

**LEON COUNTY EDUCATIONAL
FACILITIES AUTHORITY
FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
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SEPTEMBER 30, 2011**

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

INDEPENDENT AUDITORS' REPORT

To the Authority Members,
Leon County Educational Facilities Authority:

We have audited the accompanying financial statements of the business-type activities and each major fund of Leon County Educational Facilities Authority, as of and for the year ended September 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Leon County Educational Facilities Authority's management. Our responsibility is to express 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 business-type activities and each major fund of Leon County Educational Facilities Authority, as of September 30, 2011 and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2012, on our consideration of Leon County Educational Facilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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

Tallahassee, Florida
January 11, 2012

Management's Discussion and Analysis

As management of the Leon County Educational Facilities Authority, we offer readers of the Leon County Educational Facilities Authority's financial statements this narrative overview and analysis of the financial activities of the Leon County Educational Facilities Authority for the fiscal year ended September 30, 2011.

Overview of the Financial Statements

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

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

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

The basic proprietary fund financial statements can be found on pages 8 – 10 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 11 – 22 of this report.

Fund Financial Analysis

Net assets may serve over time as a useful indicator of the Authority's financial position. In the case of Leon County Educational Facilities Authority, liabilities exceeded assets by \$31,737,326 at the close of the most recent fiscal year. This reported deficit net assets is created by the unpaid principal and accrued interest on the Southgate Residence Hall 1998 Series B subordinated revenue refunding bonds of approximately \$38,000,000. In the event of a default of the 1998 Series A bonds, the Series B bonds are subject to extinguishment and cancellation, without recourse against the Authority. The Authority's Southgate Residence Hall has Subordinate Revenue Refunding Bonds in the amount of \$20,500,000 with an average interest rate of 7.283 percent. The Authority, in some years, has not had enough cash flow from the operations of the residence hall to pay interest due on the subordinated bonds. Per the bond documents, the unpaid interest then becomes additional principal to accrue interest. The annual interest accrues at approximately \$1,560,000 per year on these bonds. With the unpaid amount of interest also accruing interest, the amount of accrued interest on the financials from the subordinated bonds is approximately \$20,000,000. This is also the approximate amount of the unrestricted deficit in the Southgate Fund. Excluding the Series B bonds and related accrued interest, the net assets of the Authority are approximately \$6,000,000.

A portion of the Leon County Educational Facilities Authority's net assets reflects a deficit in investment in capital assets (e.g., land, buildings, machinery, and equipment). The deficit is created because the investment in capital assets is reduced by any related debt used to acquire those assets that is still outstanding as well as any accumulated depreciation on those assets. The Leon County Educational Facilities Authority utilizes its capital assets to provide housing services to students; consequently, these assets are not available for future spending. The Southgate fund will continue to have a deficit in the foreseeable future. With internal changes in the management company, and the new marketing plan and new budgets implemented, the deficits should begin to decrease as the economic landscape improves over time.

Leon County Educational Facilities Authority's Net Assets

	2011	2010
Current and other assets	\$ 5,131,682	\$ 4,851,714
Capital assets	32,942,608	34,378,880
Total assets	38,074,290	39,230,594
Long-term liabilities outstanding	67,207,409	65,183,306
Other liabilities	2,604,207	3,584,739
Total liabilities	69,811,616	68,768,045
Net assets:		
Invested in capital assets, net of related debt	(16,819,619)	(16,159,653)
Restricted	2,528,265	2,560,783
Unrestricted	(17,445,972)	(15,938,581)
Total net assets (deficit)	\$ (31,737,326)	\$ (29,537,451)

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

Leon County Educational Facilities Authority's Changes in Net Assets

	2011	2010
Revenues:		
Program revenues:		
Charges for services	\$ 7,513,583	\$ 6,951,580
Interest and other income	70,181	74,728
Total revenues	7,583,764	7,026,308
Expenses:		
Student housing	9,783,639	9,518,183
Decrease in net assets	(2,199,875)	(2,491,875)
Net assets (deficit), beginning of year	(29,537,451)	(27,045,576)
Net assets (deficit), end of year	\$ (31,737,326)	\$ (29,537,451)

The \$2,199,875 decrease in net assets from 2010 to 2011 includes \$1,675,140 of depreciation and amortization expense, \$1,063,574 of interest expense on the Series 2003 bonds, \$870,338 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:				
	2011	2010	\$ CHG.	% CHG.
Revenues	\$ 5,271,248	\$ 4,864,928	\$ 406,320	8.4%
Operating expenses:				
Personnel Costs	1,169,901	1,094,533	75,368	6.9%
Other Operating Costs	1,007,806	979,416	28,390	2.9%
Food Costs	666,344	604,633	61,711	10.2%
Utilities	596,996	614,469	(17,473)	-2.9%
Repair and Maintenance	322,655	268,602	54,053	20.1%
Depreciation and Amortization	587,703	574,577	13,126	2.3%
Total expenses	4,351,405	4,136,230	215,175	5.2%
Operating income (loss)	\$ 919,843	\$ 728,698	\$ 191,145	26.2%

Southgate increased revenues 8.4% between years while, at the same time, management held the increase in operating expenses to only 5.2%. This resulted in an improved operating income of more than 26% between years.

The analysis below illustrates how Southgate's management controlled operating expenses as the operation grew 8.4% in revenue during the year:

Southgate				
Audited Statement of Operations				
For the Fiscal Year Ended:				
	2011	% of Revenues	2010	% of Revenues
Revenues	\$ 5,271,248	100.0%	\$ 4,864,928	100.0%
Operating expenses:				
Personnel Costs	1,169,901	22.2%	1,094,533	22.5%
Other Operating Costs	1,007,806	19.1%	979,416	20.1%
Food Costs	666,344	12.6%	604,633	12.4%
Utilities	596,996	11.3%	614,469	12.6%
Repair and Maintenance	322,655	6.1%	268,602	5.5%
Depreciation and Amortization	587,703	11.1%	574,577	11.8%
Total expenses	4,351,405	82.4%	4,136,230	85.0%
Operating income (loss)	\$ 919,843	17.6%	\$ 728,698	15.0%

Last year, out of every dollar of revenue, management spent \$.85, yielding an operating income net margin of 15%. This fiscal year, out of every dollar of revenue, management spent only \$.82, yielding an operating income net margin of 18%.

Heritage Grove also managed to increase operating income by 29% from an increase in revenues of only 7.5% as follows:

Heritage Grove				
Audited Statement of Operations				
For the Fiscal Year Ended:				
	2011	2010	\$ CHG.	% CHG.
Revenues	\$ 2,242,335	\$ 2,086,652	\$ 155,683	7.5%
Operating expenses:				
Personnel Costs	254,676	237,513	17,163	7.2%
Other Operating Costs	252,319	163,776	88,543	54.0%
Utilities	115,690	107,241	8,449	7.9%
Repair and Maintenance	130,856	177,855	(46,999)	-26.4%
Depreciation and Amortization	1,087,437	1,088,229	(792)	0.0%
Total	<u>1,840,978</u>	<u>1,774,614</u>	<u>66,364</u>	<u>3.7%</u>
Operating income (loss)	<u>\$ 401,357</u>	<u>\$ 312,038</u>	<u>\$ 89,319</u>	<u>28.62%</u>

Heritage Grove				
Audited Statement of Operations				
For the Fiscal Year Ended:				
	2011	% of	2010	% of
		Revenues		Revenues
Revenues	\$ 2,242,335	100.0%	\$ 2,086,652	100.0%
Operating expenses:				
Personnel Costs	254,676	11.4%	237,513	11.4%
Other Operating Costs	252,319	11.3%	163,776	7.8%
Utilities	115,690	5.2%	107,241	5.1%
Repair and Maintenance	130,856	5.8%	177,855	8.5%
Depreciation and Amortization	1,087,437	48.5%	1,088,229	52.2%
Total	<u>1,840,978</u>	<u>82.2%</u>	<u>1,774,614</u>	<u>85.0%</u>
Operating income (loss)	<u>\$ 401,357</u>	<u>17.8%</u>	<u>\$ 312,038</u>	<u>15.0%</u>

As revenues increased 7.5% between years, Heritage Grove was able to have operational expenses only increase by 3.7%.

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, 2011, amounts to \$ 32,942,608 net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements, and equipment.

Additional information on the Leon County Educational Facilities Authority's capital assets can be found in note II.C. on page 15 of this report.

Long-term debt. At the end of the current fiscal year, the Leon County Educational Facilities Authority had long-term debt consisting of revenue bonds outstanding and accrued interest of approximately \$67,000,000. These bonds are secured solely by specified revenue sources.

These bonds, together with interest thereon, are not general obligations of the Authority and do not constitute obligations, either general or special, of the State of Florida, Leon County, Florida or any political subdivision thereof, but are special limited obligations of the Authority payable solely and only from the pledged revenues, as specifically provided in all financing related agreements of the Authority. Bond obligations are not payable out of any fund or properties other than those of the Authority, and then only as to the particular project to which the bonds relate. Neither the faith and credit nor the revenues or taxing power of Leon County, Florida, the State of Florida or any political subdivision, is pledged to the payment of the principal of any Authority issued bonds or the interest thereon or other costs incident thereto.

Additional information on the Leon County Educational Facilities Authority's long-term debt can be found in note II.D. on pages 15 – 19 of this report.

Requests for Information

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

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
SEPTEMBER 30, 2011

ASSETS	Business-type Activities - Enterprise Funds			
	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
Current assets				
Cash and cash equivalents	\$ 977,018	\$ 21,816	\$ 90,257	\$ 1,089,091
Certificates of deposit	-	-	142,220	142,220
Investments	-	381,348	-	381,348
Accounts receivable, net	268,088	13,403	-	281,491
Due from other funds	-	-	125,240	125,240
Inventories and prepaid items	90,135	38,664	-	128,799
Restricted assets:				
Cash	152,204	113,326	-	265,530
Investments	524,952	2,193,011	-	2,717,963
Total current assets	<u>2,012,397</u>	<u>2,761,568</u>	<u>357,717</u>	<u>5,131,682</u>
Noncurrent assets				
Capital assets, not being depreciated	2,400,000	-	-	2,400,000
Capital assets, net of accumulated depreciation	10,934,933	17,109,402	-	28,044,335
Debt issue costs, net	408,984	2,089,289	-	2,498,273
Total noncurrent assets	<u>13,743,917</u>	<u>19,198,691</u>	<u>-</u>	<u>32,942,608</u>
Total Assets	<u>\$ 15,756,314</u>	<u>\$ 21,960,259</u>	<u>\$ 357,717</u>	<u>\$ 38,074,290</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	\$ 294,254	\$ 80,631	\$ -	\$ 374,885
Deferred revenue	1,722,290	159,564	-	1,881,854
Deposits payable	112,400	109,828	-	222,228
Due to other funds	116,240	9,000	-	125,240
Accrued interest payable	53,000	180,000	-	233,000
Current portion of notes payable	14,778	-	-	14,778
Current portion of revenue bonds payable	315,000	560,000	-	875,000
Total current liabilities	<u>2,627,962</u>	<u>1,099,023</u>	<u>-</u>	<u>3,726,985</u>
Noncurrent liabilities				
Accrued interest payable	19,710,455	-	-	19,710,455
Series 2003 revenue bonds payable	-	20,385,000	-	20,385,000
Revenue refunding bonds, Series 1998A, less deferred amounts on refunding	8,022,818	-	-	8,022,818
Revenue refunding bonds, Series 1998B, less deferred amounts on refunding	17,966,358	-	-	17,966,358
Total noncurrent liabilities	<u>45,699,631</u>	<u>20,385,000</u>	<u>-</u>	<u>66,084,631</u>
Total liabilities	<u>48,327,593</u>	<u>21,484,023</u>	<u>-</u>	<u>69,811,616</u>
NET ASSETS				
Invested in capital assets, net of related debt	(12,984,021)	(3,835,598)	-	(16,819,619)
Restricted for debt service	511,756	2,016,509	-	2,528,265
Unrestricted	(20,099,014)	2,295,325	357,717	(17,445,972)
Total net assets (deficit)	<u>(32,571,279)</u>	<u>476,236</u>	<u>357,717</u>	<u>(31,737,326)</u>
Total Liabilities and Net Assets	<u>\$ 15,756,314</u>	<u>\$ 21,960,259</u>	<u>\$ 357,717</u>	<u>\$ 38,074,290</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, 2011

Business-type Activities - Enterprise Funds

	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
Operating revenues	\$ 5,271,248	\$ 2,242,335	\$ -	\$ 7,513,583
Operating expenses				
Personnel costs	1,169,901	254,676	48,000	1,472,577
Other operating costs	1,007,806	252,319	46,219	1,306,344
Food costs	666,344	-	-	666,344
Utilities	596,996	115,690	-	712,686
Repairs and maintenance	322,655	130,856	-	453,511
Depreciation and amortization	587,703	1,087,437	-	1,675,140
Total operating expenses	4,351,405	1,840,978	94,219	6,286,602
Operating income (loss)	919,843	401,357	(94,219)	1,226,981
Nonoperating revenues (expenses)				
Interest expense	(2,433,463)	(1,063,574)	-	(3,497,037)
Interest and other income	524	66,662	2,995	70,181
Total nonoperating revenues (expenses)	(2,432,939)	(996,912)	2,995	(3,426,856)
Loss before operating transfers	(1,513,096)	(595,555)	(91,224)	(2,199,875)
Transfers				
Transfers in of issuer and management fees per trust indenture	-	-	136,612	136,612
Transfers out of issuer and management fees per trust indenture	(82,686)	(53,926)	-	(136,612)
Total transfers	(82,686)	(53,926)	136,612	-
Change in net assets	(1,595,782)	(649,481)	45,388	(2,199,875)
Net assets (deficit), beginning of year, as previously reported	(30,870,805)	1,125,717	207,637	(29,537,451)
Prior period adjustment (See Note III.b.)	(104,692)	-	104,692	-
Net assets (deficit), beginning of year, restated	(30,975,497)	1,125,717	312,329	(29,537,451)
Net assets (deficit), end of year	\$ (32,571,279)	\$ 476,236	\$ 357,717	\$ (31,737,326)

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, 2011
Increase (Decrease) in Cash and Cash Equivalents

	Business-type Activities - Enterprise Funds			Total
	Southgate Fund	Heritage Grove Fund	Administrative Fund	
Cash flows from operating activities				
Cash received from residents and customers	\$ 5,588,291	\$ 2,275,686	\$ -	\$ 7,863,977
Cash paid to suppliers and others	(3,734,324)	(796,326)	(154,219)	(4,684,869)
Net cash provided by (used in) operating activities	<u>1,853,967</u>	<u>1,479,360</u>	<u>(154,219)</u>	<u>3,179,108</u>
Cash flows from noncapital financing activities				
Transfers in	-	-	125,064	125,064
Transfers out	(71,138)	(53,926)	-	(125,064)
Net cash provided by (used in) noncapital financing activities	<u>(71,138)</u>	<u>(53,926)</u>	<u>125,064</u>	<u>-</u>
Cash flows from capital and related financing activities				
Purchases of capital assets	(129,051)	(109,818)	-	(238,869)
Principal payments on long-term debt	(295,000)	(505,000)	-	(800,000)
Interest paid	(659,138)	(1,060,289)	-	(1,719,427)
Net cash used in capital and related financing activities	<u>(1,083,189)</u>	<u>(1,675,107)</u>	<u>-</u>	<u>(2,758,296)</u>
Cash flows from investing activities				
Purchase of certificates of deposit and investments	(53,594)	-	(27,917)	(81,511)
Proceeds from certificates of deposit and investments	-	212,821	54,436	267,257
Interest and other proceeds	524	66,662	2,995	70,181
Net cash provided by (used in) investing activities	<u>(53,070)</u>	<u>279,483</u>	<u>29,514</u>	<u>255,927</u>
Net increase in cash and cash equivalents	<u>646,570</u>	<u>29,810</u>	<u>359</u>	<u>676,739</u>
Cash and cash equivalents, beginning of year	<u>482,652</u>	<u>105,332</u>	<u>89,898</u>	<u>677,882</u>
Cash and cash equivalents, end of year	<u>\$ 1,129,222</u>	<u>\$ 135,142</u>	<u>\$ 90,257</u>	<u>\$ 1,354,621</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 919,843	\$ 401,357	\$ (94,219)	\$ 1,226,981
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	587,703	1,087,437	-	1,675,140
Changes in assets and liabilities:				
Increase (decrease) in accounts payable and accrued expenses	27,125	(26,689)	(60,000)	(59,564)
Increase in deposits	9,600	3,463	-	13,063
Increase in deferred revenue	41,897	21,169	-	63,066
Decrease in accounts receivable	265,546	8,719	-	274,265
Decrease in inventory and prepaid items	49,229	3,772	-	53,001
Financed insurance premiums	(46,976)	(19,868)	-	(66,844)
Total adjustments	<u>934,124</u>	<u>1,078,003</u>	<u>(60,000)</u>	<u>1,952,127</u>
Net cash provided by (used in) operating activities	<u>\$ 1,853,967</u>	<u>\$ 1,479,360</u>	<u>\$ (154,219)</u>	<u>\$ 3,179,108</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, 2011

I. Summary of Significant Accounting Policies:

(a) Reporting Entity

The Leon County Educational Facilities Authority (the "Authority") is a public instrumentality created by the Higher Educational Facilities Authorities Law, Chapter 69-345, Laws of Florida, 1969 (Chapter 243, Part II, Florida Statutes), as revised and amended, to assist institutions of higher education within Leon County, Florida in the construction, financing or refinancing of projects (structures and machinery and equipment related to the operation of the structure) required or useful for the instruction of students or the operation of an institution of higher education. The accompanying financial statements present the Authority and its component unit, an entity for which the Authority is considered to be financially accountable.

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

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

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

The Authority reports the following major proprietary funds:

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

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

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

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

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

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

I. Summary of Significant Accounting Policies: (Continued)

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise funds are charges to customers for rents and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

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

(c) Assets, Liabilities and Equity

1. *Deposits and Investments*

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

State statutes authorize the Authority to invest in direct obligations of the U.S. Treasury, Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, SEC registered money market funds with the highest credit quality rating, and savings and CD accounts in state-certified public depositories.

Investments are stated at fair value.

2. *Inventories and Prepaid Items*

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

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

3. *Capital Assets*

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

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

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

I. Summary of Significant Accounting Policies: (Continued)

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

3. *Capital Assets* (Continued)

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

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

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

4. *Long-term Debt*

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

5. *Receivables and Payables*

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

6. *Restricted Assets*

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

7. *Deferred Revenue*

Deferred revenue consists of operating revenues collected from Southgate and Heritage Grove residents for the 2011-2012 school year. The revenue is recognized as earned on a monthly basis.

8. *Use of Estimates*

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

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

II. Detailed Notes on all Funds:

(a) Deposits and Investments

Deposits. At September 30, 2011, the Authority's carrying amount of deposits was \$1,496,841 and the bank balance was \$1,561,868. 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, 2011 the Authority had the following investments:

	Fair Value
Money market funds	<u>\$ 3,099,311</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, 2011, including the applicable allowances for uncollectible accounts, are as follows:

	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
Gross receivables	\$ 269,588	\$ 13,403	\$ –	\$ 282,991
Less: allowance for uncollectibles	1,500	–	–	1,500
Net total receivables	<u>\$ 268,088</u>	<u>\$ 13,403</u>	<u>\$ –</u>	<u>\$ 281,491</u>

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

II. Detailed Notes on all Funds: (Continued)

(c) Capital Assets

The following is a summary of capital assets at September 30, 2011:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets not being depreciated:				
Land	\$ 2,400,000	\$ -	\$ -	\$ 2,400,000
Total capital assets not being depreciated	<u>2,400,000</u>	<u>-</u>	<u>-</u>	<u>2,400,000</u>
Capital assets being depreciated:				
Buildings and improvements	40,160,894	39,355	-	40,200,249
Equipment	5,054,569	199,514	-	5,254,083
Total capital assets being depreciated	<u>45,215,463</u>	<u>238,869</u>	<u>-</u>	<u>45,454,332</u>
Less accumulated depreciation:				
Buildings and improvements and equipment	(15,855,518)	(1,554,477)	-	(17,409,995)
Total capital assets being depreciated, net	<u>29,359,945</u>	<u>(1,315,608)</u>	<u>-</u>	<u>28,044,337</u>
Business-type capital assets, net	<u>\$ 31,759,945</u>	<u>\$ (1,315,608)</u>	<u>\$ -</u>	<u>\$ 30,444,337</u>

Depreciation and amortization expense were charged as follows:

Southgate Fund	\$ 562,007
Heritage Grove Fund	992,470
	<u>\$ 1,554,477</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, 2011, the amount of insubstance defeased debt which remained outstanding was \$7,985,000.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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, 2011 is as follows:

Revenue Refunding Bonds Series 1998A issued May 1998 in the amount of \$12,000,000 at an interest rate of 6.75% due in 30 annual installments. Interest is due semi-annually with principal maturity paid from March 1, 1999 through September 1, 2028.	\$ 9,470,000
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	29,970,000
Less current portion (Series 1998A)	315,000
Total Revenue Refunding Bonds, noncurrent	29,655,000
Less deferred amounts on refunding	3,665,824
Total	\$ 25,989,176

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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
2012	\$ 315,000	\$ 639,225	\$ -	\$ 1,563,125
2013	335,000	617,963	-	1,563,125
2014	360,000	595,350	-	1,563,125
2015	380,000	571,050	-	1,563,125
2016	405,000	545,400	-	1,563,125
2017-2021	2,490,000	2,276,101	-	7,815,625
2022-2026	3,455,000	1,313,889	13,495,000	5,910,519
2027-2028	1,730,000	177,188	7,005,000	812,825
	\$ 9,470,000	\$ 6,736,166	\$ 20,500,000	\$ 22,354,594

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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, 2011 is as follows:

Student Housing Revenue Bonds Series 2003 issued December 2003 in the amount of \$23,315,000 with interest rates ranging from 3% - 5.125%. Principal and interest is due annually on August 1.	\$ 20,945,000
Less current portion	560,000
Total Revenue Bonds, noncurrent	\$ 20,385,000

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, 2011

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
2012	\$ 560,000	\$ 1,040,089
2013	585,000	1,016,989
2014	605,000	992,126
2015	635,000	965,658
2016	—	937,083
2017-2021	2,085,000	4,391,428
2022-2026	4,205,000	3,564,688
2027-2031	—	3,144,186
2032-2033	12,270,000	1,257,675
	\$ 20,945,000	\$ 17,309,922

Changes in long-term liabilities:

Long-term liability activity for the year ended September 30, 2011, was as follows:

Business-type activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 1998A revenue bonds payable	\$ 9,765,000	\$ —	\$ 295,000	\$ 9,470,000	\$ 315,000
Less deferred amounts on refunding Series 1998A	(1,240,648)	—	(108,466)	(1,132,182)	—
	8,524,352	—	186,534	8,337,818	315,000
Series 1998B revenue bonds payable	20,500,000	—	—	20,500,000	—
Less deferred amounts on refunding Series 1998B	(2,636,376)	—	(102,734)	(2,533,642)	—
	17,863,624	—	(102,734)	17,966,358	—
Series 2003 revenue bonds payable	21,450,000	—	505,000	20,945,000	560,000
Total bonds payable	\$ 47,837,976	\$ —	\$ 588,800	\$ 47,249,176	\$ 875,000

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

II. Detailed Notes on all Funds: (Continued)

(e) Management Agreement

Southgate Fund

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

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

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

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011**

II. Detailed Notes on all Funds: (Continued)

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

Southgate Fund (Continued)

In addition to the Base Management Fee (and any other fees paid to and expenses reimbursed to the Manager) and in order to provide incentive to the Manager to generate increased revenue at the Property, the Authority has agreed to pay to the Manager incentive fees (the “*Incentive Fees*”) in the following manner: If the property should reach 90.0% occupancy, \$45,000 shall be paid to the Manager. If the property should reach 95.0% occupancy, an additional \$10,000 (a total of \$55,000) shall be paid to the Manager. The term “gross receipts” for the purposes of this Agreement shall include all proceeds from rent and from business interruption insurance, if any, but shall not include tenant security deposits unless forfeited and recognized as income by the Authority, nor shall such gross receipts include insurance loss proceeds, or any award or payment made by any governmental Authority in connection with the exercise of any right of eminent domain or any proceeds from the sale, exchange, mortgaging or refinancing of the Property. With regard to any Incentive Fee which would be owed to the Manager for any partial fiscal year (because of expiration or termination of this Agreement prior to the end of the applicable fiscal year), the calculation of the Incentive Fee for such a partial fiscal year will be determined based upon the gross receipts from the Property (on a cumulative annualized basis) for such partial fiscal year, and the Incentive Fee shall not exceed twenty percent (20%) of the total compensation payable to the Manager, including the Base Management Fee and the Incentive Fee, for such partial fiscal year. The Authority shall pay the Incentive Fee to the Manager only upon completion of the annual audit for the applicable fiscal year. Management fees paid by the Southgate Fund for the year ended September 30, 2011 totaled \$257,341.

Heritage Grove Fund

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

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

Management fees paid by the Heritage Grove Fund for the year ended September 30, 2011 totaled \$119,042.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

III. Other Information:

(a) Risk Management

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

(b) Prior Period Adjustment

Subsequent to the issuance of the Authority's September 30, 2010 financial statements, management determined its financial statements were misstated due to an understatement of an amount due to the Administrative Fund from the Southgate Fund of \$104,692. The correction of this error in the September 30, 2011 financial statements decreased the Southgate Fund's beginning net assets by \$104,692 and simultaneously increased the Administrative Fund's beginning net assets by the same amount.

(c) Subsequent Events

The Authority has evaluated events and transactions for potential recognition or disclosure in the financial statements through January 11, 2012, the date which the financial statements were available to be issued. No subsequent events have been recognized or disclosed.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY

ADDITIONAL INFORMATION

SEPTEMBER 30, 2011

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
SCHEDULE OF OTHER OPERATING EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Business-type Activities - Enterprise Funds

	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
Other operating expenses				
Legal and professional fees	\$ 44,101	\$ 15,099	\$ 37,531	\$ 96,731
Bad debts	17,608	54,240	-	71,848
Telephone and internet	83,826	4,074	-	87,900
Management fees	257,341	119,042	-	376,383
Taxes	94,393	1,009	-	95,402
Property insurance	125,592	121,388	-	246,980
Other	235,177	76,172	6,040	317,389
Bank and credit card fees	46,096	6,549	-	52,645
Contract services	103,672	13,445	-	117,117
Scholarships	-	-	2,648	2,648
Reimbursement of common area expenses	-	(158,699)	-	(158,699)
Total other operating expenses	<u>\$ 1,007,806</u>	<u>\$ 252,319</u>	<u>\$ 46,219</u>	<u>\$ 1,306,344</u>

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
OFFICIALS
SEPTEMBER 30, 2011**

AUTHORITY MEMBERS

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

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Authority Members,
Leon County Educational Facilities Authority:

We have audited the financial statements of the business-type activities and major funds of Leon County Educational Facilities Authority as of and for the year ended September 30, 2011, which collectively comprise Leon County Educational Facilities Authority's basic financial statements and have issued our report thereon dated January 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Leon County Educational Facilities Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Leon County Educational Facilities Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Leon County Educational Facilities Authority's internal control over financial reporting.

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

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

Reconciliations for Parking—During our testing of forty student contracts and files, we noted one instance where a student contract file had not been updated in the leasing software or in the hard-copy file to include parking rights purchased by the student. We recommend that management reconcile the assigned parking passes issued with the student contract files on a monthly basis to ensure all revenues are properly recorded.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Leon County Educational Facilities Authority’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* as follows:

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 \$955,000. At September 30, 2011, the balance in the Reserve Fund was approximately \$525,000. We recommend the Authority continue to follow the adopted plan to bring the Reserve Fund balance up to the required \$955,000.

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

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

James Moore & Co., P.L.

Tallahassee, Florida
January 11, 2012

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

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

To the Authority Members,
Leon County Educational Facilities Authority:

We have audited the financial statements of the Leon County Educational Facilities Authority, as of and for the fiscal year ended September 30, 2011, and have issued our report thereon dated January 11, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters. Disclosures in that report, which is dated January 11, 2012, should be considered in conjunction with this management letter.

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

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

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

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

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts and grant agreements or abuse that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we noted the following: The loan agreement related to the financing of the Heritage Grove Project requires in Section 8.08 entitled "Rate Covenant," that the project be operated in such a manner that the Fixed Charges Coverage Ratio be at least 1.2. In the event that it falls below the 1.2, the Authority is required to engage a financial consultant acceptable to the Bond Issuer to submit a report containing recommendations to remedy the Ratio. The Fixed Charges Coverage Ratio for the year ended September 30, 2011 was 1.07, thus requiring the Authority to implement corrective action as indicated above.

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

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note I (a.) to the financial statements.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Leon County Educational Facilities Authority met the conditions described in Section 218.503(1)(e), Florida Statutes. The Authority reported deficit net assets of \$31,700,000, as of September 30, 2011. This reported deficit net assets is created by the unpaid principal and accrued interest on the 1998 Series B subordinated revenue refunding bonds of approximately \$37,700,000. In the event of a default of the 1998 Series A bonds, these bonds are subject to extinguishment and cancellation.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the Leon County Educational Facilities Authority for the fiscal year ended September 30, 2011, 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, 2011. In connection with our audit, we determined that these two reports were in agreement.

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

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

James Moore & Co., P.L.

Tallahassee, Florida
January 11, 2012

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
CORRECTIVE ACTION PLAN
SEPTEMBER 30, 2011**

Response to 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*

Finding: Significant Adjustments

Corrective Action Plan – The Authority has instructed its management company to implement the necessary procedures in order to convert the annual financial statements to meet GAAP requirements. The Authority will continue to oversee that the required procedures are maintained going forward. The Authority's audit committee will be tasked with periodically verifying that these requirements are being followed by reviewing interim financial statements.

Finding: Reconciliations for Parking

Corrective Action Plan – The Authority has implemented procedures for the management company to follow in order to rectify the issue regarding parking reconciliations. The Authority has directed the management company to reconcile student contract files, the assigned parking space listing, and the revenues recorded for parking on a monthly basis. Unassigned parking passes are now stored in a secure place. The Authority has instructed the management company to provide the Authority with a copy of the parking reconciliation with the quarterly reports that are reviewed by the Authority.

Finding: Reserve Fund Requirement Series

Corrective Action Plan – The Reserve Fund is being restored to the required level on a schedule prepared and proposed by the Authority's management Company. This plan has been reviewed and approved by the 'A' bondholder's representative and the Authority. This schedule will be modified from time to time as operational needs are met. It is anticipated that the reserve will reach the required level sometime in the year 2013. The Authority will continue to monitor this and request periodic reports at the quarterly meetings. If necessary, the 'A' Bond's representative will be asked for input. The 'B' Bondholder representative and the Trustee also monitor this fund and participate in discussion on this issue.

**Response to Independent Auditors' Management Letter required by Chapter 10.550,
Rules of the State of Florida, Office of the Auditor General**

In response to the rate covenant for the Heritage Grove bonds

Corrective Action Plan – The Authority continues to work with the its management company to assure that the highest applicable market rates are charged. The management company continues to do periodic market testing and reports these results to the Authority. The Authority's financial advisor is aware of this problem and is asked from time to time to suggest improvements that can be made. The bond insurers have made a site visit in the last 12 months and are well aware of the problem and the market conditions. An increase in rates is contemplated for the next school year.

In response to the conditions described in Section 218.503(1), Florida Statutes

Corrective Action Plan – As shown in the preceding financials and observed by the Auditor, the Authority has a deficit net asset balance as of September 30, 2011. This deficit relates exclusively to the unpaid principal and accrued interest on the 1998 Series B Subordinated Revenue Refunding Bonds issued for the Southgate project. Though "unpaid principal and interest" on the Series B bonds is so referenced and carried on the books, the Series B bondholders are only entitled to actually receive such payments under certain conditions upon the occurrence of particular events as set forth in the Trust Indenture and other financing agreements pertaining to the Southgate project. The Series B bondholders have no right or option to declare an event of default, or to take any action against the project or to require the trustee to do so on account of any monies unpaid to them when the required conditions precedent have in fact not been met. Accordingly, the current deficit status does not impact the present financial operations of the Southgate project. Though the stated deficit net asset figure is notable and may automatically trigger an offer of assistance from the State of Florida as a part of its review of this audit; under the particular circumstances at hand **the Authority does not believe that a "financial emergency" as contemplated by Chapter 10.550 and applicable law exists, and accordingly no state or other governmental intervention is necessary, advisable or desired.**