

**LEON COUNTY EDUCATIONAL
FACILITIES AUTHORITY
FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
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SEPTEMBER 30, 2012**

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JAMES MOORE & CO., P.L.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Authority Members,
Leon County Educational Facilities Authority:

We have audited the accompanying financial statements of the business-type activities and each major fund of Leon County Educational Facilities Authority, as of and for the year ended September 30, 2012, which 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of Leon County Educational Facilities Authority, as of September 30, 2012, and the 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 14, 2013 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Leon County Educational Facilities Authority's financial statements as a whole. The Schedule of Other Operating Expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The Schedule of Other Operating Expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

James Moore & Co., P.L.

Tallahassee, Florida
January 14, 2013

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, 2012.

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 8 – 10 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 11 – 22 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 \$33,734,440 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 \$39,000,000. 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 or Leon County, Florida. 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 \$21,000,000. 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 are approximately \$5,000,000.

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). The deficit is created because the investment in capital assets is reduced by any related debt used to acquire those assets that is still outstanding as well as any accumulated depreciation on those assets. 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 foreseeable future. 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 time.

Leon County Educational Facilities Authority's Net Assets

	2012	2011
Current and other assets	\$ 5,783,385	\$ 5,131,682
Capital assets	31,226,161	32,942,608
Total assets	37,009,546	38,074,290
Long-term liabilities outstanding	67,903,500	67,207,409
Other liabilities	2,840,486	2,604,207
Total liabilities	70,743,986	69,811,616
Net assets:		
Invested in capital assets, net of related debt	(17,781,141)	(16,819,619)
Restricted	3,308,435	2,528,265
Unrestricted	(19,261,734)	(17,445,972)
Total net assets (deficit)	\$ (33,734,440)	\$ (31,737,326)

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

	2012	2011
Revenues:		
Program revenues:		
Charges for services	\$ 8,080,968	\$ 7,513,583
Interest and other income	67,635	70,181
Total revenues	8,148,333	7,583,764
Expenses:		
Student housing	10,145,447	9,783,639
Decrease in net assets	(1,997,114)	(2,199,875)
Net assets (deficit), beginning of year	(31,737,326)	(29,537,451)
Net assets (deficit), end of year	\$ (33,734,440)	\$ (31,737,326)

The \$1,997,114 decrease in net assets from 2011 to 2012 includes \$1,586,340 of depreciation and amortization expense, \$1,030,216 of interest expense on the Series 2003 bonds, \$848,653 on the Series A 1998 bonds, and \$1,563,125 on the Series B 1998 bonds.

Results of Operations. Southgate's financial performance between years at the operating income level (before interest expense) was as follows:

Southgate				
Audited Statement of Operations				
For the Fiscal Year Ended:				
	2012	2011	\$ CHG.	% CHG.
Revenues	\$ 5,691,402	\$ 5,271,248	\$ 420,154	8.0%
Operating expenses:				
Personnel Costs	1,227,363	1,169,901	57,462	4.9%
Other Operating Costs	982,860	1,007,806	(24,946)	-2.5%
Food Costs	730,141	666,344	63,797	9.6%
Utilities	633,565	596,996	36,569	6.1%
Repair and Maintenance	441,929	322,655	119,274	37.0%
Depreciation and Amortization	590,962	587,703	3,259	1.0%
Total expenses	4,606,820	4,351,405	255,415	5.9%
Operating income (loss)	\$ 1,084,582	\$ 919,843	\$ 164,739	17.9%

Southgate increased revenues 8.0% between years while, at the same time, repairs and maintenance on the aging infrastructure caused operating expenses to increase 5.9%.

The analysis below illustrates how Southgate's management controlled operating expenses as the operation grew 8.0% in revenue during the year:

Southgate				
Audited Statement of Operations				
For the Fiscal Year Ended:				
	2012	% of Revenues	2011	% of Revenues
Revenues	\$ 5,691,402	100.0%	\$ 5,271,248	100.0%
Operating expenses:				
Personnel Costs	1,227,363	21.6%	1,169,901	22.2%
Other Operating Costs	982,860	17.3%	1,007,806	19.1%
Food Costs	730,141	12.8%	666,344	12.6%
Utilities	633,565	11.1%	596,996	11.3%
Repair and Maintenance	441,929	7.8%	322,655	6.1%
Depreciation and Amortization	590,962	10.4%	587,703	11.1%
Total expenses	4,606,820	80.9%	4,351,405	82.4%
Operating income (loss)	\$ 1,084,582	19.1%	\$ 919,843	17.6%

Last year, out of every dollar of revenue, management spent \$.82, yielding an operating income net margin of 18%. This fiscal year, out of every dollar of revenue, management spent only \$.81, yielding an operating income net margin of 19%.

Heritage Grove also managed to increase operating income by 8.8% from an increase in revenues of only 6.6% as follows:

Heritage Grove				
Audited Statement of Operations				
For the Fiscal Year Ended:				
	2011	2011	\$ CHG.	% CHG.
Revenues	\$ 2,389,566	\$ 2,242,335	\$ 147,231	6.6%
Operating expenses:				
Personnel Costs	261,725	254,676	7,049	2.8%
Other Operating Costs	269,115	252,319	16,796	6.6%
Utilities	110,853	115,690	(4,837)	-4.2%
Repair and Maintenance	315,681	130,856	184,825	141.2%
Depreciation and Amortization	995,378	1,087,437	(92,059)	-8.5%
Total	<u>1,952,752</u>	<u>1,840,978</u>	<u>111,774</u>	<u>6.1%</u>
Operating income (loss)	<u>\$ 436,814</u>	<u>\$ 401,357</u>	<u>\$ 35,457</u>	<u>8.8%</u>

Heritage Grove				
Audited Statement of Operations				
For the Fiscal Year Ended:				
	2012	% of	2011	% of
		Revenues		Revenues
Revenues	\$ 2,389,566	100.0%	\$ 2,242,335	100.0%
Operating expenses:				
Personnel Costs	261,725	11.0%	254,676	11.4%
Other Operating Costs	269,115	11.3%	252,319	11.3%
Utilities	110,853	4.6%	115,690	5.2%
Repair and Maintenance	315,681	13.2%	130,856	5.8%
Depreciation and Amortization	995,378	41.7%	1,087,437	48.5%
Total	<u>1,952,752</u>	<u>81.7%</u>	<u>1,840,978</u>	<u>82.2%</u>
Operating income (loss)	<u>\$ 436,814</u>	<u>18.3%</u>	<u>\$ 401,357</u>	<u>17.8%</u>

As revenues increased 6.6% between years, Heritage Grove was able to have operational expenses only increase by 6.1%.

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, 2012, amounts to \$ 31,226,161 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 15 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 and accrued interest of approximately \$68,000,000. 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 15 – 19 of this report.

Other Information

Asset Campus Housing manages the Southgate Campus Center for the LCEFA. Assets Campus Housing's annual report, issued on October 11, 2012, estimates capital improvements to the Southgate Campus Center will be \$4,165,000 through 2021. Management acknowledges that the amount could exceed \$4,165,000 and cannot be sure of the timing of such capital improvement expenditures. These anticipated capital improvement expenses are detailed in Assets Campus Housing's annual report. The bond trustee for Southgate Campus Center is being asked to increase the amount placed in the Capital Improvement Fund.

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, 2012

ASSETS	Business-type Activities - Enterprise Funds			
	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
Current assets				
Cash and cash equivalents	\$ 723,667	\$ 38,982	\$ 153,185	\$ 915,834
Certificates of deposit	-	-	139,006	139,006
Investments	-	317,370	-	317,370
Accounts receivable, net	173,523	13,596	-	187,119
Due from other funds	-	-	267,592	267,592
Inventories and prepaid items	162,625	37,380	-	200,005
Restricted assets:				
Cash	115,120	117,506	-	232,626
Investments	1,526,061	1,997,772	-	3,523,833
Total current assets	<u>2,700,996</u>	<u>2,522,606</u>	<u>559,783</u>	<u>5,783,385</u>
Noncurrent assets				
Capital assets, not being depreciated	2,400,000	-	-	2,400,000
Capital assets, net of accumulated depreciation	10,239,559	16,208,992	-	26,448,551
Debt issue costs, net	383,289	1,994,321	-	2,377,610
Total noncurrent assets	<u>13,022,848</u>	<u>18,203,313</u>	<u>-</u>	<u>31,226,161</u>
Total Assets	<u>\$ 15,723,844</u>	<u>\$ 20,725,919</u>	<u>\$ 559,783</u>	<u>\$ 37,009,546</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	\$ 325,782	\$ 72,339	\$ 8,054	\$ 406,175
Deferred revenue	1,652,845	65,850	-	1,718,695
Deposits payable	110,020	117,506	-	227,526
Due to other funds	258,592	9,000	-	267,592
Accrued interest payable	51,000	169,498	-	220,498
Current portion of notes payable	34,400	9,916	-	44,316
Current portion of revenue bonds payable	335,000	585,000	-	920,000
Total current liabilities	<u>2,767,639</u>	<u>1,029,109</u>	<u>8,054</u>	<u>3,804,802</u>
Noncurrent liabilities				
Accrued interest payable	21,273,808	-	-	21,273,808
Series 2003 revenue bonds payable	-	19,800,000	-	19,800,000
Revenue refunding bonds, Series 1998A, less deferred amounts on refunding	7,796,284	-	-	7,796,284
Revenue refunding bonds, Series 1998B, less deferred amounts on refunding	18,069,092	-	-	18,069,092
Total noncurrent liabilities	<u>47,139,184</u>	<u>19,800,000</u>	<u>-</u>	<u>66,939,184</u>
Total liabilities	<u>49,906,823</u>	<u>20,829,109</u>	<u>8,054</u>	<u>70,743,986</u>
NET ASSETS				
Invested in capital assets, net of related debt	(13,595,217)	(4,185,924)	-	(17,781,141)
Restricted for debt service	1,480,161	1,828,274	-	3,308,435
Unrestricted	(22,067,923)	2,254,460	551,729	(19,261,734)
Total net assets (deficit)	<u>(34,182,979)</u>	<u>(103,190)</u>	<u>551,729</u>	<u>(33,734,440)</u>
Total Liabilities and Net Assets	<u>\$ 15,723,844</u>	<u>\$ 20,725,919</u>	<u>\$ 559,783</u>	<u>\$ 37,009,546</u>

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, 2012

	Business-type Activities - Enterprise Funds			
	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
Operating revenues	\$ 5,691,402	\$ 2,389,566	\$ -	\$ 8,080,968
Operating expenses				
Personnel costs	1,227,363	261,725	48,051	1,537,139
Other operating costs	982,860	269,115	95,830	1,347,805
Food costs	730,141	-	-	730,141
Utilities	633,565	110,853	-	744,418
Repairs and maintenance	441,929	315,681	-	757,610
Depreciation and amortization	590,962	995,378	-	1,586,340
Total operating expenses	4,606,820	1,952,752	143,881	6,703,453
Operating income (loss)	1,084,582	436,814	(143,881)	1,377,515
Nonoperating revenues (expenses)				
Interest expense	(2,411,778)	(1,030,216)	-	(3,441,994)
Interest and other income	404	66,637	324	67,365
Total nonoperating revenues (expenses)	(2,411,374)	(963,579)	324	(3,374,629)
Loss before operating transfers	(1,326,792)	(526,765)	(143,557)	(1,997,114)
Transfers				
Transfers in of issuer and management fees per trust indenture	-	-	176,310	176,310
Transfers out of issuer and management fees per trust indenture	(123,649)	(52,661)	-	(176,310)
Total transfers	(123,649)	(52,661)	176,310	-
Change in net assets	(1,450,441)	(579,426)	32,753	(1,997,114)
Net assets (deficit), beginning of year, as previously reported	(32,571,279)	476,236	357,717	(31,737,326)
Prior period adjustment (See Note III.b.)	(161,259)	-	161,259	-
Net assets (deficit), beginning of year, restated	(32,732,538)	476,236	518,976	(31,737,326)
Net assets (deficit), end of year	\$ (34,182,979)	\$ (103,190)	\$ 551,729	\$ (33,734,440)

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, 2012
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	\$ 5,844,249	\$ 2,303,337	\$ -	\$ 8,147,586
Cash paid to suppliers and others	(4,037,198)	(954,466)	(135,827)	(5,127,491)
Net cash provided by (used in) operating activities	<u>1,807,051</u>	<u>1,348,871</u>	<u>(135,827)</u>	<u>3,020,095</u>
Cash flows from noncapital financing activities				
Transfers in	-	-	195,217	195,217
Transfers out	(142,556)	(52,661)	-	(195,217)
Net cash provided by (used in) noncapital financing activities	<u>(142,556)</u>	<u>(52,661)</u>	<u>195,217</u>	<u>-</u>
Cash flows from capital and related financing activities				
Principal payments on long-term debt	(315,000)	(560,000)	-	(875,000)
Interest paid	(639,225)	(860,718)	-	(1,499,943)
Net cash used in capital and related financing activities	<u>(954,225)</u>	<u>(1,420,718)</u>	<u>-</u>	<u>(2,374,943)</u>
Cash flows from investing activities				
Purchase of certificates of deposit and investments	(1,001,109)	-	(81,780)	(1,082,889)
Proceeds from certificates of deposit and investments	-	259,217	84,994	344,211
Interest and other proceeds	404	66,637	324	67,365
Net cash provided by (used in) investing activities	<u>(1,000,705)</u>	<u>325,854</u>	<u>3,538</u>	<u>(671,313)</u>
Net increase (decrease) in cash and cash equivalents	<u>(290,435)</u>	<u>201,346</u>	<u>62,928</u>	<u>(26,161)</u>
Cash and cash equivalents, beginning of year	1,129,222	135,142	90,257	1,354,621
Cash and cash equivalents, end of year	<u>\$ 838,787</u>	<u>\$ 336,488</u>	<u>\$ 153,185</u>	<u>\$ 1,328,460</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 1,084,582	\$ 436,814	\$ (143,881)	\$ 1,377,515
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	590,962	995,378	-	1,586,340
Changes in assets and liabilities:				
Increase (decrease) in accounts payable and accrued expenses	31,528	(8,292)	8,054	31,290
Increase in deposits	127,727	7,678	-	135,405
Increase in deferred revenue	(69,445)	(93,714)	-	(163,159)
Decrease in accounts receivable	94,565	(193)	-	94,372
Decrease in inventory and prepaid items	(72,490)	1,284	-	(71,206)
Financed insurance premiums	19,622	9,916	-	29,538
Total adjustments	<u>722,469</u>	<u>912,057</u>	<u>8,054</u>	<u>1,642,580</u>
Net cash provided by (used in) operating activities	<u>\$ 1,807,051</u>	<u>\$ 1,348,871</u>	<u>\$ (135,827)</u>	<u>\$ 3,020,095</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, 2012

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 and its component unit, an entity for which the Authority is considered to be financially accountable.

A blended component unity, although a legally separate entity, is, in substance, part of the Authority’s operations. The one blended component unit of the Authority is LCEFA Ocala Road, LLC (the “LLC”). The LLC was formed to own the leasehold interest in the property commonly known as Heritage Grove and owe the related bonded debt. The LLC is governed by the Authority board members.

(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.

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.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

I. Summary of Significant Accounting Policies: (Continued)

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

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. 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 these definitions 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 Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, 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.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

I. Summary of Significant Accounting Policies: (Continued)

(c) **Assets, Liabilities and Equity** (Continued)

3. *Capital Assets* (Continued)

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.

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

Assets	Years
Buildings and improvements	27.5 – 40
Furniture, fixtures and equipment	5 – 15

4. *Long-term Debt*

Revenue bond premiums and discounts, as well as issuance costs, and advance refundings are deferred and amortized over the life of the revenue bonds using the effective interest method. Revenue bonds are reported net of the applicable premiums, discounts and deferred advance refundings. 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 2012-2013 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, 2012

II. Detailed Notes on all Funds:

(a) Deposits and Investments

Deposits. At September 30, 2012, the Authority's carrying amount of deposits was \$1,287,466 and the bank balance was \$1,686,521. 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, 2012 the Authority had the following investments:

	Fair Value
Money market funds	<u>\$ 3,841,203</u>

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, 2012, including the applicable allowances for uncollectible accounts, are as follows:

	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
Gross receivables	\$ 178,523	\$ 13,596	\$ –	\$ 192,119
Less: allowance for uncollectibles	5,000	–	–	5,000
Net total receivables	<u>\$ 173,523</u>	<u>\$ 13,596</u>	<u>\$ –</u>	<u>\$ 187,119</u>

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

II. Detailed Notes on all Funds: (Continued)

(c) **Capital Assets**

The following is a summary of capital assets at September 30, 2012:

	<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	40,200,249	-	(130,104)	40,070,145
Equipment	5,254,083	-	-	5,254,083
Total capital assets being depreciated	<u>45,454,332</u>	<u>-</u>	<u>(130,104)</u>	<u>45,324,228</u>
Less accumulated depreciation:				
Buildings and improvements and equipment	(17,409,995)	(1,465,682)	-	(18,875,677)
Total capital assets being depreciated, net	<u>28,044,337</u>	<u>(1,465,682)</u>	<u>(130,104)</u>	<u>26,448,551</u>
Business-type capital assets, net	<u>\$ 30,444,337</u>	<u>\$ (1,465,682)</u>	<u>\$ (130,104)</u>	<u>\$ 28,848,551</u>

Depreciation and amortization expense were charged as follows:

Southgate Fund	\$ 565,272
Heritage Grove Fund	900,410
	<u>\$ 1,465,682</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. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the financial statements. The reacquisition price exceeded the net carrying amount of the old debt by approximately \$7 million. This amount is being netted against the 1998 refunding debt and amortized over life of the new debt. At September 30, 2012, the amount of insubstance defeased debt which remained outstanding was \$5,900,000.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

II. Detailed Notes on all Funds: (Continued)

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

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, 2012 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 March 1, 1999 through September 1, 2028.	\$ 9,155,000
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 September 2021 through September 2028.	20,500,000
Total Revenue Refunding Bonds	<u>29,655,000</u>
Less current portion (Series 1998A)	335,000
Total Revenue Refunding Bonds, noncurrent	<u>29,320,000</u>
Less deferred amounts on refunding	3,454,624
Total	<u><u>\$ 25,865,376</u></u>

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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 any Parity bonds, both of which are senior to the 1998B Bonds, and insufficient moneys remain in the trust estate to pay the Series 1998B Bonds after payment in full of the Series 1998A Bonds and any Parity 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>
2013	\$ 335,000	\$ 617,963	\$ -	\$ 1,563,125
2014	360,000	595,350	-	1,563,125
2015	380,000	571,050	-	1,563,125
2016	405,000	545,400	-	1,563,125
2017	435,000	518,063	-	1,563,125
2018-2022	2,660,000	2,108,026	2,300,000	7,815,625
2023-2027	3,685,000	1,080,676	14,545,000	4,881,525
2028	895,000	60,413	3,655,000	278,694
	<u>\$ 9,155,000</u>	<u>\$ 6,096,941</u>	<u>\$ 20,500,000</u>	<u>\$ 20,791,469</u>

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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 4.125 – 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.

A summary of the Heritage Grove long-term debt at September 30, 2012 is as follows:

Student Housing Revenue Bonds Series 2003 issued December 2003 in the amount of \$23,315,000 with interest rates ranging from 3% - 5.125%. Principal and interest is due annually on August 1.	\$ 20,385,000
Less current portion	585,000
Total Revenue Bonds, noncurrent	\$ 19,800,000

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.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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
2013	\$ 585,000	\$ 1,016,989
2014	605,000	992,126
2015	635,000	965,658
2016	–	937,083
2017	–	937,083
2018-2022	2,085,000	4,293,433
2023-2027	4,205,000	3,354,438
2028-2032	–	3,144,188
2033	12,270,000	628,838
	\$ 20,385,000	\$ 16,269,836

Changes in long-term liabilities:

Long-term liability activity for the year ended September 30, 2012, was as follows:

Business-type activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 1998A revenue bonds payable	\$ 9,470,000	\$ –	\$ 315,000	\$ 9,155,000	\$ 335,000
Less deferred amounts on refunding Series 1998A	(1,132,182)	–	(108,466)	(1,023,716)	–
	8,337,818	–	206,534	8,131,284	335,000
Series 1998B revenue bonds payable	20,500,000	–	–	20,500,000	–
Less deferred amounts on refunding Series 1998B	(2,533,642)	–	(102,734)	(2,430,908)	–
	17,966,358	–	(102,734)	18,069,092	–
Series 2003 revenue bonds payable	20,945,000	–	560,000	20,385,000	585,000
Total bonds payable	\$ 47,249,176	\$ –	\$ 663,800	\$ 46,612,376	\$ 920,000

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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, 2012, terminating July 31, 2015, 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, 2012, 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, 2012**

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. Management fees paid by the Southgate Fund for the year ended September 30, 2012 totaled \$255,219.

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:

% of Total Gross Revenue		
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%

Management fees paid by the Heritage Grove Fund for the year ended September 30, 2012 totaled \$123,924.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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.

(b) Prior Period Adjustment

Subsequent to the issuance of the Authority's September 30, 2011 financial statements, it was determined that the financial statements were misstated due to an understatement of an amount due to the Administrative Fund from the Southgate Fund of \$161,259. The correction of this error in the September 30, 2012 financial statements decreased the Southgate Fund's beginning net assets by \$161,259 and simultaneously increased the Administrative Fund's beginning net assets by the same amount.

(c) Subsequent Events

The Authority has evaluated events and transactions for potential recognition or disclosure in the financial statements through January 14, 2013, the date which the financial statements were available to be issued. No subsequent events have been recognized or disclosed.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY

ADDITIONAL INFORMATION

SEPTEMBER 30, 2012

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
SCHEDULE OF OTHER OPERATING EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Business-type Activities - Enterprise Funds

	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
Other operating expenses				
Legal and professional fees	\$ 20,161	\$ 8,706	\$ 42,534	\$ 71,401
Bad debts	44,299	22,243	-	66,542
Telephone and internet	19,569	3,362	-	22,931
Management fees	255,219	123,924	-	379,143
Taxes	131,032	927	-	131,959
Property insurance	110,746	116,049	-	226,795
Other	242,068	91,935	6,536	340,539
Bank and credit card fees	44,777	19,604	-	64,381
Contract services	114,989	14,109	-	129,098
Scholarships	-	-	46,760	46,760
Reimbursement of common area expenses	-	(131,744)	-	(131,744)
Total other operating expenses	<u>\$ 982,860</u>	<u>\$ 269,115</u>	<u>\$ 95,830</u>	<u>\$ 1,347,805</u>

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
OFFICIALS
SEPTEMBER 30, 2012**

AUTHORITY MEMBERS

Bill Hilaman
Liz Maryanski
Craig Fletcher
Randy Guemple
Robert E. Kellam
Lynn Tipton
Joe Weil

JAMES MOORE & CO., P.L.
CERTIFIED PUBLIC ACCOUNTANTS

**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 Authority Members,
Leon County Educational Facilities Authority:

We have audited the financial statements of the business-type activities and major funds of Leon County Educational Facilities Authority as of and for the year ended September 30, 2012, which collectively comprise Leon County Educational Facilities Authority's basic financial statements and have issued our report thereon dated January 14, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Leon County Educational Facilities Authority is responsible for establishing and maintaining effective 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Leon County Educational Facilities Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Leon County Educational Facilities Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency to be a material weakness:

Finding 2010-01: Significant Adjustments—We noted the Authority maintains its’ accounting records on a budgetary basis during the fiscal year. During the course of the audit, numerous significant adjustments were made in order for the financial statements to be presented in accordance with accounting principles generally accepted in the United States of America (GAAP). We recommend management implement controls to ensure the budget basis financial statements are converted to “GAAP” basis financial statements prior to the audit.

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 one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* as follows:

Finding 2010-02: Reserve Fund Requirement Series—The indenture of trust related to the Series 1998A and 1998B Revenue Refunding Bonds requires the Reserve Fund to maintain at a minimum balance of approximately \$950,000. At September 30, 2012, the balance in the Reserve Fund was below the required minimum balance. We recommend the Authority continue to follow the adopted plan to bring the Reserve Fund balance up to the required amount.

Leon County Educational Facilities Authority’s response to the findings identified in our audit is described in the accompanying corrective action plan. We did not audit Leon County Educational Facilities Authority’s response and, accordingly, we express no opinion on it.

Pursuant to Chapter 119, Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States require us to indicate that this report is intended solely for the information and use of Leon County Educational Facilities Authority’s management, the Authority Members, others within the entity, 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.C.

Tallahassee, Florida
January 14, 2013

JAMES MOORE & CO., P.L.
CERTIFIED PUBLIC ACCOUNTANTS

**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 Leon County Educational Facilities Authority, as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated January 14, 2013.

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. We have also issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*. Disclosures in that report, which is dated January 14, 2013, 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 findings and recommendations made in the preceding annual financial audit report. Corrective actions are still being taken to address findings 2010-01 and 2010-02, which were findings for the years ended September 30, 2010 and 2011, and finding 2009-01, which was a finding for the years ended September 30, 2011, 2010, and 2009. Finding 2011-01, which was a finding for the year ended September 30, 2011, has been corrected for the year ended September 30, 2012.

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. 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 occurred, or are likely to have occurred, 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:

Finding 2009-01: Fixed Charges Coverage Ratio-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 acceptable to the Bond Issuer to submit a report containing recommendations to remedy the Ratio. The Fixed Charges Coverage Ratio for the year ended September 30, 2012 was 1.13, thus requiring the Authority to implement corrective action as indicated above.

Finding 2012-01: Adopted Budget-According to Florida Statute 189.418(4), the final adopted budget for a special district must be posted on the district’s official website within 30 days after adoption. If the special district does not operate an official website, the special district must, within a reasonable period of time as established by the local general-purpose government or governments in which the special district is located or the local governing authority to which the district is dependent, transmit the tentative budget or final budget to the manager or administrator of the local general-purpose government or the local governing authority. The manager or administrator shall post the tentative budget or final budget on the website of the local general-purpose government or governing authority. The Authority failed to post the final adopted budget for Heritage Grove and Southgate funds as required by Florida Statute.

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 financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control 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. This is disclosed as required by accounting principles generally accepted in the United States of America in Note I to the financial statements. There are no component units related to the Leon County Educational Facilities Authority.

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 did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for Leon County Educational Facilities Authority for the fiscal year ended September 30, 2012, 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, 2012. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Section 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 Leon County Educational Facilities Authority’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 management 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.C.

Tallahassee, Florida
January 14, 2013

**Leon County Educational Facility Authority
Corrective Action Plan
For The Year Ended September 30, 2012**

Finding 2009-01 - Fixed Coverage Ratio - A financial consultant was retained and the final report has been accepted by the Bondholder's representative and the Authority.

Finding 2010-01 - The Authority will engage an accounting consultant to review the administrative fund general ledger quarterly and propose any needed adjustments to report the fund financial statements in accordance with generally accepted accounting principles in the United States of America.

Finding 2012-01 - The Administrative Budget has been furnished to the appropriate Leon County office for posting on the website.