

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY

FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
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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 of Leon County Educational Facilities Authority, as of and for the year ended September 30, 2008, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2008 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 November 20, 2008, 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 important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 – 5 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
November 20, 2008

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, 2008.

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 6 – 8 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 9 – 17 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 Facilities Authority, liabilities exceeded assets by \$23,593,666 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>2008</u>	<u>2007</u>
Current and other assets	\$ 7,287,879	\$ 8,292,850
Capital assets	34,640,110	36,004,229
Total assets	<u>41,927,989</u>	<u>44,297,079</u>
Long-term liabilities outstanding	48,800,576	49,231,299
Other liabilities	16,721,079	15,575,440
Total liabilities	<u>65,521,655</u>	<u>64,806,739</u>
Net assets:		
Invested in capital assets, net of related debt	(14,160,466)	(13,227,070)
Restricted	2,704,813	3,352,010
Unrestricted	(12,138,013)	(10,634,600)
Total net assets	<u>\$ (23,593,666)</u>	<u>\$ (20,509,660)</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>2008</u>	<u>2007</u>
Revenues:		
Program revenues:		
Charges for services	\$ 6,168,843	\$ 7,663,515
Interest income	121,607	260,400
Total revenues	<u>6,290,450</u>	<u>7,923,915</u>
Expenses:		
Student housing	9,374,457	11,003,646
Total expenses	<u>9,374,457</u>	<u>11,003,646</u>
Decrease in net assets	(3,084,007)	(3,079,731)
Net assets (deficit), beginning of year	(20,509,659)	(17,429,929)
Net assets (deficit), end of year	<u>\$ (23,593,666)</u>	<u>\$ (20,509,660)</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, 2008, amounts to \$ 34,640,110 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 13 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 \$48,800,576.

Additional information on the Leon County Educational Facilities Authority's long-term debt can be found in note II.D. on pages 13 – 15 of this report.

Economic Factors and Next Year's Budgets and Rates

During 2009, the Authority will continue to maintain 2008 rates and try to minimize expenses while maintaining 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 2009 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 Executive Director, 3263 Robinhood Road, Tallahassee, Florida 32312.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
SEPTEMBER 30, 2008

ASSETS	Business-type Activities - Enterprise Funds			
	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
Current assets				
Cash and cash equivalents	\$ 329,008	\$ 322,046	\$ 48,960	\$ 700,014
Certificates of deposit	-	-	208,362	208,362
Investments	-	550,413	54,865	605,278
Accounts receivable, net	135,456	767	-	136,223
Due from other funds	-	-	9,000	9,000
Inventories and prepaid items	35,752	28,176	-	63,928
Restricted assets:				
Cash	2,514	37,620	-	40,134
Investments	590,179	2,074,500	-	2,664,679
Total current assets	<u>1,092,909</u>	<u>3,013,522</u>	<u>321,187</u>	<u>4,427,618</u>
Noncurrent assets				
Capital assets, not being depreciated	2,400,000	-	-	2,400,000
Capital assets, net of accumulated depreciation	12,261,535	19,978,575	-	32,240,110
Debt issue costs, net	486,069	2,374,192	-	2,860,261
Total noncurrent assets	<u>15,147,604</u>	<u>22,352,767</u>	<u>-</u>	<u>37,500,371</u>
Total Assets	<u>16,240,513</u>	<u>25,366,289</u>	<u>321,187</u>	<u>41,927,989</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	166,732	38,050	180,000	384,782
Deferred revenue	800,451	164,051	-	964,502
Accrued interest payable	15,074,080	180,000	-	15,254,080
Deposits payable	4,200	104,515	-	108,715
Due to other funds	-	9,000	-	9,000
Current portion of revenue bonds payable	260,000	400,000	-	660,000
Total current liabilities	<u>16,305,463</u>	<u>895,616</u>	<u>180,000</u>	<u>17,381,079</u>
Noncurrent liabilities				
Revenue bonds payable, less current portion	26,240,576	21,900,000	-	48,140,576
Total liabilities	<u>42,546,039</u>	<u>22,795,616</u>	<u>180,000</u>	<u>65,521,655</u>
Net assets				
Invested in capital assets, net of related debt	(11,839,041)	(2,321,425)	-	(14,160,466)
Restricted for debt service	592,693	2,112,120	-	2,704,813
Unrestricted	(15,059,178)	2,779,978	141,187	(12,138,013)
Total net assets (deficit)	<u>\$ (26,305,526)</u>	<u>\$ 2,570,673</u>	<u>\$ 141,187</u>	<u>\$ (23,593,666)</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, 2008

	Business-type Activities - Enterprise Funds			
	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
Operating revenues	\$ 3,982,234	\$ 2,186,609	\$ -	\$ 6,168,843
Operating expenses				
Personnel costs	1,076,285	252,060	44,000	1,372,345
Other operating costs	932,081	186,765	49,583	1,168,429
Food costs	434,466	-	-	434,466
Utilities	595,176	93,823	-	688,999
Repairs and maintenance	146,075	170,473	-	316,548
Scholarships	-	-	234,768	234,768
Depreciation and amortization	485,227	1,087,171	-	1,572,398
Total operating expenses	3,669,310	1,790,292	328,351	5,787,953
Operating income (loss)	312,924	396,317	(328,351)	380,890
Nonoperating revenues (expenses)				
Interest expense	(2,486,790)	(1,099,714)	-	(3,586,504)
Interest income	32,456	75,715	13,436	121,607
Total nonoperating revenues (expenses)	(2,454,334)	(1,023,999)	13,436	(3,464,897)
Loss before operating transfers	(2,141,410)	(627,682)	(314,915)	(3,084,007)
Transfers				
Transfers in	-	31,723	111,785	143,508
Transfers out	(54,760)	(57,025)	(31,723)	(143,508)
Total transfers	(54,760)	(25,302)	80,062	-
Change in net assets	(2,196,170)	(652,984)	(234,853)	(3,084,007)
Net assets (deficit), beginning of year	(24,109,356)	3,223,657	376,040	(20,509,659)
Net assets (deficit), end of year	(26,305,526)	2,570,673	141,187	(23,593,666)

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, 2008
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	\$ 3,424,211	\$ 2,285,521	\$ -	\$ 5,709,732
Cash paid to suppliers	(3,182,849)	(758,235)	(150,287)	(4,091,371)
Net cash provided by (used in) operating activities	<u>241,362</u>	<u>1,527,286</u>	<u>(150,287)</u>	<u>1,618,361</u>
Cash flows from noncapital financing activities				
Transfers in	-	31,723	111,785	143,508
Transfers out	(54,760)	(57,025)	(31,723)	(143,508)
Net cash provided by (used in) noncapital financing activities	<u>(54,760)</u>	<u>(25,302)</u>	<u>80,062</u>	<u>-</u>
Cash flows from capital and related financing activities				
Purchases of capital assets	(55,892)	(31,723)	-	(87,615)
Principal payments on long-term debt	(286,923)	(355,000)	-	(641,923)
Interest paid	(712,465)	(1,105,714)	-	(1,818,179)
Net cash used in capital and related financing activities	<u>(1,055,280)</u>	<u>(1,492,437)</u>	<u>-</u>	<u>(2,547,717)</u>
Cash flows from investing activities				
Purchase of certificates of deposit and investments	-	-	(105,617)	(105,617)
Proceeds from certificates of deposit and investments	829,425	69,699	86,878	986,002
Interest received	32,456	75,715	13,436	121,607
Net cash provided by (used in) investing activities	<u>861,881</u>	<u>145,414</u>	<u>(5,303)</u>	<u>1,001,992</u>
Net increase (decrease) in cash and cash equivalents	<u>(6,797)</u>	<u>154,961</u>	<u>(75,528)</u>	<u>72,636</u>
Cash and cash equivalents, beginning of year	<u>338,319</u>	<u>204,705</u>	<u>124,488</u>	<u>667,512</u>
Cash and cash equivalents, end of year	<u>\$ 331,522</u>	<u>\$ 359,666</u>	<u>\$ 48,960</u>	<u>\$ 740,148</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 312,924	\$ 396,317	\$ (328,351)	\$ 380,890
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation and amortization	485,227	1,087,171	-	1,572,398
Changes in assets and liabilities:				
(Increase) decrease in accounts payable and accrued expenses	(55,155)	(42,888)	180,000	81,957
(Decrease) increase in deposits	(38,200)	15,155	-	(23,045)
Increase (decrease) in deferred revenue	(509,176)	40,714	(1,936)	(470,398)
(Increase) decrease in accounts receivable	(10,647)	43,043	-	32,396
Decrease in due to other funds	-	-	-	-
Decrease in due from other funds	-	-	-	-
Decrease (increase) in inventory and prepaid items	56,389	(12,226)	-	44,163
Total adjustments	<u>(71,562)</u>	<u>1,130,969</u>	<u>178,064</u>	<u>1,237,471</u>
Net cash provided by (used in) operating activities	<u>\$ 241,362</u>	<u>\$ 1,527,286</u>	<u>\$ (150,287)</u>	<u>\$ 1,618,361</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, 2008

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.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

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.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

I. Summary of Significant Accounting Policies: (Continued)

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

3. *Capital Assets* (Continued)

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

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

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.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

II. Detailed Notes on all Funds:

(a) Deposits and Investments

Deposits. At September 30, 2008, the Authority's carrying amount of deposits was \$948,510 and the bank balance was \$1,001,516. Of the bank balance, the Authority's deposits are entirely covered by Federal depository insurance or by collateral held by the Authority's custodial bank which is pledged to a state trust fund that provides security in accordance with Florida Security for Deposits Act, Chapter 280, for amounts held in excess of FDIC coverage.

The Florida Security for Public Deposits Act established guidelines for qualification and participation by banks and savings associations, procedures for the administration of the collateral requirements and characteristics of eligible collateral.

Investments. At September 30, 2008 the Authority had the following investments:

	Fair Value
U.S. Treasury money market funds	\$ 3,269,957

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, 2008, including the applicable allowances for uncollectible accounts, are as follows:

	Southgate Fund	Heritage Grove Fund	Administrative Fund	Total
Gross receivables	\$ 210,456	\$ 767	\$ -	\$ 211,223
Less: allowance for uncollectibles	75,000	-	-	75,000
Net total receivables	\$ 135,456	\$ 767	\$ -	\$ 136,223

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

II. Detailed Notes on all Funds: (Continued)

(c) Capital Assets

The following is a summary of capital assets at September 30, 2008:

	<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	39,888,459	87,615	-	39,976,074
Equipment	6,501,404	-	-	6,501,404
Total capital assets being depreciated	<u>46,389,863</u>	<u>87,615</u>	<u>-</u>	<u>46,477,478</u>
Less accumulated depreciation				
Buildings and improvements and equipment	12,785,634	1,451,734	-	14,237,368
Total capital assets being depreciated, net	<u>33,604,229</u>	<u>(1,364,119)</u>	<u>-</u>	<u>32,240,110</u>
Business-type capital assets, net	<u>\$ 36,004,229</u>	<u>\$ (1,364,119)</u>	<u>\$ -</u>	<u>\$ 34,640,110</u>

Depreciation and amortization expense were charged as follows:

Southgate Fund	\$ 485,227
Heritage Grove Fund	<u>1,087,171</u>
	<u>\$ 1,572,398</u>

(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, 2008, the amount of insubstance defeased debt which remained outstanding was \$13,265,000.

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

II. Detailed Notes on all Funds: (Continued)

(d) Long-term Debt

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

	Interest rates	Amount
Series 1998A and 1998B	7.625 – 9%	\$ 30,800,000
Less: Unamortized deferred advance refunding		4,299,424
Series 1998A and 1998B, net		\$ 26,500,576

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

	Principal	Interest
2009	\$ 260,000	\$ 2,258,375
2010	275,000	2,240,825
2011	295,000	2,222,263
2012	315,000	2,202,350
2013	335,000	2,181,088
2014-2018	2,045,000	10,534,188
2019-2023	7,625,000	9,568,726
2024-2028	19,650,000	4,604,408
	\$ 30,800,000	\$ 35,812,223

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, 2008

II. Detailed Notes on all Funds: (Continued)

(d) Long-term Debt

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:

	<u>Principal</u>	<u>Interest</u>
2009	400,000	1,097,789
2010	450,000	1,082,789
2011	505,000	1,060,289
2012	560,000	1,040,089
2013	585,000	1,016,989
2014-2018	3,325,000	4,769,031
2019-2023	4,205,000	4,195,438
2024-2028	-	3,144,187
2029-2033	12,270,000	3,144,188
	<u>\$ 22,300,000</u>	<u>\$ 20,550,789</u>

Changes in long-term liabilities:

Long-term liability activity for the year ended September 30, 2008, was as follows:

<u>Business-type activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable	\$ 53,695,000	\$ -	\$ 595,000	\$ 53,100,000	\$ 660,000
Less deferred amounts on refunding	4,510,624	-	211,200	4,299,424	-
Total bonds payable	49,184,376	-	383,800	48,800,576	660,000
Capital leases	46,923	-	46,923	-	-
	<u>\$ 49,231,299</u>	<u>\$ -</u>	<u>\$ 430,723</u>	<u>\$ 48,800,576</u>	<u>\$ 660,000</u>

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

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 1 year commencing August 1, 2008, and terminating July 31, 2009. The management company ("the Manager") shall be compensated in the form of a base compensation fee (the "*Base Management Fee*") equal to 3.0% of gross monthly collections if occupancy is below 90%. In addition, the Owner is to pay, in arrears, an additional 0.25% of gross monthly collections 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 collections, 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, 2008, and thereafter on or before the fifth (5th) day of each succeeding month during the term of this Agreement. Upon the termination of this Agreement on a day other than the last day of the calendar month, the Base Management Fee shall be prorated on a per diem basis up to the date of termination.

In addition to the Base Management Fee (and any other fees paid to and expenses reimbursed to the Manager) and in order to provide incentive to the Manager to generate increased revenue at the Property, the Authority hereby agrees to pay to the Manager incentive fees (the "*Incentive Fees*") in the following manner: If the property should reach 90.0% occupancy, \$45,000 shall be paid to the Manager. If the property should reach 95.0% occupancy, \$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.

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2008**

II. Detailed Notes on all Funds: (Continued)

(e) Management Agreement (Continued)

Heritage Grove Fund

The Authority entered into an agreement with a corporation to rent, operate and manage the Project for a term of three years commencing on August 1, 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%

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, 2008 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

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 Board of Directors,
Leon County Educational Facilities Authority:

We have audited the financial statements of Leon County Educational Facilities Authority as of and for the year ended September 30, 2008 and have issued our report thereon dated November 20, 2008. 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 opinion 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the following deficiency to be significant deficiency in internal control over financial reporting.

Preparation of Financial Statements

A system of internal control over financial reporting should allow the Authority to prepare financial statements, including note disclosures in accordance with generally accepted accounting principles (GAAP). While auditors can assist with the preparation of financial statements and related footnotes, the financial statements are the responsibility of management. A control deficiency exists in instances where the Authority is not positioned to draft the financial statements and all required disclosures in accordance with generally accepted accounting principles. Presently, as is common to many organizations, management relies on the audit firm to draft the financial statements and related disclosures. For subsequent audits, management may wish to take a more active role in the drafting of the financial statements and related disclosures.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency 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 certain matters that we reported to management of Leon County Educational Facilities Authority in a separate letter dated November 20, 2008.

This report is intended solely for the information and use of 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
November 20, 2008

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, 2008, and have issued our report thereon dated November 20, 2008

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Independent Auditors' Report on Compliance and Internal Control over financial reporting which is dated November 20, 2008, 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.

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. Corrective actions are still being taken to address 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, accounting procedures, and internal controls. 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 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 to submit a report containing recommendations to remedy the Ratio. The Fixed Charges Coverage Ratio for the year ended September 30, 2008 was 1.07. Therefore, we recommend the Authority engage a financial consultant. Since the Fixed Charges Coverage Ratio remained above 1.0, there is no event of default, as more fully described in Section 10.01 of the loan agreement entitled "Events of Default Defined."

Section 10.554(1)(i)5., Rules of the Auditor General, requires, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. 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. 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.

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 \$23,413,666, as of September 30, 2008. The financial emergency condition met was not a result of deteriorating financial conditions.

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, 2008, 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, 2008. In connection with our audit, we determined that these two reports were in agreement.

Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, require that we apply financial condition assessment procedures. In connection with our audit, 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.

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
November 20, 2008