

**LEON COUNTY EDUCATIONAL
FACILITIES AUTHORITY
FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
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SEPTEMBER 30, 2013**

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INDEPENDENT AUDITORS' REPORT

To the Authority Members,
Leon County Educational Facilities Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of Leon County Educational Facilities Authority, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise Leon County Educational Facilities Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Leon County Educational Facilities Authority, as of September 30, 2013, and the respective changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 – 9 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Leon County Educational Facilities Authority's basic financial statements. The Schedule of Operating Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Operating Expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2014 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* in considering Leon County Educational Facilities Authority's internal control over financial reporting and compliance.

James Moore & Co., P.L.C.

Tallahassee, Florida
January 28, 2014

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013**

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, 2013.

These statements include the operations of LCEFA Ocala Road, LLC, a component unit of Leon County Educational Facilities Authority. The LLC is referred to in these statements as the "Heritage Grove Fund."

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 accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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 basic financial statements can be found on pages 10 – 12 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 13 – 26 of this report.

Fund Financial Analysis

Net position 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 \$34,939,218 at the close of the most recent fiscal year. This reported deficit net position is created by the unpaid principal and accrued interest on the Southgate Residence Hall 1998 Series B subordinated revenue refunding bonds of approximately \$43,000,000. 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.

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
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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 \$23,000,000. Excluding the Series B bonds and related accrued interest, the net position of the Authority are approximately \$6,000,000.

A portion of the Leon County Educational Facilities Authority's net position 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 Position

	2013	Restated 2012
Current and other assets	\$ 6,549,446	\$ 5,783,385
Capital assets	30,193,844	31,379,004
Deferred outflows of resources	3,243,424	-
Total assets	39,986,714	37,162,389
Long-term liabilities outstanding	72,004,746	67,903,500
Other liabilities	2,921,186	2,804,806
Total liabilities	74,925,932	70,708,306
Net position:		
Invested in capital assets, net of related debt	(15,682,732)	(17,628,298)
Restricted	4,363,778	3,308,435
Unrestricted	(23,620,264)	(19,226,054)
Total net position (deficit)	\$ (34,939,218)	\$ (33,545,917)

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

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Leon County Educational Facilities Authority's Changes in Net Position

	<u>2013</u>	<u>Restated 2012</u>
Revenues:		
Program revenues:		
Charges for services	\$ 8,518,171	\$ 8,080,968
Interest and other income	67,588	67,365
Total revenues	<u>8,585,759</u>	<u>8,148,333</u>
Expenses:		
Student housing	9,979,060	9,956,924
Decrease in net position	(1,393,301)	(1,808,591)
Net position (deficit), beginning of year	<u>(33,545,917)</u>	<u>(31,737,326)</u>
Net position (deficit), end of year	<u>\$ (34,939,218)</u>	<u>\$ (33,545,917)</u>

The \$1,393,301 decrease in net position from 2012 to 2013 includes \$1,576,128 of depreciation and amortization expense, \$1,017,491 of interest expense on the Series 2003 bonds, \$827,280 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:			
	<u>2013</u>	<u>Restated 2012</u>	<u>\$ CHG.</u>	<u>% CHG.</u>
Revenues	\$ 6,149,274	\$ 5,691,402	\$ 457,872	8.0%
Operating expenses:				
Personnel Costs	1,240,186	1,227,363	12,823	1.0%
Other Operating Costs	993,260	947,180	46,080	4.9%
Food Costs	752,937	730,141	22,796	3.1%
Utilities	621,806	633,565	(11,759)	-1.9%
Repair and Maintenance	353,818	441,929	(88,111)	-19.9%
Depreciation and Amortization	570,731	590,962	(20,231)	-3.4%
Total expenses	<u>4,532,738</u>	<u>4,571,140</u>	<u>(38,402)</u>	<u>-1.0%</u>
Operating income	<u>\$ 1,616,536</u>	<u>\$ 1,120,262</u>	<u>\$ 496,274</u>	<u>44.3%</u>

Southgate increased revenues 8.0% between years while, at the same time, cutting operating expenses by 1.0%.

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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:				
	2013	% of Revenues	Restated 2012	% of Revenues
Revenues	\$ 6,149,274	100.0%	\$ 5,691,402	100.0%
Operating expenses:				
Personnel Costs	1,240,186	20.2%	1,227,363	21.6%
Other Operating Costs	993,260	16.2%	947,180	16.6%
Food Costs	752,937	12.2%	730,141	12.8%
Utilities	621,806	10.1%	633,565	11.1%
Repair and Maintenance	353,818	5.8%	441,929	7.8%
Depreciation and Amortization	570,731	9.3%	590,962	10.4%
Total expenses	4,532,738	73.8%	4,571,140	80.3%
Operating income	\$ 1,616,536	26.2%	\$ 1,120,262	19.7%

Last year, out of every dollar of revenue, management spent \$.80, yielding an operating income net margin of 20%. This fiscal year, out of every dollar of revenue, management spent only \$.74, yielding an operating income net margin of 26%.

Heritage Grove				
Audited Statement of Operations				
For the Fiscal Year Ended:				
	2013	Restated 2012	\$ CHG.	% CHG.
Revenues	\$ 2,368,897	\$ 2,389,566	\$ (20,669)	-1.0%
Operating expenses:				
Personnel Costs	260,084	261,725	(1,641)	-1.0%
Other Operating Costs	333,737	269,115	64,622	24.0%
Utilities	45,461	110,853	(65,392)	-58.9%
Repair and Maintenance	181,756	160,714	21,042	13.1%
Depreciation and Amortization	1,005,397	997,502	7,895	1.0%
Total	1,826,435	1,799,909	26,526	1.5%
Operating income (loss)	\$ 542,462	\$ 589,657	\$ (47,195)	-8.0%

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Heritage Grove Audited Statement of Operations For the Fiscal Year Ended:				
	2013	% of Revenues	Restated 2012	% of Revenues
Revenues	\$ 2,368,897	100.0%	\$ 2,389,566	100.0%
Operating expenses:				
Personnel Costs	260,084	11.0%	261,725	11.0%
Other Operating Costs	333,737	14.1%	269,115	11.3%
Utilities	45,461	1.9%	110,853	4.6%
Repair and Maintenance	181,756	7.7%	160,714	6.7%
Depreciation and Amortization	1,005,397	42.4%	997,502	41.7%
Total	1,826,435	77.1%	1,799,909	75.3%
Operating income	\$ 542,462	22.9%	\$ 589,657	24.7%

As revenues decreased 1.0% between years, Heritage Grove operational expenses increased by 1.5%. Last year, out of every dollar of revenue, management spent \$.75, yielding an operating income net margin of 25%. This fiscal year, out of every dollar of revenue, management spent \$.77, yielding an operating income net margin of 23%.

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, 2013, amounts to \$ 27,936,897 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 18 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 \$72,000,000. 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.

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013**

Additional information on the Leon County Educational Facilities Authority's long-term debt can be found in note II.D. on pages 18 – 23 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.

As has been regularly reported to the Authority by its legal counsel and Heritage Grove management, Coastal Property Services, Inc., significant issues pertaining to the original construction of the apartment buildings, discovered in the course of routine repair and inspection in May of 2012, continue to be addressed. These issues will continue to impact the property's operating funds and budget until resolution. It is estimated that the cost to correct the issues will be approximately \$3,000,000. A lawsuit against the original development/design/construction team for Heritage Grove is anticipated while negotiations continue with those entities to seek either the direct repair or compensation.

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, P.O. Box 11154, Tallahassee, Florida 32302.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

ASSETS	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
Current assets				
Cash and cash equivalents	\$ 735,769	\$ -	\$ 152,379	\$ 888,148
Certificates of deposit	-	-	139,663	139,663
Investments	-	114,976	-	114,976
Accounts receivable, net	77,789	15,582	-	93,371
Due from other funds	-	2,458	265,634	268,092
Inventories and prepaid items	180,646	39,306	-	219,952
Restricted assets:				
Cash	620,125	130,845	-	750,970
Investments	1,832,823	2,241,451	-	4,074,274
Total current assets	<u>3,447,152</u>	<u>2,544,618</u>	<u>557,676</u>	<u>6,549,446</u>
Noncurrent assets				
Capital assets, not being depreciated	2,639,025	-	-	2,639,025
Capital assets, net of accumulated depreciation	9,798,659	15,499,213	-	25,297,872
Debt issue costs, net	357,593	1,899,354	-	2,256,947
Total noncurrent assets	<u>12,795,277</u>	<u>17,398,567</u>	<u>-</u>	<u>30,193,844</u>
Deferred outflows of resources				
Deferred amounts on refunding	3,243,424	-	-	3,243,424
Total Assets	<u>\$ 19,485,853</u>	<u>\$ 19,943,185</u>	<u>\$ 557,676</u>	<u>\$ 39,986,714</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	\$ 241,354	\$ 90,651	\$ 33,929	\$ 365,934
Deferred revenue	1,693,144	132,550	-	1,825,694
Deposits payable	110,125	131,341	-	241,466
Due to other funds	268,092	-	-	268,092
Accrued interest payable	50,000	170,000	-	220,000
Current portion of notes payable	19,187	29,509	-	48,696
Current portion of revenue bonds payable	360,000	605,000	-	965,000
Total current liabilities	<u>2,741,902</u>	<u>1,159,051</u>	<u>33,929</u>	<u>3,934,882</u>
Noncurrent liabilities				
Accrued interest payable	22,836,050	-	-	22,836,050
Series 2003 revenue bonds payable	-	19,195,000	-	19,195,000
Revenue refunding bonds, Series 1998A	8,460,000	-	-	8,460,000
Revenue refunding bonds, Series 1998B	20,500,000	-	-	20,500,000
Total noncurrent liabilities	<u>51,796,050</u>	<u>19,195,000</u>	<u>-</u>	<u>70,991,050</u>
Total liabilities	<u>54,537,952</u>	<u>20,354,051</u>	<u>33,929</u>	<u>74,925,932</u>
NET POSITION				
Invested in capital assets, net of related debt	(13,281,299)	(2,401,433)	-	(15,682,732)
Restricted for debt service	2,292,823	2,070,955	-	4,363,778
Unrestricted	(24,063,623)	(80,388)	523,747	(23,620,264)
Total net position (deficit)	<u>(35,052,099)</u>	<u>(410,866)</u>	<u>523,747</u>	<u>(34,939,218)</u>
Total Liabilities and Net Position	<u>\$ 19,485,853</u>	<u>\$ 19,943,185</u>	<u>\$ 557,676</u>	<u>\$ 39,986,714</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 NET POSITION (DEFICIT)
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
Operating revenues	\$ 6,149,274	\$ 2,368,897	\$ -	\$ 8,518,171
Operating expenses				
Personnel costs	1,240,186	260,084	49,336	1,549,606
Other operating costs	993,260	333,737	162,655	1,489,652
Food costs	752,937	-	-	752,937
Utilities	621,806	45,461	-	667,267
Repairs and maintenance	353,818	181,756	-	535,574
Depreciation and amortization	570,731	1,005,397	-	1,576,128
Total operating expenses	<u>4,532,738</u>	<u>1,826,435</u>	<u>211,991</u>	<u>6,571,164</u>
Operating income (loss)	<u>1,616,536</u>	<u>542,462</u>	<u>(211,991)</u>	<u>1,947,007</u>
Nonoperating revenues (expenses)				
Interest expense	(2,390,405)	(1,017,491)	-	(3,407,896)
Interest and other income	531	66,335	722	67,588
Total nonoperating revenues (expenses)	<u>(2,389,874)</u>	<u>(951,156)</u>	<u>722</u>	<u>(3,340,308)</u>
Loss before operating transfers	<u>(773,338)</u>	<u>(408,694)</u>	<u>(211,269)</u>	<u>(1,393,301)</u>
Transfers				
Transfers in of issuer and management fees per trust indenture	-	-	183,287	183,287
Transfers out of issuer and management fees per trust indenture	(131,462)	(51,825)	-	(183,287)
Total transfers	<u>(131,462)</u>	<u>(51,825)</u>	<u>183,287</u>	<u>-</u>
Change in net position	<u>(904,800)</u>	<u>(460,519)</u>	<u>(27,982)</u>	<u>(1,393,301)</u>
Net position (deficit), beginning of year, as previously reported	(34,182,979)	(103,190)	551,729	(33,734,440)
Prior period adjustment (See Note III.c.)	35,680	152,843	-	188,523
Net position (deficit), beginning of year, restated	<u>(34,147,299)</u>	<u>49,653</u>	<u>551,729</u>	<u>(33,545,917)</u>
Net position (deficit), end of year	<u>\$ (35,052,099)</u>	<u>\$ (410,866)</u>	<u>\$ 523,747</u>	<u>\$ (34,939,218)</u>

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

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2013
Increase (Decrease) in Cash and Cash Equivalents

	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
Cash flows from operating activities				
Cash received from residents and others	\$ 6,285,412	\$ 2,447,446	\$ -	\$ 8,732,858
Cash paid to suppliers and others	(4,028,776)	(804,652)	(186,116)	(5,019,544)
Net cash provided by (used in) operating activities	<u>2,256,636</u>	<u>1,642,794</u>	<u>(186,116)</u>	<u>3,713,314</u>
Cash flows from noncapital financing activities				
Transfers in	-	-	185,245	185,245
Transfers out	(121,962)	(63,283)	-	(185,245)
Net cash provided by (used in) noncapital financing activities	<u>(121,962)</u>	<u>(63,283)</u>	<u>185,245</u>	<u>-</u>
Cash flows from capital and related financing activities				
Principal payments on long-term debt	(335,000)	(585,000)	-	(920,000)
Proceeds from notes payable	-	19,593	-	19,593
Payments on notes payable	(15,213)	-	-	(15,213)
Interest paid	(617,963)	(1,016,989)	-	(1,634,952)
Net cash used in capital and related financing activities	<u>(968,176)</u>	<u>(1,582,396)</u>	<u>-</u>	<u>(2,550,572)</u>
Cash flows from investing activities				
Purchases of property and equipment	(343,160)	(47,808)	-	(390,968)
Purchase of certificates of deposit and investments	(606,762)	-	(657)	(607,419)
Proceeds from certificates of deposit and investments	-	(41,285)	-	(41,285)
Interest and other proceeds	531	66,335	722	67,588
Net cash provided by (used in) investing activities	<u>(949,391)</u>	<u>(22,758)</u>	<u>65</u>	<u>(972,084)</u>
Net increase (decrease) in cash and cash equivalents	<u>217,107</u>	<u>(25,643)</u>	<u>(806)</u>	<u>190,658</u>
Cash and cash equivalents, beginning of year	<u>1,138,787</u>	<u>156,488</u>	<u>153,185</u>	<u>1,448,460</u>
Cash and cash equivalents, end of year	<u>\$ 1,355,894</u>	<u>\$ 130,845</u>	<u>\$ 152,379</u>	<u>\$ 1,639,118</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 1,616,536	\$ 542,462	\$ (211,991)	\$ 1,947,007
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	570,731	1,005,397	-	1,576,128
Changes in assets and liabilities:				
Increase (decrease) in accounts payable and accrued expenses	(48,748)	18,312	25,875	(4,561)
Increase in deposits	105	13,835	-	13,940
Increase in deferred revenue	40,299	66,700	-	106,999
(Increase) decrease in accounts receivable	95,734	(1,986)	-	93,748
Increase in inventory and prepaid items	(18,021)	(1,926)	-	(19,947)
Total adjustments	<u>640,100</u>	<u>1,100,332</u>	<u>25,875</u>	<u>1,766,307</u>
Net cash provided by (used in) operating activities	<u>\$ 2,256,636</u>	<u>\$ 1,642,794</u>	<u>\$ (186,116)</u>	<u>\$ 3,713,314</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, 2013

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. The LLC is referred to in the financial statements of the Authority as the “Heritage Grove Fund.”

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide 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 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 component unit which serves largely fraternal organization oriented rental operations.

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

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

I. Summary of Significant Accounting Policies: (Continued)

(c) Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

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 include property, plant, equipment, and any infrastructure assets. 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.

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

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

I. Summary of Significant Accounting Policies: (Continued)

(c) **Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance**
(Continued)

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 statement of net position 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 2013-2014 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.

9. *Net position flow assumption*

Sometimes the Authority will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the Authority’s financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the Authority’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

I. Summary of Significant Accounting Policies: (Continued)

(c) **Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance**
(Continued)

10. *Deferred outflows/inflows of resources*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority does not have any of these items, which arise only under a modified accrual basis of accounting, that qualify for reporting in this category.

(d) **Revenues and expenditures/expenses—**

1. *Operating and nonoperating revenues and expenses*

Amounts reported as program revenues include charges to customers or applicants for rents, services, or privileges provided.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. The principal operating revenues of the Authority are charges for rents and services. Operating expenses for the Authority 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.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

II. Detailed Notes on all Funds:

(a) Deposits and Investments

Deposits. At September 30, 2013, the Authority's carrying amount of deposits was \$1,778,781 and the bank balance was \$1,840,567. 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, 2013 the Authority had the following investments:

	Fair Value
Money market funds	<u>\$ 4,189,250</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, 2013, including the applicable allowances for uncollectible accounts, are as follows:

	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
Gross receivables	\$ 80,930	\$ 15,582	\$ –	\$ 96,512
Less: allowance for uncollectibles	3,141	–	–	3,141
Net total receivables	<u>\$ 77,789</u>	<u>\$ 15,582</u>	<u>\$ –</u>	<u>\$ 93,371</u>

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

II. Detailed Notes on all Funds: (Continued)

(c) Capital Assets

The following is a summary of capital assets at September 30, 2013:

	<u>Beginning Balance, Restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 2,400,000	\$ -	\$ -	\$ 2,400,000
Construction in progress	-	239,025	-	239,025
Total capital assets not being depreciated	<u>2,400,000</u>	<u>239,025</u>	<u>-</u>	<u>2,639,025</u>
Capital assets being depreciated:				
Buildings and improvements	40,209,368	22,818	-	40,232,186
Equipment	5,269,824	129,125	-	5,398,949
Total capital assets being depreciated	<u>45,479,192</u>	<u>151,943</u>	<u>-</u>	<u>45,631,135</u>
Less accumulated depreciation:				
Buildings and improvements and equipment	(18,877,798)	(1,455,465)	-	(20,333,263)
Total capital assets being depreciated, net	<u>26,601,394</u>	<u>(1,303,522)</u>	<u>-</u>	<u>25,297,872</u>
Capital assets, net	<u>\$ 29,001,394</u>	<u>\$ (1,064,497)</u>	<u>\$ -</u>	<u>\$ 27,936,897</u>

Depreciation expense was charged as follows:

Southgate Fund	\$ 545,035
Heritage Grove Fund	910,430
	<u>\$ 1,455,465</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, 2013, the amount of insubstance defeased debt which remained outstanding was \$3,625,000.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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, 2013 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.	\$ 8,820,000
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	<hr style="width: 100%; border: 0.5px solid black;"/> 29,320,000
Less current portion (Series 1998A)	360,000
Total Revenue Refunding Bonds, noncurrent	<hr style="width: 100%; border: 0.5px solid black;"/> <u>\$ 28,960,000</u>

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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:

	1998 A		1998 B	
	Principal	Interest	Principal	Interest
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	465,000	488,700	—	1,563,125
2019-2023	2,840,000	1,928,476	4,785,000	7,640,250
2024-2028	3,935,000	831,939	15,715,000	3,772,469
	\$ 8,820,000	\$ 5,478,978	\$ 20,500,000	\$ 19,228,344

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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, 2013 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.	\$ 19,800,000
Less current portion	605,000
Total Revenue Bonds, noncurrent	\$ 19,195,000

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, 2013

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
2014	\$ 605,000	\$ 992,126
2015	635,000	965,658
2016	-	937,083
2017	-	937,083
2018	2,085,000	937,083
2019-2023	4,205,000	4,195,438
2024-2028	-	3,144,188
2029-2033	12,270,000	3,144,188
	\$ 19,800,000	\$ 15,252,847

Notes Payable

Notes payable consisted of the following at September 30, 2013:

6.56% note payable to corporation, payable \$10,000 monthly, including interest, uncollateralized, due December 2013	\$ 29,509
1.28% note payable to corporation, payable \$19,208 monthly, including interest, uncollateralized, due November 2013	<u>19,187</u>
Total long-term debt	48,696
Less: current portion	<u>48,696</u>
Total long-term debt, less current portion	<u><u>\$ -</u></u>

At September 30, 2013, notes payable maturities for the next five years, and in the aggregate, were as follows:

Year ended September 30,	Amount
2014	<u><u>\$ 48,696</u></u>

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

II. Detailed Notes on all Funds: (Continued)

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

Changes in long-term liabilities:

Long-term liability activity for the year ended September 30, 2013, was as follows:

<u>Business-type activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Series 1998A revenue bonds payable	\$ 9,155,000	\$ -	\$ 335,000	\$ 8,820,000	\$ 360,000
Series 1998B revenue bonds payable	20,500,000	-	-	20,500,000	-
Series 2003 revenue bonds payable	20,385,000	-	585,000	19,800,000	605,000
Note payable	-	209,149	160,453	48,696	48,696
Total changes in long-term liabilities	<u>\$ 50,040,000</u>	<u>\$ 209,149</u>	<u>\$ 1,080,453</u>	<u>\$ 49,168,696</u>	<u>\$ 1,013,696</u>

(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.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

II. Detailed Notes on all Funds: (Continued)

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

Southgate Fund (Continued)

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.

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, 2013 totaled \$275,979.

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

II. Detailed Notes on all Funds: (Continued)

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

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 August 1, 2012 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, 2013 totaled \$129,295.

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) **Commitments and Contingencies**

The Authority is party to routine legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such actions will have no material impact on the Authority's financial condition.

As has been regularly reported to the Authority by its legal counsel and Heritage Grove management, Coastal Property Services, Inc., significant issues pertaining to the original construction of the apartment buildings, discovered in the course of routine repair and inspection in May of 2012, continue to be addressed. These issues will continue to impact the property's operating funds and budget until resolution. It is estimated that the cost to correct the issues will be approximately \$3,000,000. A lawsuit against the original development/design/construction team for Heritage Grove is anticipated while negotiations continue with those entities to seek either the direct repair or compensation.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

III. Other Information: (Continued)

(c) Restatement of Beginning Net Position

Subsequent to the issuance of the Authority's September 30, 2012 financial statements, management determined that the financial statements were misstated due to an overstatement of expenses in the Southgate Fund of \$35,680 and an overstatement of expenses in the Heritage Grove Fund of \$152,843. The correction of these errors in the September 30, 2013 financial statements increased the Southgate Fund's beginning net position by \$35,680 and increased the Heritage Grove Fund's beginning net position by \$152,843.

(d) Subsequent Events

The Authority has evaluated events and transactions for potential recognition or disclosure in the financial statements through January 28, 2014, the date which the financial statements were available to be issued. On December 9, 2013, the Authority was notified by the Bond Trustee for Heritage Grove that certain events of default were deemed by the Trustee to exist under the Loan Agreement dated December 31, 2003. The Trustee requested that the alleged events of default be addressed within thirty days from the date of the notice. The Authority does not agree with the assertions of the Trustee and has requested the Trustee extend the time period for response, which the Trustee has acknowledged.

(e) New Accounting Pronouncement

In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. GASB 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Concepts Statement (CON) No. 4, Elements of Financial Statements, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in CON 4. Based on those definitions, GASB 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, GASB 65 recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. The requirements of GASB 65 are effective for fiscal year 2014. The District is currently evaluating the effect this Statement will have on its financial statements.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY

ADDITIONAL INFORMATION

SEPTEMBER 30, 2013

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
SCHEDULE OF OTHER OPERATING EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	Business-type Activities - Enterprise Funds			
	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
Other operating expenses				
Legal and professional fees	\$ 51,044	\$ 16,250	\$ 101,889	\$ 169,183
Bad debts	19,883	52,215	-	72,098
Telephone and internet	14,107	2,209	-	16,316
Management fees	275,979	129,295	-	405,274
Taxes	134,807	694	-	135,501
Property insurance	121,774	129,694	-	251,468
Other	235,664	102,309	2,016	339,989
Bank and credit card fees	26,912	19,451	-	46,363
Contract services	113,090	13,364	-	126,454
Scholarships	-	-	58,750	58,750
Reimbursement of common area expenses	-	(131,744)	-	(131,744)
Total other operating expenses	\$ 993,260	\$ 333,737	\$ 162,655	\$ 1,489,652

- See accompanying Independent Auditors' Report. -

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
OFFICIALS
SEPTEMBER 30, 2013**

AUTHORITY MEMBERS

Bill Hilaman
Liz Maryanski
Lori Billberry
Robert E. Kellam
Lynn Tipton
Joe Weil

**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, 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, the financial statements of Leon County Educational Facilities Authority as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise Leon County Educational Facilities Authority's basic financial statements, and have issued our report thereon dated January 28, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Leon County Educational Facilities Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Leon County Educational Facilities Authority's internal control.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies to be material weaknesses:

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Finding 2010-01: Significant Adjustments—During the course of the audit, 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.

Finding 2013-01: Segregation of Duties—Internal controls are designed to safeguard assets and help prevent or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. We believe that the following practices could be implemented by the Authority and management at the Southgate Residence Hall to improve existing internal control without impairing efficiency:

- Cash receipts should be received by an employee not responsible for accounting. Cash receipts should be recorded and the deposit prepared by this person. The cash receipts journal, supplemented by remittance advices, should be forwarded to the accounting staff for postings to the general ledger and detail customer accounts.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Leon County Educational Facilities Authority’s financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described 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, 2013, 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.

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 noncompliance. In no event shall the Fixed Charges Coverage Ratio fall below 1.00. The Fixed Charges Coverage Ratio for the year ended September 30, 2013 was 1.01, calculated as follows:

Operating income	\$ 542,462
Depreciation and amortization	1,005,397
Interest and other income	<u>66,335</u>
Revenue Available for Fixed Charges	<u>\$ 1,614,194</u>
Principal payments	\$ 585,000
Interest payments	<u>1,017,491</u>
Fixed Charges	<u>\$ 1,602,491</u>
Fixed charges coverage ratio	1.01

Since the fixed charges coverage ratio is greater than 1.0 but less than 1.2, the Leon County Educational Facilities Authority is required to engage a financial consultant as stated above.

Leon County Educational Facilities Authority’s Response to Findings

Leon County Educational Facilities Authority’s response to the findings identified in our audit are described in the accompanying Corrective Action Plan. Leon County Educational Facilities Authority’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James Moore & Co., P.L.C.

Tallahassee, Florida
January 28, 2014

**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, 2013, and have issued our report thereon dated January 28, 2014.

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; and Chapter 10.550, Rules of the Florida Auditor General. We have issued our Independent Auditor's 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 are dated January 28, 2014, 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 2009-01, 2010-01 and 2010-02, which were findings for the years ended September 30, 2010, 2011 and 2012, and finding 2012-01, which was a finding 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 had the following recommendation:

Finding 2013-02: Update Lease Agreements for New Terms-During our tests over tenant lease agreements, we noted four instances where students changed payment and/or meal plan options subsequent to signing their original lease agreement. Although the online accounting system had been updated for the new payment terms, there was no signed documentation evidencing the change. Without a new signed agreement, confusion and errors can occur in invoicing for tenants. In addition, claims for unpaid rent cannot be properly substantiated. We recommend that all changes to lease agreements be evidenced by a signed lease addendum.

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Section 10.554(1)(i)4., Rules of the Auditor General, requires that we noncompliance with provisions of contracts or 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 which warrants the attention of those charged with governance. In connection with our audit, we noted the following:

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, 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.

Section 10.554(1)(i)6.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)6.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, 2013, 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, 2013. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)6.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.

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, and applicable management, 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 28, 2014

Leon County Educational Facilities Authority

William W. Hilaman, Chairman

Patrick H. Dallet • Lori Billberry • Liz Maryanski

Robert E. Kellam • Lynn S. Tipton • Joe Weil • Terrell C. Madigan, General Counsel

R. Randy Guemple, Executive Director

Leon County Educational Facility Authority Corrective Action Plan For The Year Ended September 30, 2013

Finding 2009-01

Heritage Grove (LCEFA Ocala Road, LLC) requested a waiver from the bond insurer (ACA) regarding the coverage ratio for 2012 and was denied. Heritage Grove then hired a consultant per the bond requirements to evaluate operations of the property to look for opportunities to improve net operating income.

The consultant's report was generated on October 17, 2012, by Asset Campus Housing, a nation-wide organization who has a firm knowledge of the Tallahassee student housing market. The report stated that Heritage Grove is above or at the top of the market for a 2 bedroom/2 bath student housing unit. This combined with the fact that Heritage Grove is physically and amenity limited in competing with the newer properties that have been built restricts opportunity for increased rents.

With respect to timing this report was produced after the leases for the next year were set. Heritage Grove leases on an August to July cycle and the rates for the coming year were set in December of the prior year. Management has reviewed the report and has applied some of the recommendations but any changes did not take effect until August 2013.

Finding 2010-01

Prior period adjustments were made to the 2013 financial statements to reflect the proper accounting of incorrectly expensed items that should have been capitalized. It is not anticipated that any such adjustments will be necessary for 2014.

Finding 2010-02

The Authority will continue to follow the adopted plan to bring the reserve fund balance to the required amounts. As of September 30, 2013 the Reserve Fund balance is \$475,000 or 50% of the required balance. Based on latest projections it is anticipated that the Reserve Fund of approximately \$950,000 can be reached by the end of fiscal year 2015 or the beginning of fiscal year 2016.

Finding 2012-01

The Budget has now been posted to the Leon County website.

Leon County Educational Facilities Authority

William W. Hilaman, Chairman

Patrick H. Dallet • Lori Billberry • Liz Maryanski

Robert E. Kellam • Lynn S. Tipton • Joe Weil • Terrell C. Madigan, General Counsel

R. Randy Guemple, Executive Director

Finding 2013-01

This is a small office staff consisting of the Southgate on premises manager and his office assistant. During the last two months of the fiscal year the office assistant left and was not replaced for a two month period. The office assistant has been replaced. In addition, Southgate's on premises manager is cross-training his assistant manager for the office assistant's cash recording duties to prevent a lapse in segregated functions in case the office assistant leaves or takes a two-week vacation.

Finding 2013-02

The Southgate Director of Residence Life and Student Development has been delegated the responsibility of lease documentation by the onsite director of Southgate operations. This control deficiency concerns four instances of documentation related to four changes in student Southgate leases. From an accounting perspective management has correctly tracked the changes by the check receipts and amounts designated for payment plans and meal plans.

With respect to documentation of approved lease changes after the school year begins, the new internal control procedure will be to require all families to complete a change order form reflecting intended adjustments. Additionally, families will re-sign page 2 of the dorm contract (a lease addendum) with the installment or semester plans respectively noting approved contractual changes.

For dorm meal plans, families do not change during the school year in most cases because 95% of the families have unlimited meal plans and cannot reduce them by rule. The remaining 5% who have a lower/limited meal plan cost can move up in meal plan cost.

Most of these (5%) students, however, are sophomores who are not expected to change since they live in the Lofts. There are, on average, 10 or less students who may or may not change to a higher meal plan from a lower one. Any contractual meal plan changes will also be appropriately documented to avoid a material control deficiency citation related to these non-material revenue amounts.



William W. Hilaman, Chairman