

**LEON COUNTY EDUCATIONAL
FACILITIES AUTHORITY**

FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
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INDEPENDENT AUDITORS' REPORT

To the Authority Members,
Leon County Educational Facilities Authority:

We have audited the accompanying financial statements of the business-type activities and each major fund of the Leon County Educational Facilities Authority, as of and for the year ended September 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Leon County Educational Facilities Authority's management. Our responsibility is to express opinions 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 respective financial position of the governmental activities, the business-type activities and each major fund of the Leon County Educational Facilities Authority, as of September 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I.A., the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14*; and *Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of September 30, 2004. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2005 on our consideration of the Leon County Educational Facilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Authority has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to supplement, but do require to be a part of the basic financial statements.

James Moore & Co.

Tallahassee, Florida
February 18, 2005

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004

	Business-type Activities
ASSETS	
Cash and cash equivalents	\$ 618,457
Investments	5,584,009
Accounts receivable, less allowance for doubtful accounts	791,359
Inventories and prepaid items	60,847
Capital assets, net of accumulated depreciation	42,099,927
Debt issue costs, net of accumulated amortization	3,021,284
Total assets	52,175,883
LIABILITIES	
Accounts payable and accrued expenses	693,362
Deferred revenue	1,970,437
Accrued interest payable	10,181,758
Security deposits payable	361,634
Noncurrent liabilities:	
Due within one year	540,206
Due in more than one year	51,640,868
Total liabilities	65,388,265
Total net assets (deficit)	\$ (13,212,382)

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

LEON COUNTY EDUCATION FACILITIES AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Functions/Programs	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	BUSINESS-TYPE ACTIVITIES	TOTAL
Business-type activities:						
Southgate	\$ 7,162,924	\$ 5,301,275	\$ -	\$ -	\$ (1,861,649)	\$ (1,861,649)
Heritage Grove	501,783	364,856	-	4,773,222	4,636,295	4,636,295
Townhouses	588,854	580,873	-	-	(7,981)	(7,981)
Administrative	122,228	149,858	-	-	27,630	27,630
Total business-type activities	<u>\$ 8,375,789</u>	<u>\$ 6,396,862</u>	<u>\$ -</u>	<u>\$ 4,773,222</u>	2,794,295	2,794,295
			General revenue			
			Unrestricted investment earnings		152,905	152,905
			Change in net assets		2,947,200	2,947,200
			Net assets(deficit), beginning of year		(16,159,582)	(16,159,582)
			Net assets(deficit),end of year		<u>\$ (13,212,382)</u>	<u>\$ (13,212,382)</u>

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

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
SEPTEMBER 30, 2004

	Business-type Activities - Enterprise Funds				Total
	Southgate Fund	Heritage Grove Fund	Townhouse Fund	Administrative Fund	
Current assets					
Cash and cash equivalents	\$ 156,062	\$ 259,204	\$ 48,391	\$ 154,800	\$ 618,457
Investments	2,067,290	3,259,904	196,257	60,558	5,584,009
Accounts receivable, net	627,484	155,330	174	8,371	791,359
Due from other funds	-	16,069	10,000	-	26,069
Inventories and prepaid items	27,455	28,402	4,990	-	60,847
Total current assets	<u>2,878,291</u>	<u>3,718,909</u>	<u>259,812</u>	<u>223,729</u>	<u>7,080,741</u>
Noncurrent assets					
Capital assets, net	<u>16,642,989</u>	<u>22,765,146</u>	<u>2,691,792</u>	<u>-</u>	<u>42,099,927</u>
Other assets					
Debt issue costs, net of accumulated amortization	588,851	2,388,862	43,571	-	3,021,284
Total Assets	<u>20,110,131</u>	<u>28,872,917</u>	<u>2,995,175</u>	<u>223,729</u>	<u>52,201,952</u>
LIABILITIES					
Current liabilities					
Accounts payable and accrued expenses	236,536	449,559	7,267	-	693,362
Deferred revenue	1,911,971	56,104	2,362	-	1,970,437
Accrued interest payable	9,441,527	-	740,231	-	10,181,758
Deposits payable	127,346	219,103	15,185	-	361,634
Due to other funds	-	-	-	26,069	26,069
Current portion of revenue bonds payable	200,000	135,000	140,000	-	475,000
Current portion of capital lease payable	65,206	-	-	-	65,206
Total current liabilities	<u>11,982,586</u>	<u>859,766</u>	<u>905,045</u>	<u>26,069</u>	<u>13,773,466</u>
Noncurrent liabilities					
Revenue bonds payable	26,210,090	22,719,831	2,650,000	-	51,579,921
Capital lease payable	60,947	-	-	-	60,947
Total long-term debt	<u>26,271,037</u>	<u>22,719,831</u>	<u>2,650,000</u>	<u>-</u>	<u>51,640,868</u>
Total liabilities	<u>38,253,623</u>	<u>23,579,597</u>	<u>3,555,045</u>	<u>26,069</u>	<u>65,414,334</u>
Total net assets (deficit)	<u>\$ (18,143,492)</u>	<u>\$ 5,293,320</u>	<u>\$ (559,870)</u>	<u>\$ 197,660</u>	<u>\$ (13,212,382)</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, 2004

	Business-type Activities - Enterprise Funds				
	Southgate Fund	Heritage Grove Fund	Townhouse Fund	Administrative Fund	Total
Operating revenues	\$ 5,301,275	\$ 364,856	\$ 580,873	\$ 149,858	\$ 6,396,862
Operating expenses					
Personnel costs	1,067,120	-	38,561	45,000	1,150,681
Other operating costs	884,036	265,052	115,135	70,419	1,334,642
Food costs	553,707	-	-	-	553,707
Utilities	484,955	8,879	2,589	-	496,423
Repairs and maintenance	207,012	54,303	104,864	-	366,179
Scholarships	-	-	-	6,809	6,809
Depreciation and amortization	681,703	173,549.00	91,514	-	946,766
Total operating expenses	3,878,533	501,783	352,663	122,228	4,855,207
Operating income (loss)	1,422,742	(136,927)	228,210	27,630	1,541,655
Nonoperating revenues (expenses)					
Interest expense	(3,284,391)	-	(236,191)	-	(3,520,582)
Interest income	16,016	128,794	6,897	1,198	152,905
Total nonoperating revenues (expenses)	(3,268,375)	128,794	(229,294)	1,198	(3,367,677)
Income (loss) before contributions and operating transfers	(1,845,633)	(8,133)	(1,084)	28,828	(1,826,022)
Capital contributions	-	4,773,222	-	-	4,773,222
Transfers					
Transfers in	-	-	-	82,439	82,439
Transfers out	(82,439)	-	-	-	(82,439)
Total operating transfers	(82,439)	-	-	82,439	-
Change in net assets	(1,928,072)	4,765,089	(1,084)	111,267	2,947,200
Net assets (deficit), beginning of year	(16,215,420)	528,231	(558,786)	86,393	(16,159,582)
Net assets (deficit), end of year	\$ (18,143,492)	\$ 5,293,320	\$ (559,870)	\$ 197,660	\$ (13,212,382)

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, 2004
Increase (Decrease) in Cash and Cash Equivalents

	Business-type Activities - Enterprise Funds				Total
	Southgate Fund	Heritage Grove Fund	Townhouse Fund	Administrative Fund	
Cash flows from operating activities					
Cash received from residents and customers	\$ 5,280,036	\$ 368,664	\$ 533,245	\$ 151,704	\$ 6,333,649
Cash paid to suppliers	(3,219,929)	(325,136)	(262,582)	(96,159)	(3,903,806)
Net cash provided by operating activities	<u>2,060,107</u>	<u>43,528</u>	<u>270,663</u>	<u>55,545</u>	<u>2,429,843</u>
Cash flows from noncapital financing activities					
Transfers in	-	-	-	82,439	82,439
Transfers out	(82,439)	-	-	-	(82,439)
Net cash provided by (used in) noncapital financing activities	<u>(82,439)</u>	<u>-</u>	<u>-</u>	<u>82,439</u>	<u>-</u>
Cash flows from investing activities					
Purchase of investments	(198,756)	(3,259,904)	(6,302)	(9,090)	(3,474,052)
Interest received	16,016	128,794	6,897	1,198	152,905
Net cash provided by (used in) investing activities	<u>(182,740)</u>	<u>(3,131,110)</u>	<u>595</u>	<u>(7,892)</u>	<u>(3,321,147)</u>
Cash flows from capital and related financing activities					
Proceeds of new borrowings	-	20,465,969	-	-	20,465,969
Capital contributions	-	4,773,222	-	-	4,773,222
Purchases and construction of capital assets	(88,638)	(21,288,959)	-	-	(21,377,597)
Principal payments on long-term debt	(248,895)	-	(125,000)	-	(373,895)
Interest paid	(1,823,061)	(703,446)	(181,913)	-	(2,708,420)
Net cash provided by (used in) capital and related financing activities	<u>(2,160,594)</u>	<u>3,246,786</u>	<u>(306,913)</u>	<u>-</u>	<u>779,279</u>
Net increase (decrease) in cash and cash equivalents	<u>(283,227)</u>	<u>159,204</u>	<u>(35,655)</u>	<u>47,653</u>	<u>(112,025)</u>
Cash and cash equivalents, beginning of year	<u>521,728</u>	<u>100,000</u>	<u>84,046</u>	<u>24,708</u>	<u>730,482</u>
Cash and cash equivalents, end of year	<u>\$ 238,501</u>	<u>\$ 259,204</u>	<u>\$ 48,391</u>	<u>\$ 72,361</u>	<u>\$ 618,457</u>
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ 1,422,742	\$ (136,927)	\$ 228,210	\$ 27,630	\$ 1,541,655
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation and amortization	681,703	173,549	91,514	-	946,766
Changes in assets and liabilities:					
Increase (decrease) in accounts payable and accrued expenses	(14,207)	31,500	(1,321)	26,069	42,041
Increase (decrease) in deposits	8,674	119,103	(32,070)	-	95,707
Increase (decrease) in deferred revenue	317,414	56,104	(6,523)	-	366,995
(Increase) decrease in accounts receivable	(347,327)	(171,399)	(9,035)	1,846	(525,915)
Increase in inventory and prepaid items	(8,892)	(28,402)	(112)	-	(37,406)
Total adjustments	<u>637,365</u>	<u>180,455</u>	<u>42,453</u>	<u>27,915</u>	<u>888,188</u>
Net cash provided by operating activities	<u>\$ 2,060,107</u>	<u>\$ 43,528</u>	<u>\$ 270,663</u>	<u>\$ 55,545</u>	<u>\$ 2,429,843</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, 2004

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 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 government only since there are no component units for which the government is considered to be financially accountable. In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Certain of the significant changes in the Statement include the following:

For the first time the financial statements include:

- Financial statements prepared using full accrual accounting for all of the Authority's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

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

The government reports the following major proprietary funds:

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

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The *Townhouse fund* accounts for the activities of the government's townhouse rental operations.

The *Heritage Grove fund* accounts for the activities of the government's fraternity house rental operations.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund 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 government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government'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 this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Equity

1. Deposits and Investments

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

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

Investments are stated at fair values.

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (Continued)

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, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the business-type activities columns in the government-wide financial statements. For financial reporting purposes, capital assets are defined by the government 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:

Fixed assets are depreciated using the straight-line method, over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Furniture, fixtures and equipment	5 - 10

4. Long-term Debt

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

E. 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, 2004

II. DETAILED NOTES ON ALL FUNDS

A. Deposits

At year end, the Authority's carrying amount of deposits was \$618,457 and the bank balance was \$689,211. Of the bank balance, the Authority's deposits are entirely covered 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. Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the Authority or its agent in the Authority's name.
2. Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the Authority's name.
3. Uninsured and unregistered, with securities held by the counter-party, or by its trust department or agent but not in the Authority's name.

At year-end, the Authority's investment balances were as follows:

	Categories			Fair Value
	1	2	3	
Bond reserve investment accounts	\$ 5,584,009	\$ -	\$ -	\$ 5,584,009

B. Capital Assets

The following is a summary of capital assets at September 30, 2004:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 3,049,286	\$ -	\$ -	\$ 3,049,286
Construction in process	528,231	-	528,231	-
Total capital assets not being depreciated	<u>3,577,517</u>	<u>-</u>	<u>528,231</u>	<u>3,049,286</u>
Capital assets being depreciated				
Buildings and improvements	19,511,719	22,960,967	-	42,472,686
Equipment	5,463,833	66,365	-	5,530,198
Total capital assets being depreciated	<u>24,975,552</u>	<u>23,027,332</u>	<u>-</u>	<u>48,002,884</u>
Less accumulated depreciation				
Buildings and improvements and equipment	8,036,249	915,994	-	8,952,243
Total capital assets being depreciated, net	<u>16,939,303</u>	<u>22,111,338</u>	<u>-</u>	<u>39,050,641</u>
Business-type capital assets, net	<u>\$ 20,516,820</u>	<u>\$22,111,338</u>	<u>\$ 528,231</u>	<u>\$ 42,099,927</u>

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

II. DETAILED NOTES ON ALL FUNDS (Continued)

B. Capital Assets (Continued)

Depreciation expense was charged as follows:

Southgate Fund	\$ 656,007
Heritage Grove Fund	173,549
Townhouse Fund	86,438
	<u>\$ 915,994</u>

C. Long-term Debt

Revenue Refunding Bonds

On May 29, 1998, the Authority issued \$12,000,000 in Revenue Refunding Bonds Series 1998A and \$20,500,000 in Subordinated Revenue Refunding Bonds Series 1998B with an average interest rate of 7.283 percent to advance refund \$23,075,000 of 1991 Senior Certificates of Participation and \$1,145,000 of 1991 Subordinate Certificates of Participation. The net proceeds of \$30,408,190 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1991 Senior and Subordinate Certificates of Participation. At September 30, 2004, the amount of insubstance defeased debt which remained outstanding was \$18,480,000.

Revenue refunding bonds are collateralized by the income derived from Southgate Residence Hall.

	<u>Interest rates</u>	<u>Amount</u>
Series 1998A and 1998B	7.625 - 9%	\$ 31,675,000
Less: Unamortized deferred advance refunding		5,264,910
Series 1998A and 1998B, net		<u>\$ 26,410,090</u>

The Series 1998A and 1998B Revenue bond debt service to maturity is as follows:

	<u>Principal</u>	<u>Interest</u>
2005	\$ 200,000	\$ 2,317,438
2006	210,000	2,303,938
2007	225,000	2,289,763
2008	240,000	2,274,575
2009	260,000	2,258,375
2010-2014	1,580,000	11,005,001
2015-2019	2,180,000	10,396,151
2020-2024	10,530,000	9,012,170
2025-2028	16,250,000	3,140,526
	<u>\$ 31,675,000</u>	<u>\$ 44,997,937</u>

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

II. DETAILED NOTES ON ALL FUNDS (Continued)

C. Long-term Debt (Continued)

Student Housing Revenue Bonds (Series 1993A and 1993B)

On April 30, 1993, the Authority issued two series of bonds, designated Leon County Educational Facilities Authority Student Housing Revenue Bonds, Series 1993A and 1993B. Both series were used to purchase an existing eighty-two unit Townhouses project to be used as a student housing facility. The bonds are secured by the property including all furniture and fixtures that are a part of the property and all the rights, title and interest in all revenues from the Townhouses. These bonds are not a general debt, liability or obligation of the Authority, the State of Florida, or any political subdivision or agency thereof, or a pledge of the faith and credit of the Authority, the State of Florida or of any political subdivision or agency thereof. The bonds are limited obligations payable solely from the revenues and assets of the Townhouses Fund.

The series 1993B bonds are junior and subordinate to the Series 1993A bonds. The series 1993B bonds will be paid only if revenues are sufficient after meeting all other obligations under the bond indenture.

Bonds payable consist of the following at September 30, 2004:

Student Housing Revenue Bonds, Series 1993A, dated April 30, 1993, in serial bonds due on May 1, 1994, and on each May 1 thereafter through May 1, 2014, interest at 8.25% due semiannually on May 1 and November 1 of each year commencing on November 1, 1993. These bonds are subject to optional redemption on or after May 1, 2004, in whole on any date or in part on any interest payment date at the following redemption prices:

May 1, 2004 to April 30, 2005	103%	
May 1, 2005 to April 30, 2006	102%	
May 1, 2006 to April 30, 2007	101%	
May 1, 2007 and thereafter	100%	\$ 2,080,000

Student Housing Revenue Bonds, Series 1993B, dated April 30, 1993; due May 1, 2015, interest at 8.25% due annually on May 1 of each year, commencing on May 1, 1994. These bonds are not subject to optional redemption.

710,000

Total Student Housing Revenue Bonds Payable

\$ 2,790,000

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

II. DETAILED NOTES ON ALL FUNDS (Continued)

C. Long-term Debt (Continued)

Maturities of long-term debt excluding interest at September 30, 2004, are as follows:

	<u>Principal</u>	<u>Interest</u>
2005	\$ 140,000	\$ 159,419
2006	150,000	218,625
2007	160,000	206,250
2008	180,000	193,050
2009	200,000	178,200
2010-2014	1,250,000	617,513
2015-2019	710,000	58,575
	<u>\$ 2,790,000</u>	<u>\$ 1,631,632</u>

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. 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.

Revenue refunding bonds are collateralized by the income derived from Heritage Grove Project.

	<u>Interest rates</u>	<u>Amount</u>
Series 2003 Revenue Bond	3 - 5.125%	\$ 23,315,000
Less: Original issue discount		460,169
Series 2003 Revenue Bond, net		<u>\$ 22,854,831</u>

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

	<u>Principal</u>	<u>Interest</u>
2005	\$ 135,000	\$ 1,130,039
2006	215,000	1,125,964
2007	310,000	1,119,514
2008	355,000	1,110,214
2009	400,000	1,097,789
2010-2014	2,705,000	5,192,281
2015-2019	2,720,000	4,615,993
2020-2024	4,205,000	3,985,188
2025-2029	-	3,144,186
2030-2033	12,270,000	2,515,350
	<u>\$ 23,315,000</u>	<u>\$ 25,036,518</u>

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

II. DETAILED NOTES ON ALL FUNDS (Continued)

D. Management Agreement

The Authority entered into an agreement with a corporation to provide dormitory management, retail space management, parking garage management and manual food services for the Southgate Residence Hall. The agreement is for a term of 5 years commencing August 1, 2003, and terminating July 31, 2008. The management company ("the Manager") shall be compensated in the form of a base compensation fee (the "*Base Management Fee*") equal to (i) \$22,200 per month for the period from August 1, 2003 to July 31, 2004, (ii) \$22,850 per month for the period from August 1, 2004 to July 31, 2005, (iii) \$23,600 per month for the period from August 1, 2005 to July 31, 2006, (iv) \$24,300 per month for the period from August 1, 2006 to July 31, 2007, and (v) \$25,000 per month for the period from August 1, 2007 to July 31, 2008. Payment of the Base Management Fee will be made from the Operating Account monthly beginning on August 1, 2003, 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 hereby agrees to pay to the Manager incentive fees (the "*Incentive Fees*") in the following manner: The Incentive Fee for each fiscal year at the Property (i.e., from August 1 of each year through July 31 of the following year) shall be equal to twelve percent (12%) of the gross receipts in excess of \$5,112,524 derived from the operation of the Property during such fiscal year, but in no event shall each fiscal year's Incentive Fee exceed (i) \$63,000 for the period from August 1, 2003 to July 31, 2004, (ii) \$64,500 for the period from August 1, 2004 to July 31, 2005, (iii) \$66,000 for the period from August 1, 2005 to July 31, 2006, (iv) \$67,500 for the period from August 1, 2006 to July 31, 2007, and (v) \$69,000 for the period from August 1, 2007 to July 31, 2008. 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 for each fiscal year (or portion thereof) to the Manager only upon completion of the annual audit for the applicable fiscal year.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

III. CONDUIT DEBT OBLIGATION

The Authority issued Student Housing Revenue Bonds to provide financial assistance to a private-sector entity for the construction of University Courtyard Apartments deemed to be in the public interest. The bonds are secured by the property financed and the receipts generated therefrom. Neither the Authority, Leon County, Florida, the State of Florida nor any other public body thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. At September 30, 2004 the principal amount payable was approximately \$10 million.

The Authority entered into a scholarship funding and title conveyance agreement whereby 20% of cash flow will be distributed to the Authority to fund scholarships. The agreement calls for the conveyance of the property to the Authority on March 1, 2040 or such earlier date on which all principal and interest on the bonds have been paid in full.

IV. SUBSEQUENT EVENTS

The Authority sold the capital assets of the Townhouse fund on October 19, 2004 for \$3,139,917.

**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 each major fund of Leon County Educational Facilities Authority as of and for the year ended September 30, 2004, which collectively comprise Leon County Educational Facilities Authority's basic financial statements and have issued our report thereon dated February 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Leon County Educational Facilities Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Leon County Educational Facilities Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Leon County Educational Facilities Authority, in the accompanying "Management Letter Required by Chapter 10.550, Rules of the State of Florida, Office of the Auditor General" dated February 18, 2005.

This report is intended solely for the information and use of the Authority, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

James Moore & Co.

Tallahassee, Florida
February 18, 2005

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

To the Authority Members,
Leon County Educational Facilities Authority:

We have audited the financial statements of the business-type activities and each major fund of Leon County Educational Facilities Authority, as of and for the fiscal year ended September 30, 2004, which collectively comprise Leon County Educational Facilities Authority's basic financial statements and have issued our report thereon dated February 18, 2005.

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with *Government Auditing Standards* dated February 18, 2005. Disclosures in those reports, if any, should be considered in conjunction with this management letter.

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. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the State of Florida Office of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The Rules of the Auditor General (Section 10.554(1)(h)1.) require that we comment as to whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. There were no significant findings and recommendations made in the preceding annual financial audit report.

The Rules of the Auditor General (Section 10.554 (1)(h)2.) require that we comment as to whether or not the Leon County Educational Facilities Authority, complied with section 218.415, Florida Statutes, regarding the investment in public funds. The Leon County Educational Facilities Authority complied with Section 218.415, Florida Statutes, regarding the investment in public funds as of September 30, 2004.

The Rules of the Auditor General (Section 10.554(1)(h)3.) require disclosure in the management letter any recommendations to improve financial management accounting procedures and internal controls. Our audit did not disclose any matter required to be disclosed by the Rules of the Auditor General (Section 10.554(1)(h)3.).

The Rules of the Auditor General (Section 10.554(1)(h)4.a., b., and c.) require disclosures in the management letter of the following matters that are not clearly inconsequential considering both quantitative and qualitative factors: violations of laws, rules, regulations and contractual provision or abuse that have occurred, or were likely to have occurred, and were discovered within the scope of the audit; improper or illegal expenditures discovered within the scope of the audit that may not materially affect the financial statements; and deficiencies in internal control that are not reportable conditions, including, but not limited to: (1) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements); (2) failures to properly record financial transactions; and (3) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that came to the attention of the auditor. Our audit did not disclose any of the above matters required to be disclosed by the Rules of the Auditor General (Section 10.554(1)(h)4.a., b., and c.).

The Rules of the Auditor General (Sections 10.554(1)(h)5.) require that the name or official title and legal authority for the primary government and each component unit of the reporting entity as defined in publications cited in Rule 10.553 be disclosed in the management letter, unless disclosed in the notes to the financial statements. There are no component units of the Leon County Educational Facilities Authority to be disclosed as required by accounting principles generally accepted in the United States of America.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6.a and c.) the scope of our audit included financial condition assessment procedures pursuant to Auditor General Rule 10.556(8). In connection with performing those procedures and other audit procedures, we determined that Leon County Educational Facilities Authority is in a state of financial emergency as a consequence of an "unreserved and total fund net assets (deficit) for which sufficient resources of the Authority are not available to cover the deficit for two successive years (Florida Statutes 218.503(1)(d))." We recommend that Authority continue to review rate structures, closely monitor budget to actual expenses and also to explore additional revenue sources to correct this deficit condition. In addition, each property owned by the Authority stands alone as collateral for the applicable bonds outstanding. The Authority is not responsible for the outstanding bonded debt that may be in excess of the property value collateralizing the Revenue Bonds. Due to this arrangement, the financial emergency is one of "technical nature."

As required by the Rules of the Auditor General (Section 10.554(1)(h)6.b.) we determined that the annual financial report for the Leon County Educational Facilities Authority, for the fiscal year ended September 30, 2004 was filed with the Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, and is in agreement with the annual financial audit report for the fiscal year ended September 30, 2004.

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

James Moore & Co.

Tallahassee, Florida
February 18, 2005