

**LEON COUNTY EDUCATIONAL  
FACILITIES AUTHORITY**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2006**

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY  
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SEPTEMBER 30, 2006**

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## INDEPENDENT AUDITORS' REPORT

To the Authority Members,  
Leon County Educational Facilities Authority:

We have audited the accompanying financial statements of the business-type activities of Leon County Educational Facilities Authority, as of and for the year ended September 30, 2006, 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 of Leon County Educational Facilities Authority, as of September 30, 2006 and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2007, on our consideration of Leon County Educational Facilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 2 – 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

James Moore & Co., P.L.

Tallahassee, Florida  
January 9, 2007

## 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, 2006.

### 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 four 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 5 - 7 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 8 - 16 of this report.

### Fund Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of Leon County Educational Authority, liabilities exceeded assets by \$17,429,389 at the close of the most recent fiscal year.

A portion of the Leon County Educational Facilities Authority's net assets reflects a deficit in investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Leon County Educational Facilities Authority utilizes its capital assets to provide housing services to students; consequently, these assets are not available for future spending. Although the Leon County Educational Facilities Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Leon County Educational Facilities Authority's Net Assets

	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 9,305,028	\$ 9,503,706
Capital assets	<u>37,328,540</u>	<u>38,687,927</u>
Total assets	<u>46,633,568</u>	<u>48,191,633</u>
Long-term liabilities outstanding	49,485,547	49,722,580
Other liabilities	<u>14,577,950</u>	<u>13,649,780</u>
Total liabilities	<u>64,063,497</u>	<u>63,372,360</u>
Net assets:		
Invested in capital assets, net of related debt	12,157,007	(11,034,653)
Restricted	3,539,889	3,696,235
Unrestricted	<u>(8,812,811)</u>	<u>(7,842,309)</u>
Total net assets	<u>\$(17,429,929)</u>	<u>\$(15,180,727)</u>

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

Leon County Educational Facilities Authority's Changes in Net Assets

	<u>2006</u>	<u>2005</u>
Revenues:		
Program revenues:		
Charges for services	\$ 8,182,830	\$ 7,548,701
General revenues:		
Intergovernmental and other	<u>248,995</u>	<u>1,079,934</u>
Total revenues	<u>8,431,825</u>	<u>8,628,635</u>
Expenses:		
Student housing	<u>10,681,027</u>	<u>10,596,980</u>
Total expenses	<u>10,681,027</u>	<u>10,596,980</u>
Decrease in net assets	(2,249,202)	(1,968,345)
Nets assets, beginning of year	<u>(15,180,727)</u>	<u>(13,212,382)</u>
Net assets, end of year	<u>\$ (17,429,929)</u>	<u>\$ (15,180,727)</u>

*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, 2006, amounts to \$ 37,328,540 (accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and equipment.

The Authority had no major capital asset events during the current fiscal year.

Additional information on the Leon County Educational Facilities Authority's Capital Assets can be found in note II.C. on page 11 of this report.

**Long-term debt.** At the end of the current fiscal year, the Leon County Educational Facilities Authority had long-term debt outstanding of \$48,485,547.

Additional information on the Leon County Educational Facilities Authority's long-term debt can be found in note II.D. on pages 12 - 13 of this report.

*Economic Factors and Next Year's Budgets and Rates*

During 2007, the Authority will continue to focus on growth and quality of service to the student community. In addition, the Authority will continue to study the needs for student housing in Leon County. These factors were considered in preparing the Leon County Educational Facilities Authority's budget for the 2007 fiscal year.

**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 government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mr. Calvin Ogburn, Executive Director, 3263 Robinhood Road, Tallahassee, Florida 32312.

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2006**

ASSETS	Business-type Activities - Enterprise Funds			
	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
<b>Current assets</b>				
Cash and cash equivalents	\$ 147,172	\$ 120,261	\$ 110,107	\$ 377,540
Certificates of deposit	-	-	145,406	145,406
Investments	1,216,933	508,585	50,028	1,775,546
Accounts receivable, net	132,274	11,692	-	143,966
Due from other funds	-	-	30,000	30,000
Inventories and prepaid items	105,792	35,301	-	141,093
Restricted assets:				
Cash	70,914	44,253	-	115,167
Certificates of deposit	-	50,000	-	50,000
Investments	1,120,566	2,304,156	-	3,424,722
Total current assets	2,793,651	3,074,248	335,541	6,203,440
<b>Noncurrent assets</b>				
Capital assets, not being depreciated	2,400,000	-	-	2,400,000
Capital assets, net of accumulated depreciation	13,188,858	21,739,682	-	34,928,540
Debt issue costs, net	537,460	2,564,128	-	3,101,588
Total noncurrent assets	16,126,318	24,303,810	-	40,430,128
<b>Total Assets</b>	18,919,969	27,378,058	335,541	46,633,568
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued expenses	193,311	45,877	-	239,188
Deferred revenue	1,910,914	139,857	-	2,050,771
Accrued interest payable	11,871,393	186,586	-	12,057,979
Deposits payable	105,660	94,352	-	200,012
Due to other funds	-	30,000	-	30,000
Current portion of revenue bonds payable	225,000	310,000	-	535,000
Total current liabilities	14,306,278	806,672	-	15,112,950
<b>Noncurrent liabilities</b>				
Revenue bonds payable, less current portion	26,295,547	22,655,000	-	48,950,547
Total liabilities	40,601,825	23,461,672	-	64,063,497
<b>Net assets</b>				
Invested in capital assets, net of related debt	(10,931,689)	(1,225,318)	-	(12,157,007)
Restricted for debt service	1,191,480	2,348,409	-	3,539,889
Unrestricted	(11,941,647)	2,793,295	335,541	(8,812,811)
<b>Total net assets (deficit)</b>	\$ (21,681,856)	\$ 3,916,386	\$ 335,541	\$ (17,429,929)

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, 2006**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Southgate Fund</b>	<b>Heritage Grove Fund</b>	<b>Administrative Fund</b>	<b>Total</b>
<b>Operating revenues</b>	\$ 5,904,893	\$ 2,273,012	\$ 4,925	\$ 8,182,830
<b>Operating expenses</b>				
Personnel costs	1,089,231	255,365	48,000	1,392,596
Other operating costs	1,071,139	188,638	41,847	1,301,624
Food costs	545,449	-	-	545,449
Utilities	732,236	113,064	-	845,300
Repairs and maintenance	238,201	164,560	-	402,761
Scholarships	-	-	60,000	60,000
Depreciation and amortization	667,995	1,069,201	-	1,737,196
Total operating expenses	<u>4,344,251</u>	<u>1,790,828</u>	<u>149,847</u>	<u>6,284,926</u>
<b>Operating income (loss)</b>	<u>1,560,642</u>	<u>482,184</u>	<u>(144,922)</u>	<u>1,897,904</u>
<b>Nonoperating revenues (expenses)</b>				
Interest expense	(3,274,637)	(1,121,464)	-	(4,396,101)
Interest income	113,666	131,293	4,036	248,995
Total nonoperating revenues (expenses)	<u>(3,160,971)</u>	<u>(990,171)</u>	<u>4,036</u>	<u>(4,147,106)</u>
<b>Loss before operating transfers</b>	<u>(1,600,329)</u>	<u>(507,987)</u>	<u>(140,886)</u>	<u>(2,249,202)</u>
<b>Transfers</b>				
Transfers in	-	37,357	147,471	184,828
Transfers out	(86,211)	(61,260)	(37,357)	(184,828)
Total transfers	<u>(86,211)</u>	<u>(23,903)</u>	<u>110,114</u>	<u>-</u>
<b>Change in net assets</b>	<u>(1,686,540)</u>	<u>(531,890)</u>	<u>(30,772)</u>	<u>(2,249,202)</u>
<b>Net assets (deficit), beginning of year</b>	(19,995,316)	4,448,276	366,313	(15,180,727)
<b>Net assets (deficit), end of year</b>	<u>\$ (21,681,856)</u>	<u>\$ 3,916,386</u>	<u>\$ 335,541</u>	<u>\$ (17,429,929)</u>

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

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**  
**Increase (Decrease) in Cash and Cash Equivalents**

	Business-type Activities - Enterprise Funds			Total
	Southgate Fund	Heritage Grove Fund	Administrative Fund	
<b>Cash flows from operating activities</b>				
Cash received from residents and customers	\$ 5,835,892	\$ 2,253,302	\$ 4,925	\$ 8,094,119
Cash paid to suppliers	(3,816,241)	(712,682)	(179,847)	(4,708,770)
Net cash provided by (used in) operating activities	<u>2,019,651</u>	<u>1,540,620</u>	<u>(174,922)</u>	<u>3,385,349</u>
<b>Cash flows from noncapital financing activities</b>				
Transfers in	-	37,357	147,471	184,828
Transfers out	(86,211)	(61,260)	(37,357)	(184,828)
Net cash provided by (used in) noncapital financing activities	<u>(86,211)</u>	<u>(23,903)</u>	<u>110,114</u>	<u>-</u>
<b>Cash flows from investing activities</b>				
Purchase of certificates of deposit and investments	-	(279,287)	(64,111)	(343,398)
Proceeds from certificates of deposit and investments	27,278	-	-	27,278
Interest received	113,666	131,293	4,036	248,995
Net cash provided by (used in) investing activities	<u>140,944</u>	<u>(147,994)</u>	<u>(60,075)</u>	<u>(67,125)</u>
<b>Cash flows from capital and related financing activities</b>				
Purchases of capital assets	(67,211)	-	-	(67,211)
Principal payments on long-term debt	(270,947)	(215,000)	-	(485,947)
Interest paid	(1,753,242)	(1,123,218)	-	(2,876,460)
Net cash used in capital and related financing activities	<u>(2,091,400)</u>	<u>(1,338,218)</u>	<u>-</u>	<u>(3,429,618)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>(17,016)</u>	<u>30,505</u>	<u>(124,883)</u>	<u>(111,394)</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>235,102</u>	<u>134,009</u>	<u>234,990</u>	<u>604,101</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 218,086</u>	<u>\$ 164,514</u>	<u>\$ 110,107</u>	<u>\$ 492,707</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>				
Operating income (loss)	\$ 1,560,642	\$ 482,184	\$ (144,922)	\$ 1,897,904
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	667,995	1,069,201	-	1,737,196
Changes in assets and liabilities:				
Increase (decrease) in accounts payable and accrued expenses	(40,408)	15,653	-	(24,755)
Decrease in deposits	(15,340)	(66,276)	-	(81,616)
Increase (decrease) in deferred revenue	(282,389)	46,203	-	(236,186)
(Increase) decrease in accounts receivable	213,388	363	(30,000)	183,751
Increase in inventory and prepaid items	(84,237)	(6,708)	-	(90,945)
Total adjustments	<u>459,009</u>	<u>1,058,436</u>	<u>(30,000)</u>	<u>1,487,445</u>
<b>Net cash provided by (used in) operating activities</b>	<u>\$ 2,019,651</u>	<u>\$ 1,540,620</u>	<u>\$ (174,922)</u>	<u>\$ 3,385,349</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, 2006

projects related to statutes  
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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.

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 government reports the following major proprietary funds:

The *Southgate fund* accounts for the activities of the government's Southgate Residence Hall 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 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 government has elected not to follow subsequent private-sector guidance.

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

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

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**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

**C. Assets, Liabilities and Equity**

**1. Deposits and Investments**

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

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

Investments are stated at fair value.

**2. Inventories and Prepaid Items**

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

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

**3. Capital Assets**

Capital assets for business type activities include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). For financial reporting purposes, capital assets are defined by the 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:

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

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Assets, Liabilities and Equity (Continued)**

**4. Long-term Debt**

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

**5. Receivables and Payables**

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

**6. Restricted Assets**

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

**D. 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.

**II. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

*Deposits.* At September 30, 2006, the Authority's carrying amount of deposits was \$488,627 and the bank balance was \$577,542. 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.

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006**

**II. DETAILED NOTES ON ALL FUNDS (Continued)**

**A. Deposits and Investments (Continued)**

*Investments.* At September 30, 2006 the Authority had the following investments:

	<b>Fair Value</b>
U.S. Treasury money market funds	\$ 5,200,268

In accordance with the investment policies, the Authority manages its exposure to interest rate risk by limiting the maturity of its investments.

**B. Receivables**

Receivables as of September 30, 2006, including the applicable allowances for uncollectible accounts, are as follows:

	<b>Southgate Fund</b>	<b>Heritage Grove Fund</b>	<b>Administrative Fund</b>	<b>Total</b>
Gross receivables	\$ 182,274	\$ 11,692	\$ -	\$ 193,966
Less: allowance for uncollectibles	50,000	-	-	50,000
Net total receivables	\$ 132,274	\$ 11,692	\$ -	\$ 143,966

**C. Capital Assets**

The following is a summary of capital assets at September 30, 2006:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 2,400,000	\$ -	\$ -	\$ 2,400,000
Total capital assets not being depreciated	2,400,000	-	-	2,400,000
Capital assets being depreciated				
Buildings and improvements	40,507,596	-	-	40,507,596
Equipment	5,464,424	67,211	-	5,531,635
Total capital assets being depreciated	45,972,020	67,211	-	46,039,231
Less accumulated depreciation				
Buildings and improvements and equipment	9,494,158	1,616,533	-	11,110,691
Total capital assets being depreciated, net	36,477,862	(1,549,322)	-	34,928,540
Business-type capital assets, net	\$ 38,877,862	\$ (1,549,322)	\$ -	\$ 37,328,540

Depreciation and amortization expense were charged as follows:

Southgate Fund	\$ 667,995
Heritage Grove Fund	1,069,201
	\$ 1,737,196

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006**

**II. DETAILED NOTES ON ALL FUNDS (Continued)**

**D. 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, 2006, the amount of insubstance defeased debt which remained outstanding was \$16,195,000.

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

	<b>Interest rates</b>	<b>Amount</b>
Series 1998A and 1998B	7.625 - 9%	\$ 31,265,000
Less: Unamortized deferred advance refunding		4,744,453
Series 1998A and 1998B, net		<b>\$ 26,520,547</b>

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

	<b>Principal</b>	<b>Interest</b>
2007	225,000	2,289,763
2008	240,000	2,274,575
2009	260,000	2,258,375
2010	275,000	2,240,825
2011	295,000	2,222,263
2012-2016	1,795,000	10,784,613
2017-2021	2,490,000	10,091,726
2022-2026	16,950,000	7,224,408
2027-2028	8,735,000	990,013
	<b>\$ 31,265,000</b>	<b>\$ 40,376,561</b>

*Student Housing Revenue Bonds (Series 2003)*

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

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006**

**II. DETAILED NOTES ON ALL FUNDS (Continued)**

**D. Long-term Debt (Continued)**

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

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

	<b>Principal</b>	<b>Interest</b>
2007	310,000	1,119,514
2008	355,000	1,110,214
2009	400,000	1,097,789
2010	450,000	1,082,789
2011	505,000	1,060,289
2012-2016	2,385,000	4,951,944
2017-2021	2,085,000	4,391,428
2022-2026	4,205,000	3,564,689
2027-2031	-	3,144,188
2032-2033	12,270,000	1,257,675
	<b>\$ 22,965,000</b>	<b>\$ 22,780,519</b>

Changes in long-term liabilities:

Long-term liability activity for the year ended September 30, 2006, was as follows:

<b>Business-type activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Bonds payable	\$ 54,655,000	\$ -	\$ 425,000	\$ 54,230,000	\$ 535,000
Less deferred amounts on refunding	4,993,367	-	248,914	4,744,453	-
Total bonds payable	49,661,633	-	176,086	49,485,547	535,000
Capital leases	60,947	-	60,947	-	-
	<b>\$ 49,722,580</b>	<b>\$ -</b>	<b>\$ 237,033</b>	<b>\$ 49,485,547</b>	<b>\$ 535,000</b>

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006**

**II. DETAILED NOTES ON ALL FUNDS (Continued)**

**E. Management Agreement**

*Southgate Fund*

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 (5<sup>th</sup>) 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, 2006**

**II. DETAILED NOTES ON ALL FUNDS (Continued)**

**E. Management Agreement (Continued)**

*Heritage Grove Fund*

The Authority entered into an agreement with a corporation to provide dormitory management, retail space management, parking management and manual food services for Heritage Grove Residence Hall ("the Project"). The agreement is for a term of 2 years commencing December 1, 2003, and terminating December 1, 2005. The agreement was renewed for a term of 8 months commencing December 1, 2005 and terminating July 31, 2006. The management company ("the Manager") shall be compensated an equivalent of 4% of gross revenue, provided that the Project has achieved compliance with the rate covenant set forth in or contemplated by the Bonds (see Note II.D), and if not, Manager's fee shall be reduced as necessary to achieve compliance. Such gross revenue shall include all amounts received from the operation of the project by Manager, including, but not limited to, rents, pet fees, forfeited security deposits, common area maintenance fees, late fees, vending income, fees or assessments charged against any entity or persons for services provided at the project by the Manager, and other fees, but shall not include security deposits or a charge against any pass through costs such as for utilities, cable, telecommunications, and the like. Manager's fee shall be calculated based on the gross revenues subject thereto as received by the Trustee applicable to the preceding month, and shall be paid to the Manager on the twentieth (or the closest business day thereafter) of the month following (or on such day as designated by the Indenture, if different); subject to adjustments at anytime thereafter for any chargebacks, refunds, uncollectibles, corrections or the like.

The Authority entered into an agreement with a corporation to rent, operate and manage the Project for a term of three years commencing on August 1, 2006 and terminating upon the sale of the Project by the owner. 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	< 90%
3.5%	If the economic occupancy is	90% - 94%
4.0%	If the economic occupancy is	95% - 96%
4.5%	If the economic occupancy is	97% - 98%
5.0%	If the economic occupancy is	99% - 100%

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2006**

**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 there from. 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, 2006 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. 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 commercial insurance

**B. New Accounting Pronouncements**

In May 2004, the GASB issued a Statements No. 43, *Financial Reporting for Postemployment Benefits Other Than Pension Plans*, effective for the Authority's fiscal year beginning October 1, 2006.

The Statement addresses the accounting and reporting requirements for costs and obligations resulting from post employment health-care and other non pension benefits. It establishes uniform financial reporting standards for other post employment benefits (OPEB) plans. The Authority is currently evaluating the effect of this Statement will have on its financial statements.

In August 2004, the GASB issued Statement No. 4, *Accounting and financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the Authority's fiscal year beginning October 1, 2007. Statement No. 45 require accrual-based measurement, recognition and disclosure of OPEB expense, such as retiree medical and dental costs, over the employee's years of services, along with the related liability, net of any plan assets. For the Authority, this will result in increased expenses and a related liability, which will likely be significant. The Authority is currently evaluating the effect that Statement No. 45 will have on its financial statement.

**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, 2006, which collectively comprise Leon County Educational Facilities Authority's basic financial statements and have issued our report thereon dated January 9, 2007. 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Leon County Educational Facilities Authority's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described below.

**Financial Record Keeping**

We noted during our audit there was not a complete set of financial statements or general ledger at year-end or at the commencement of the audit. One of the Leon County Educational Facilities Authority's management's responsibilities is the preparation of accurate, timely financial statements and accounting reports. Accurate reports which evaluate the Leon County Educational Facilities Authority's financial position and results of operations on a current basis are imperative so that the management's decisions can be timely and more effective.

Other Authorities have found that reporting systems have proved to be effective as management tools when the following requirements are met:

1. Reports are prepared timely after the end of the accounting period.
2. Actual results are compared with predetermined budgets and prior performance. Reports so prepared and analysis therefrom assist management in making decisions in critical areas.
3. Reports relate results of operation by fund.
4. Budgets of capital outlay and cash flow are an integral part of the reports.

We recommend Leon County Educational Facilities Authority to establish a policy requiring monthly financial statements including budget to actual comparison be available no later than the 15<sup>th</sup> day following the end of the month.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is a material weakness.

### **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*.

We noted also noted certain additional matters that we reported to management of Leon County Educational Facilities Authority, in a separate letter dated January 9, 2007.

This report 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., P.L.*

Tallahassee, Florida  
January 9, 2007

**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, 2006, and have issued our report thereon dated January 9, 2007.

We conducted our audit in accordance with United States generally accepted auditing standards, and *Government Auditing Standards* issued by the Comptroller General of the United States and (if applicable) OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditors' Report on Compliance and Internal Control over financial reporting which is dated January 9, 2007, and should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules 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 address in the management letter, if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial audit report have been followed. There were no recommendations made in the preceding annual financial audit report.

As required by the Rules of the Auditor General (Section 10.554(1)(h)2.), the scope of our audit included 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.

The Rules of the Auditor General (Section 10.554(1)(h)3.) require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we noted one finding as described below:

**Security Deposits**

The Leon County Educational Facilities Authority had an underfunded security deposit cash account related to the Southgate fund. We recommend the Authority to replenish the security deposit account with unrestricted cash flows and enforce controls to ensure proper controls over the security deposits account.

The Rules of the Auditor General (Section 10.554(1)(h)4.) require disclosure in the management letter of the following matters if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs and are not clearly inconsequential: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e. g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. *(This includes inaccuracies, shortages, defalcations, and fraud that come to the auditor's attention by whatever means during the audit.)* Our audit disclosed no matters required to be disclosed by Rules of Auditor General (Section 10.554(1)(h)4.).

The Rules of the Auditor General (Section 10.554(1)(h)5.) also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity 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.), a statement must be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes. In connection with our audit, we determined that the Leon County Educational Facilities Authority did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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, 2006, 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, 2006.

As required by the Rules of the Auditor General (Sections 10.554(h)6.c. and 10.556(7)), we applied financial 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.

This management letter is intended solely for the information and use of the Authority, management, 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 9, 2007