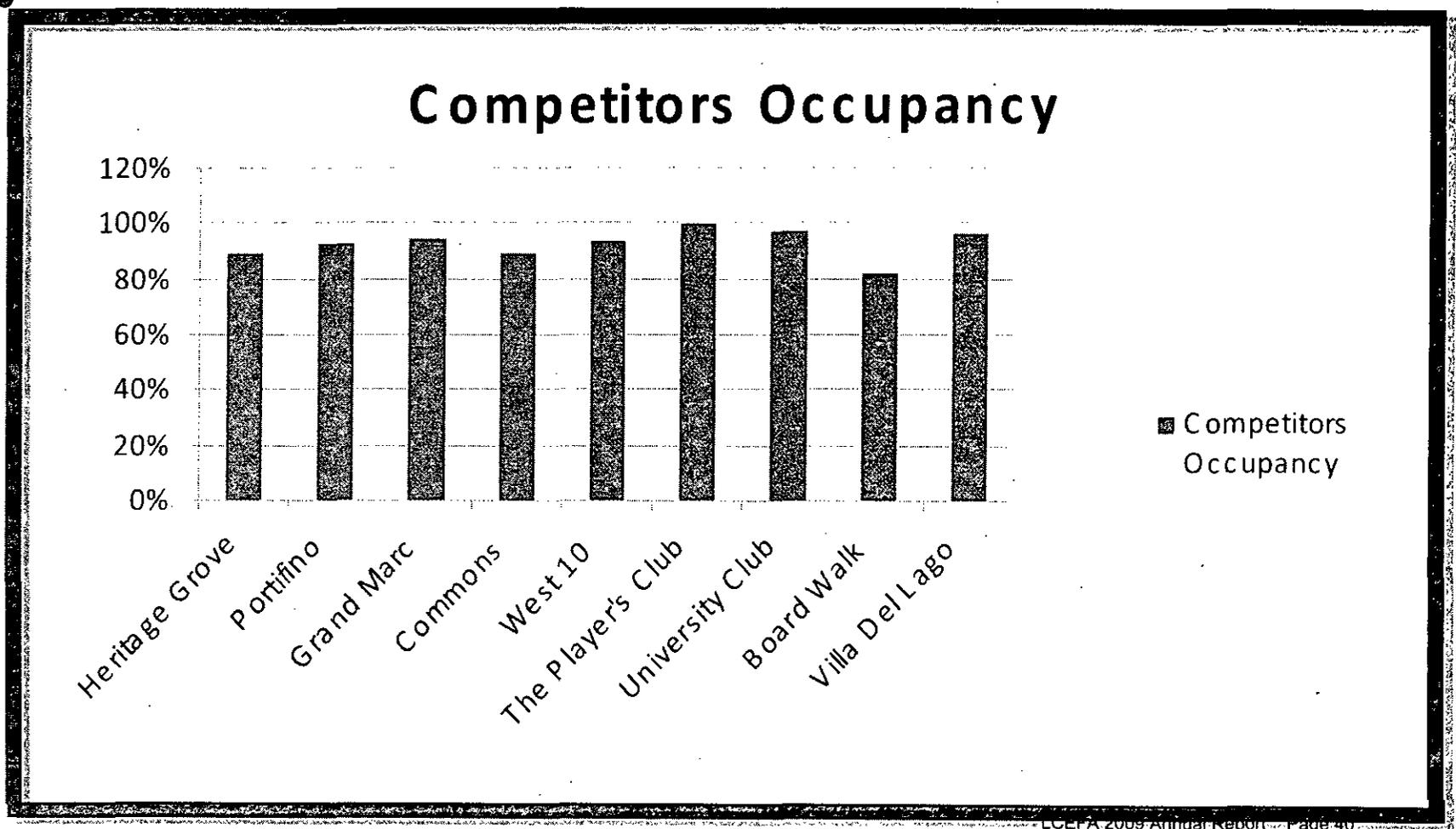
COMPETITORS OCCUPANCY



Competitors Current Occupancy:

- Portofino Village - 93%
- Grand Marc - 95%
- The Commons - 90%
- West 10 - 94%
- The Player's Club - 100%
- University Club - 98%
- Board Walk - 82%
- Villa Del Lago - 97%

OCCUPANCY GRAPH



MARKET TRENDS



- The new construction has had a direct impact on Heritage Grove with products with equal location and benefits being built around the Florida State Campus.
- We consider about one third of the market to be product specifically built for students.
- The Grand Marc opened this year adding 374 beds for rent this fall.
- Legacy Suites opened in the fall of 2008 and added 282 beds online with a parking garage.
- The traffic this year was reduced dramatically and the ability to qualify residents became an issue in the later part of the fall.
- The properties were giving a laundry list of specials including a month free, no application fee, no deposit, and free drawings for computers to cars.
- The marketing and advertising dollars did not seem to reach the target markets and the most asked question was "what are your specials".
- The market has lost a percentage of its traffic to students moving to non-traditional student housing. This includes private homes, condos and traditional multifamily communities.
- The current trend appears to be that local students are spending one more year at home and if they do move out doubling up is becoming common.

STRICTER UNDERWRITING



- Debt service has risen from 1.25 percent to 1.30 percent and the agency is basing rental income assumptions on the past 12 months versus a projection of the year ahead.
- The lenders are financing at the 65% range instead of the previous 90% plus.
- Heritage Grove has a very good line of communication with the insurer and the trustee and management keeps them apprised of the operations on a regular basis.
- The property has been approved for the past two years on a debt coverage ratio waiver from the trustee and the insurer and the property has met the debt coverage at 1x.

IMMEDIATE HURDLES



- For one, schools are struggling: State governments are being forced to make massive cuts, and education budgets aren't immune from the chopping block.
- We have seen an uptick in evictions and late payments and this is causing concern on cash flow and daily operations.
- Heritage Grove has consistently closed the month out at 1% or less delinquent rent. In today's climate with many properties holding double digit delinquencies this is a really good record.
- The trend appears to be that a lot of properties reduced their criteria to increase occupancy and in exchange have increased delinquency and evictions. So how will these factors effect current property operations? We have seen delinquency in double digits for some properties and collections growing.

RESIDENT RETENTION



- Our first Goal is to keep existing residents
- 1st Target Seven fraternities Phi Tau, Pi Lam, Theta Chi, Kappa Sig, Sigma Pi, AEPi, and TKE Our 2nd Target is our existing FSU student residents.
- Benefits are Customer Service, Location, Plenty of Parking, and Cost of moving.

LEASING



- Experienced Staff (Over 20 years)
- Website (Easy to use)
- Brochures (Clear and Concise)
- Easy to sign up (Online 24 hours / Onsite office 6 days a week)
- Service and Quality is a Tradition

CURRENT MARKETING



Apartment Finder

Apartment Seeker

FSVIEW (select issues)

Roadside signage

Craig's list

Interactive Website

Student Directory

Facebook

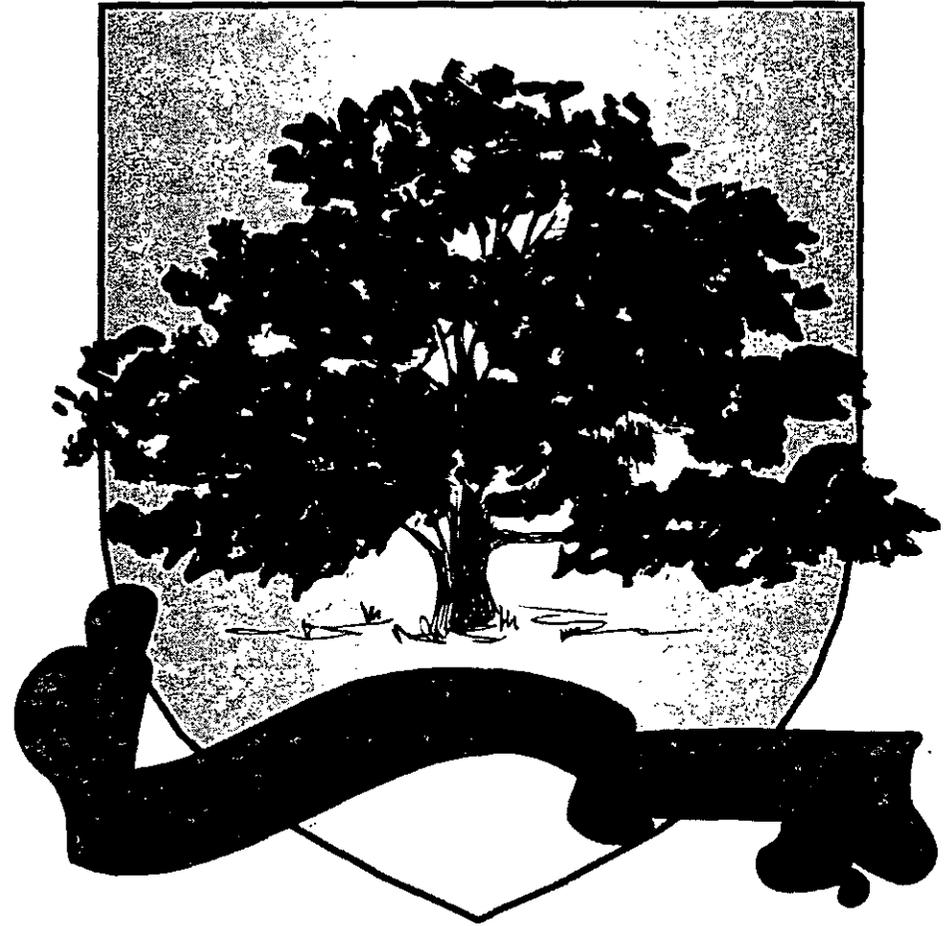
- Twitter
- Off Campus Housing Fair
- Independent Housing Fair
- RUSH (Two times a year)
- College Rentals
- FSU Housing Web Site
- Direct Mail U-boxes
- Direct Mail all incoming FSU students

CASH FLOW



- Rents have stalled and declined in the current market. The property has maintained its rental rates.
- We have reduced onsite staff
- The property is rebidding all contracts.
- Inventory management system is in place with Purchase Order system.
- The debt coverage is growing faster than rents are increasing need to look into renegotiating the bond.

THIS CONCLUDES OUR TOUR...



PLEASE VISIT OUR WEBSITE AT WWW.HERITAGE-GROVE.COM