

Financial Statements

Leon County Research and Development Authority

*Years ended September 30, 2013 and 2012
with Report of Independent Auditors*

Thomas Howell
 Ferguson P.A.

Leon County Research and Development Authority

Financial Statements

Years ended September 30, 2013 and 2012

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Report of Independent Auditors

The Board of Governors
Leon County Research and Development Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Leon County Research and Development Authority (the Authority), which comprise the statements of net position as of September 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Leon County Research and Development Authority, as of September 30, 2013 and 2012, and the changes in its net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Thomas Howell Ferguson P.A.".

Tallahassee, Florida
January 29, 2014

Leon County Research and Development Authority Management's Discussion and Analysis

As management of the Leon County Research and Development Authority (the Authority), we offer users of the Authority's financial statements this management discussion and analysis of the Authority's financial activities for the fiscal year ended September 30, 2013. Management's Discussion and Analysis is a narrative overview designed to: (a) assist a financial statement user in focusing on significant financial issues, (b) provide an overview of the Authority's financial activities, (c) identify changes in the Authority's financial position and operations, and (d) bring attention to individual concerns and issues. This discussion and analysis should be read in conjunction with the Authority's financial statements and notes to the financial statements which follow this section.

Financial Highlights

- The Authority's assets exceeded liabilities as of September 30, 2013, by \$12.505 million (net assets). Of this amount, \$3.493 million represents unrestricted net assets that are available to meet ongoing obligations to tenants and creditors.
- Fund net assets decreased by \$172,648. This decrease is attributed to operating revenues of \$1.238 million, operating expenses of \$1.311 million, and nonoperating revenue/expenses of (\$0.998) million. Operating revenues decreased by \$195,061 operating expenses decreased by \$44,043, and nonoperating revenue/expenses decreased by \$35,346.
- Current assets consisting of cash and cash equivalents and accounts receivable decreased by \$11,882 from the prior year. Current liabilities consisting of accounts payable, unearned revenue, and current portion of bond payable decreased by \$37,379.
- Earnings on investments decreased by \$42,046 to \$34,803 for fiscal year 2013 from \$76,849 for fiscal year 2012.
- No significant deficiencies or material weaknesses in internal control over financial reporting were identified and no additional management comments were provided by the independent auditor's in their management letter report for fiscal years 2012 and 2013.

An Overview of the Financial Statements

While identified as a dependent special district, the Authority is not considered by Leon County, its governing authority, to be a component unit of Leon County. The Authority's financial statements consist of the financial statements and the notes to the financial statements.

Fund Financial Statements

The Authority follows financial reporting requirements for enterprise funds, which use the accrual basis of accounting. This reporting follows accounting methods similar to those used by private-sector companies. As a business type activity, Authority operating revenues come from leases, maintenance, and management and common area management fees. Nonoperating revenues come from interest earned on deposits with financial institutions and other authorized depositories.

Enterprise Fund Analysis

The Statement of Net Position provides useful information about the Authority's financial position. The following table shows a condensed Statement of Net Position for the current and prior period:

Table 1
Statement of Net Position
As of September 30
(in thousands)

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Assets			
Current assets	\$ 4,042	\$ 4,054	\$ (12)
Restricted assets	400	397	3
Noncurrent assets	<u>11,458</u>	<u>12,061</u>	<u>(603)</u>
Total assets	<u>15,900</u>	<u>16,512</u>	<u>(612)</u>
Liabilities			
Current liabilities	437	474	(37)
Noncurrent liabilities	<u>2,958</u>	<u>3,360</u>	<u>(402)</u>
Total liabilities	<u>3,395</u>	<u>3,844</u>	<u>(439)</u>
Net Position			
Net investment in capital assets	8,612	9,060	(448)
Restricted	400	397	3
Unrestricted	<u>3,493</u>	<u>3,221</u>	<u>272</u>
Total net position	<u>12,505</u>	<u>12,678</u>	<u>(173)</u>
Total liabilities and net position	<u>\$ 15,900</u>	<u>\$ 16,512</u>	<u>\$ (612)</u>

The vast majority of Authority assets are capital assets having a depreciated value of \$11.4 million and representing 71.8 percent of total assets. These capital assets primarily consist of Authority buildings leased to scientific research and development entities affiliated with institutions of higher education and other entities that foster economic development in affiliation with one or more institutions of higher education.

Table 2
Changes in Net Position
(in thousands)

The following table summarizes the changes in net assets for the current and prior year.

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Total operating revenues (lease revenue and other)	\$ 1,238	\$ 1,433	\$ (195)
Total operating expenses	<u>(1,311)</u>	<u>(1,355)</u>	<u>(44)</u>
Operating income (loss)	(73)	78	(151)
Nonoperating revenues (expenses)	<u>(100)</u>	<u>(64)</u>	<u>(36)</u>
Change in net position	(173)	14	(187)
Net position at the beginning of the year	<u>12,678</u>	<u>12,664</u>	<u>14</u>
Net position at end of year	<u>\$ 12,505</u>	<u>\$ 12,678</u>	<u>\$ (173)</u>

For the year ended September 30, 2013, Authority operating expenses exceeded operating revenues by \$72,855. Changes in fund assets resulted in a decrease of \$172,648 for the year as compared to an increase of \$13,716 in 2012.

Total operating revenues decreased by \$195,061. This is attributed in part to a decrease in other income of \$116,555. During the 2012 fiscal year, the Authority received \$100,000 in a trust account for its benefit as an inducement to enter into certain leases. In addition, lease revenue declined \$66,758 due in part to the loss of a State agency tenant (\$28,278), reduced tenant occupancy in the Morgan Building (\$17,069), reduced Common Area Maintenance Fees (\$12,058), and the completed amortization of unearned revenue associated with the Johnson Building as of November, 2011 (\$9,586).

Total operating expenses declined by \$44,043. This was due in part to reductions in professional fees of \$37,713 associated with general counsel fees and a reduction in fees associated with the Planned Unit Development Amendment which was started in the middle of fiscal year 2012 and was substantially completed early in fiscal year 2013.

Budgetary Comparison Statement

Authority management prepared and the Authority Board approved a budget for fiscal year 2013. That budget and monthly comparisons of amounts budgeted to actual expenses incurred may be viewed at the Authority Offices and on-line as part of the reporting package for each monthly Board meeting. The monthly Board package also includes the Authority Treasurer's report of Authority finances and budget results.

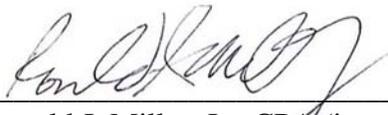
Subsequent Event

On November 12, 2013, the Authority entered into a Memorandum of Understanding with Florida State University and Florida A&M University, which outlines a restructuring plan and establishes a framework for the continued operation of Innovation Park. As part of the restructuring plan, the Authority will transfer to the Universities ownership in certain buildings, and leasehold interests in certain lands, in exchange for a University leasehold interest in a building and the retirement of debt. The Authority contemplates completing the transactions in March 2014.

Contacting the Authority's Financial Management

This financial report is designed to provide a general overview of the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Leon County Research and Development Authority's office at 1736 West Paul Dirac Drive, Tallahassee, Florida.

Respectfully submitted,



Ronald J. Miller, Jr., CPA (inactive), MBA
Interim Administrator

Tom Allen
Treasurer

Leon County Research and Development Authority

Statements of Net Position

	September 30,	
	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,431,765	\$ 2,435,837
Designated cash and cash equivalents	1,400,000	1,400,000
Accounts receivable - leases and other, net	195,417	205,952
Accrued interest receivable	174	4,803
Prepaid expenses and other current assets	14,219	6,865
Total current assets	<u>4,041,575</u>	<u>4,053,457</u>
Restricted assets:		
Restricted cash and cash equivalents	400,033	397,263
Noncurrent assets:		
Bond issue costs, net of amortization	43,484	46,784
Capital assets, net of accumulated depreciation	<u>11,415,073</u>	<u>12,014,178</u>
Total assets	<u>\$ 15,900,165</u>	<u>\$ 16,511,682</u>
Liabilities and net position		
Current liabilities:		
Accounts payable and accrued expenses	\$ 32,404	\$ 76,780
Unearned revenue	246,328	246,327
Current portion of bond payable	157,813	150,817
Total current liabilities	<u>436,545</u>	<u>473,924</u>
Noncurrent liabilities:		
Bond payable, net of current portion	2,645,431	2,803,226
Unearned revenue	313,073	556,768
Total noncurrent liabilities	<u>2,958,504</u>	<u>3,359,994</u>
Total liabilities	<u>3,395,049</u>	<u>3,833,918</u>
Net position:		
Net investment in capital assets	8,611,831	9,060,135
Restricted for capital projects	400,033	397,263
Unrestricted	3,493,252	3,220,366
Total net position	<u>12,505,116</u>	<u>12,677,764</u>
Total liabilities and net position	<u>\$ 15,900,165</u>	<u>\$ 16,511,682</u>

See accompanying notes.

Leon County Research and Development Authority

Statements of Revenues, Expenses, and Changes in Net Position

	Years ended September 30,	
	2013	2012
Operating revenues		
Leases	\$ 794,600	\$ 861,358
Leases (security for the Series 2005 Bonds)	310,308	310,308
Common area management fees	97,860	109,918
Management fees	13,507	13,197
Other income	21,695	138,250
Total operating revenues	<u>1,237,970</u>	<u>1,433,031</u>
Operating expenses		
Salaries and employee benefits	200,710	173,070
Depreciation and amortization expense	614,361	619,440
Other expenses	495,754	562,358
Total operating expenses	<u>1,310,825</u>	<u>1,354,868</u>
Operating (loss) income	<u>(72,855)</u>	<u>78,163</u>
Nonoperating revenues (expenses)		
Interest income	34,803	76,849
Amortization of bond issuance costs	(3,300)	(3,302)
Interest on bonds	(131,296)	(137,994)
Total nonoperating revenues (expenses)	<u>(99,793)</u>	<u>(64,447)</u>
Change in net position	(172,648)	13,716
Net position at beginning of year	<u>12,677,764</u>	<u>12,664,048</u>
Net position at end of year	<u>\$ 12,505,116</u>	<u>\$ 12,677,764</u>

See accompanying notes.

Leon County Research and Development Authority

Statements of Cash Flows

	Years ended September 30,	
	2013	2012
Operating activities		
Cash received from tenants	\$ 983,117	\$ 1,021,495
Other cash receipts	21,695	138,250
Cash payments to suppliers for goods and services	(550,707)	(550,272)
Cash payments to employees	(197,488)	(177,540)
Net cash provided by operating activities	<u>256,617</u>	<u>431,933</u>
Capital and related financing activities		
Purchase of capital assets	(15,255)	(56,259)
Principal paid on bonds	(150,800)	(144,104)
Interest paid on bonds	(131,296)	(137,994)
Net cash used in capital and related financing activities	<u>(297,351)</u>	<u>(338,357)</u>
Investing activities		
Interest and dividends on investments	39,432	76,563
Net cash provided by investing activities	<u>39,432</u>	<u>76,563</u>
Net (decrease) increase in cash and cash equivalents	(1,302)	170,139
Cash and cash equivalents at beginning of year	<u>4,233,100</u>	4,062,961
Cash and cash equivalents at end of year	<u>\$ 4,231,798</u>	<u>\$ 4,233,100</u>
Reconciliation of operating (loss) income to net cash provided by operating activities		
Operating (loss) income	\$ (72,855)	\$ 78,163
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Depreciation and amortization	614,361	619,440
Changes in operating assets and liabilities:		
Unearned revenue	(243,694)	(272,797)
Accounts receivable	10,535	(489)
Prepaid expenses and other assets	(7,354)	68
Accounts payable and accrued expenses	(44,376)	7,548
Net cash provided by operating activities	<u>\$ 256,617</u>	<u>\$ 431,933</u>
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 2,431,765	\$ 2,435,837
Designated cash and cash equivalents	1,400,000	1,400,000
Restricted cash	400,033	397,263
Total	<u>\$ 4,231,798</u>	<u>\$ 4,233,100</u>

See accompanying notes.

Leon County Research and Development Authority

Notes to Financial Statements

Years ended September 30, 2013 and 2013

1. Summary of Significant Accounting Policies

Description of Organization

The Leon County Research and Development Authority (the Authority) was created by the Leon County Board of County Commissioners pursuant to County Ordinance No. 80-68 in accordance with Section 159.703, Florida Statutes. The Authority was created for the purpose of promoting scientific research and development in affiliation with and related to the research and development activities of one or more state-based, accredited, public or private institutions of higher education; for the purpose of financing and refinancing capital projects related to the establishment of a research and development park in affiliation with one or more institutions of higher education, including facilities that complement or encourage the complete operation thereof, as defined by and in the manner provided by the Florida Industrial Development Financing Act; and for the purpose of fostering the economic development and broadening the economic base of a county in affiliation with one or more institutions of higher education.

The Authority has acquired land within Leon County to perform any and all functions related or incidental to the operation of Innovation Park, Tallahassee (the Park). The Park is to provide a compatible location where selected applied research operations can be established to build upon and mutually benefit the economy of North Florida, the research capabilities of Florida A&M and Florida State Universities, and the services of Florida's capital city.

The Authority was notified on October 22, 1991, by the Office of the Comptroller, Department of Banking and Finance, State of Florida, that it had been reclassified from an independent to a dependent special district. The Authority is not considered by Leon County, its governing authority, to be a component unit of Leon County.

Basis of Accounting

The Authority follows Governmental Accounting Standards Board (GASB) financial reporting requirements for enterprise funds, which use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recognized when they are incurred.

Revenue Recognition

Operating revenues – Operating revenues generally result from providing services in connection with ongoing operations. Operating revenues consist of lease, maintenance, management, and common area management fee revenues collected from tenants. Operating revenues are recognized as revenue in the period earned.

Nonoperating revenues – Nonoperating revenues consist of interest earned on deposits held with financial institutions and are recognized as revenue in the period earned.

Leon County Research and Development Authority

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash consists of demand deposits held at qualified public depositories. Qualified public depositories of public funds are required to provide collateral each month pursuant to Section 280.04, Florida Statutes. The collateral is held by the Florida Division of Treasury or other custodian with full legal rights maintained by the Florida Division of Treasury to transfer ownership. Any loss not covered by the pledged securities and deposit insurance would be assessed by the Florida Division of Treasury and paid by the other public depositories. Therefore, any amount of the Authority's demand deposits in excess of FDIC protection would be fully insured or collateralized.

Restricted and designated cash and cash equivalents consist of amounts for the completion of capital projects.

Accounts Receivable

Accounts receivable consists of amounts due from tenants for leases, common area fees, maintenance fees, and management fees.

The Authority provides an allowance for doubtful accounts based upon the anticipated collectability of each specific account. At September 30, 2013 and 2012, the Authority has recorded an allowance of \$0 for both years.

Capital Assets

Capital assets are recorded at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are as follows:

	Useful Lives
Buildings	10 – 40 years
Improvements	5 – 20 years
Equipment and furnishings	5 – 8 years
Development costs	10 years

Beginning October 1, 1986, capital outlays for the construction of streets, parks, water and sewer lines, and other types of infrastructure expenditures are capitalized and included in improvements. To date, all such completed projects have been transferred to and accepted by the City of Tallahassee.

Leon County Research and Development Authority

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Amortization

The costs of obtaining bonded debt are deferred and amortized over the life of the bonds using the straight line method.

Subsequent Events

The Authority has evaluated subsequent events through January 29, 2014, the date the financial statements were available to be issued. During the period from September 30, 2013 to January 29, 2014, the Authority did not have any material recognizable subsequent events other than the matter disclosed in Note 12.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

2. Ground Lease

The Authority entered into an agreement on January 28, 1980, with the State of Florida Board of Trustees of the Internal Improvement Trust Fund (the Board) to lease Park lands from the Board comprised of 207.92 acres for a period of 94 years. The agreement does not call for any lease payments from the Authority but specifies that the Park lands shall be used for research, design, development, light manufacturing and assembly, and educational and related purposes in furtherance of essential public purposes.

3. Long-term Debt

Centennial Building Project – On December 21, 2005, the Authority entered into an agreement with Wells Fargo Bank, N.A. (formerly Wachovia Bank, N.A.), relating to the issuance of the \$3,700,000 Leon County Research and Development Authority Lease Revenue Bond, Series 2005 (the Series 2005 Bonds). The proceeds of the bond issue have been used to renovate approximately 18,000 square feet of existing space in the Centennial Building, and for an expansion of approximately 6,000 square feet for a high voltage, high current physics facility for use by Florida A & M University.

Leon County Research and Development Authority

Notes to Financial Statements

3. Long-term Debt (continued)

In addition, a portion of the bond proceeds were used to refund the remaining unrefunded portion of the Leon County Research and Development Authority Revenue Refunding Bond, Series 2000C (Series C) issued in 2000. The bonds are secured by pledged lease revenues from Florida A & M University for space leased in the Centennial Building.

Following is a summary of the changes in long-term debt for the year ended September 30, 2013:

Titles of Issues	Balance Outstanding as of September 30, 2012	Additions (Payments)	Balance Outstanding as of September 30, 2013	Principal Due Within One Year
Centennial Bond, Series 2005	\$ 2,954,043	\$ (150,800)	\$ 2,803,244	\$ 157,813

The annual debt service requirement as of September 30, 2013, is as follows:

Year ending September 30,	Principal	Interest	Total
2014	157,813	124,283	282,096
2015	165,146	116,950	282,096
2016	172,818	109,278	282,096
2017	180,848	101,248	282,096
2018	189,250	92,846	282,096
2019 – 2023	1,086,602	323,878	1,410,480
2024 – 2027	850,767	66,061	916,828
Total	\$ 2,803,244	\$ 934,544	\$ 3,737,788

As part of the requirements on the bond issue, the authority has established a sinking fund. The sinking fund is considered restricted and is the portion of net position that is restricted for capital projects. Restricted amounts in the sinking fund are used for principal and interest payments first and then for the cost of operation and maintenance of the Centennial Building, unless the costs are the responsibility of the tenant. The Authority's policy is to first apply restricted funds when an expense is incurred for the purposes for which both restricted and unrestricted assets are available.

4. Unearned Revenue

Johnson Building Project – On November 1, 1995, with funds provided by the Florida State University Research Foundation (the Research Foundation), the Authority redeemed in full the \$3,865,000 Series 1994 Bond Issue. The redemption by the Research Foundation is considered to be advance lease payments to the Authority and has been fully amortized as of September 30, 2013. Also see Note 7 regarding lease obligations associated with this building.

Leon County Research and Development Authority

Notes to Financial Statements

4. Unearned Revenue (continued)

Shaw Building Project – On December 30, 2005, with funds provided by the Research Foundation, the Authority redeemed \$2,483,811 of outstanding bonds associated with constructing and equipping the Shaw Building. The funds provided by the Research Foundation are considered to be advance lease payments to the Authority and will be amortized and recognized as revenue in the amount of \$246,328 annually through December 23, 2015. The remaining amount to be amortized as of September 30, 2013, is \$554,239. Also see Note 7 regarding lease obligations associated with this building.

5. Retirement Plan

All employees of the Authority that work 20 or more hours per week are eligible to participate in the Florida Retirement System (the FRS). The FRS includes various plans and programs, including a defined benefit pension plan (Pension Plan), which is primarily a cost-sharing, multiple-employer defined benefit public-employee pension plan. Contributions and benefits are established in Section 121.71, Florida Statutes.

Participating employer contributions are based upon actuarially determined blended rates established by the State Legislature that expressed as percentages of annual covered payroll are adequate to accumulate sufficient assets to pay benefits when due. As of July 1, 2011, participating employees are required to contribute 3% of their annual salary.

The total retirement contributions for the fiscal years ended September 30, 2013, 2012, and 2011, were \$8,818, \$10,384, and \$10,463, respectively, which is equal to the required contribution for each year.

The Pension Plan is administered by the State of Florida Department of Management Services, Division of Retirement. The Division of Retirement issues a publicly available FRS Annual Report that includes financial statements and required supplementary information for the Pension Plan. That report may be obtained by writing to the Division of Retirement, P.O. Box 9000, Tallahassee, Florida 32315-9000, or by calling 850-488-5706.

On November 18, 1997, the Authority adopted the National Association of Counties Deferred Compensation Program pursuant to Section 457 of the Internal Revenue Code (IRC). The deferred compensation plan allows for the voluntary participation of all eligible employees of the Authority. All assets of this plan, including all deferred amounts, property, and rights purchased with deferred amounts, and all income attributable to such deferred amounts, property, or rights, other than assets held in annuity contracts, will be held in a custodial account described in IRC Section 457(g).

The custodian shall hold the assets for the exclusive benefit of the participants and beneficiaries and the assets may not be diverted to any other use. There were no contributions to the plan for the years ended September 30, 2013 and 2012.

Leon County Research and Development Authority

Notes to Financial Statements

6. Commitments and Contingencies

Master Plan Update and Future Park Development – The Authority’s Planned Unit Development (PUD) master development plan for the Park was amended and approved May 15, 2013. On September 20, 2005, the Authority approved a five-year Capital Improvement Plan (CIP), which is updated annually. On November 18, 2007, the Authority entered into an agreement with a local land planning consulting firm for the purpose of accomplishing goals outlined in the CIP. Also on that same date, the Authority entered into an agreement with a local land use law firm to determine the Park’s status under Developments of Regional Impact (DRI) legislation. As of September 30, 2013 and 2012, \$754,961, have been incurred and capitalized as park development costs. The costs are being amortized over a period of 10 years. Accumulated amortization of these costs is \$ 460,698 and \$406,281 as of September 30, 2013 and 2012, respectively. Such costs are for various projects including Park amenities, a business incubator program, PUD/DRI, landscaping and park beautification, and other miscellaneous expenses. The Board has the ability to modify the CIP at their discretion.

Economic Development – Corporate Location Agreement –The Authority entered into an agreement on January 6, 2006, with the City of Tallahassee and Danfoss Turbocor Compressors Inc. (Danfoss) for the construction of a facility to house the Tallahassee operation of Danfoss. The agreement calls for the City of Tallahassee and the Authority to jointly construct the facility at a cost to the City of Tallahassee and the Authority of \$4.5 million. In addition, the City of Tallahassee and the Authority have agreed to reimburse Danfoss’ special building requirements, up to a maximum amount equal to the lesser of \$200,000 or the amount by which the total of all design and construction costs is less than \$4.8 million. Upon completion, the Authority would own 20% of the building. A new agreement between the Authority and the City of Tallahassee and Danfoss based on final construction costs is pending. The Authority has incurred and capitalized costs of \$66,116 as of September 30, 2013 and 2012. The costs are being amortized over a period of 10 years. Accumulated amortization of these costs is \$46,279 and \$39,668 as of September 30, 2013 and 2012, respectively.

Agreement Among Tenants in Common – On January 6, 2006, the Authority and the City of Tallahassee entered into an “Agreement Among Tenants in Common.” The purpose of this co-tenancy is for the construction, ownership, management, and leasing of a building to be occupied by Danfoss. The term of the co-tenancy is fifty (50) years, commencing on January 6, 2006, and ending on January 6, 2056, unless sooner terminated by the tenants in common. The ownership and the operating interests in the co-tenancy is 20% for the Authority and 80% for the City of Tallahassee. Contributions by the Authority include Lots 1D, 2D, and 3D to the co-tenancy by leasing these properties for one dollar (\$1.00) per year for 20 years, and for fair market value for the remaining 30 years. The City is to provide up to \$4,750,000 for construction of the building. The Authority was to provide up to \$450,000 for construction of the building. An amendment to this agreement is pending which will remove the Authority’s \$450,000 construction obligation.

According to the co-tenancy agreement, any sublease of the property and building will require the tenant to pay all maintenance and operational expenses, rent, utilities, insurance, common area fees, and taxes.

Leon County Research and Development Authority

Notes to Financial Statements

6. Commitments and Contingencies (continued)

City of Tallahassee Ground Lease – On January 6, 2006, the Authority and the City of Tallahassee entered into a ground lease. The terms of the lease include rental of Lots 1D, 2D, and 3D as set forth in the Innovation Park/Tallahassee Amended Final Development Plan dated November 20, 1992. The term of the ground lease is for fifty (50) years, commencing on January 6, 2006, and ending on January 6, 2056. The City of Tallahassee, as tenant, will pay the Authority the sum of one dollar (\$1.00) per year for 20 years, and fair market value for the remaining 30 years.

Sunnyland Solar and Solar Distributors of America Ground Leases – On August 3, 2011, the Authority and Sunnyland Solar Re, LLC entered into a ground lease. The terms of the lease include rental of approximately 9.8 acres. The term of the ground lease is for seven (7) years, with an option to renew for two additional seven (7) year terms, for a total of twenty-one (21) years. Sunnyland Solar Re, LLC, as tenant, will pay the Authority the sum of \$7,000 per year for the term of the lease. Additionally, on August 4, 2011, the Authority and Solar Distributors of America, LLC entered into a ground lease. The terms of the lease include rental of approximately 18.33 acres. The term of the ground lease is for seven (7) years, with an option to renew for two additional seven (7) year terms, for a total of twenty-one (21) years. This lease was terminated by the tenant on February 29, 2012. Solar Distributors of America, LLC, as tenant, paid the Authority the sum of \$10,000 for the first year of the term of the lease. As an inducement to enter into these leases, an entity related to both tenants, Inkbridge, LLC, transferred \$100,000 into an escrow account for unrestricted use by the Authority for purposes that will be determined by the Board in conjunction with Inkbridge, LLC. This amount is included in other revenue on the Statement of Revenues, Expenses, and Changes in Net Position for the year ending September 30, 2012. The Authority expended \$10,000 of the escrowed funds for the year ended September 30, 2013.

7. Operating Leases

Sliger Building

On October 1, 2005, the Authority entered into a lease agreement with the Research Foundation for 100% of Sliger Building less Suite 100 Modules I and II of the Research Complex. The initial term of the lease was from October 1, 2005, through November 1, 2011. The monthly lease payment due under this agreement is \$470 for a management fee during the initial lease term. Upon expiration of the initial lease term, the management fee is calculated using the \$470 management fee plus the consumer price index increases for each year since October 1, 2005 (\$546 as of September 30, 2013). After the initial lease term, the lease automatically renews for additional 12 month periods unless the Research Foundation notifies the Authority no less than 12 months prior to the end of any lease term of its desire to terminate. In addition to the management fee, the Research Foundation is also responsible for the annual common area fees.

Leon County Research and Development Authority

Notes to Financial Statements

7. Operating Leases (continued)

Phipps Building

The agreement with the Florida Department of Transportation (FDOT) for the Phipps Building is for 11,661 square feet and requires monthly payments of \$10,719 beginning June 1, 2007, through May 31, 2022, with an option to renew for an additional five-year term.

Collins Building

On June 12, 2007, the Authority entered into an agreement with the Florida Department of Agriculture and Consumer Services (FDACS) for 25% of the Collins Building. The agreement is for 6,126 square feet and requires monthly payments of \$4,671 beginning July 1, 2007, through June 30, 2022, with an option to renew for an additional five-year term.

The agreement with the Florida Department of Environmental Protection (FDEP) for the Collins Building is for 18,774 square feet (75% of the building) and requires monthly payments of \$14,315 beginning July 1, 2007, through June 30, 2022, with an option to renew for an additional five-year term. This lease was terminated by the tenant on July 17, 2013.

On July 1, 2013, the Authority entered into a lease agreement with Bing Energy International LLC (Bing), and subsequently amended the agreement on October 1, 2013. The agreement is for 3,791 square feet in the Collins Building with monthly lease payments of \$2,891 through June 30, 2013 with options to renew for seven additional one-year terms.

Centennial Building

On December 1, 2006, the Authority entered into a lease agreement with Florida A & M University for the 26,700 square foot building referred to in Note 3. The agreement requires a monthly lease payment in the amount of \$21,360 for the first year. Thereafter, lease payments will increase to \$25,858 per month for the duration of the lease term, with an option to renew on an annual basis at a reduced monthly rate of \$2,175. Under the terms of the lease, the Authority agreed to expand the square footage of the Centennial Building from 26,700 to 32,700 square feet and renovate approximately 18,000 square feet.

Johnson Building

As described in Note 4, the Research Foundation leases the Johnson Building from the Authority and advance-funded its lease obligation through November 1, 2013.

On October 1, 2005, the Authority entered into revised lease agreement with the Research Foundation for the Johnson Building. The initial term of the leasehold was from October 1, 2005, through November 1, 2011. The monthly lease payment due under this agreement is \$500 for a management fee during the initial lease term. The lease automatically renews for additional 12 month periods unless the Research Foundation notifies the Authority no less than 12 months prior to the end of any lease term of its desire to terminate. The lease rate is the management fee of \$500 plus the consumer price index increases for each year since October 1, 2005 (\$581 as of September 30, 2013). In addition to the management fee, the Research Foundation is also responsible for the annual common area fees.

Shaw Building

As described in Note 4, the Research Foundation leases the Shaw Building from the Authority and has advance-funded its lease obligation through December 23, 2015.

Leon County Research and Development Authority

Notes to Financial Statements

7. Operating Leases (continued)

On October 1, 2005, the Authority entered into a revised lease agreement with the Research Foundation for the Shaw Building. Beginning January 1, 2006, the Research Foundation leased one hundred percent (100%) of the Shaw Building. The initial term of the leasehold shall be for 19 years, from November 24, 1996, through December 23, 2015. The lease term will automatically renew for additional 12 month periods unless the Research Foundation notifies the Authority of its intention not to renew no less than 12 months prior to the lease termination date.

Subsequent to December 23, 2015, the agreement requires the Research Foundation to pay the Authority on a monthly basis five percent (5%) of the gross rents received by the Research Foundation for any subtenants beginning to occupy the building.

Sliger and Morgan Buildings

During the years ended September 30, 2013 and 2012, the Authority recognized other short-term lease revenues from space in the Sliger and Morgan Buildings in the amount of \$199,667 and \$220,652, respectively.

Administrative Office

During the years ended September 30, 2013 and 2012, the Authority also recognized other short-term lease revenues from space in the Administrative Office in the amount of \$10,367 and \$11,037, respectively.

Common Area Management Fees

The Authority maintains all of the common area in the Park. Owners of long-term leases purchased from the Authority and certain other tenants are charged an annual common area fee based on the Park's adjusted annual administrative overhead costs divided by the developable acres. For the years ended September 30, 2013 and 2012, the Authority recognized common area revenue in the amount of \$97,860 and \$109,918, respectively.

Following is a table of the minimum future rentals expected to be collected over the next five years:

	September 30,					
	2014	2015	2016	2017	2018	Total
Sliger	\$ 4,650	\$ –	\$ –	\$ –	\$ –	\$ 4,650
DOT	128,635	128,635	128,635	128,635	128,635	643,175
DACS	56,053	56,053	56,053	56,053	56,053	280,265
FAMU	310,308	310,308	310,308	310,308	310,308	1,551,540
Bing	34,692	26,019	–	–	–	60,711
Morgan	131,200	–	–	–	–	131,200
Shaw*	246,328	246,328	61,583	–	–	554,239
Admin						
Center	1,904	–	–	–	–	1,904
Ground						
leases	7,000	7,000	7,000	7,000	7,000	35,000
	<u>\$ 920,770</u>	<u>\$ 774,343</u>	<u>\$ 563,579</u>	<u>\$ 501,996</u>	<u>\$ 501,996</u>	<u>\$ 3,262,684</u>

*Deferred amortized lease revenue

Leon County Research and Development Authority

Notes to Financial Statements

8. Changes in Capital Assets

Following is a summary of the changes in capital assets for the year ending September 30, 2013:

Descriptions	Balance at September 30, 2012	Additions	Deletions	Balance at September 30, 2013
Buildings	\$ 19,914,966	\$ 6,783	-	\$ 19,921,749
Equipment and furnishings	68,183	-	-	68,183
Improvements	554,552	8,473	-	563,025
Land	635,921	-	-	635,921
Park and development costs	754,961	-	-	754,961
	21,928,583	15,256	-	21,943,839
Accumulated depreciation	(9,914,405)	(614,361)	-	(10,528,766)
Total	\$ 12,014,178	\$ (599,105)	\$ -	\$ 11,415,073

9. Loss Associated with Unauthorized Disbursements

During prior fiscal years, unauthorized disbursements were made by a former employee. The former employee has been convicted of fraud related to unauthorized disbursements totaling \$647,452. The former employee was ordered to pay the Authority restitution in the amount of \$746,043, which includes expenses paid for forensic accounting services. The Authority has received \$350,000 from other sources of restitution as of September 30, 2012. Restitution received from the former employee and the sale of her assets was \$1,132 and \$13,154 as of September 30, 2013 and 2012, respectively.

10. Designated Net Assets and Cash and Cash Equivalents

The Board of Governors has designated unrestricted net assets for the year ended September 30, 2013 and for future capital projects in the amount of \$1,400,000. In addition, the Board of Governors has designated cash and cash equivalents in the amount equal to the above designation.

11. Risk Management

The Authority is exposed to various risks of loss associated with normal operations and has purchased commercial insurance to mitigate such risks.

12. Subsequent Event

On November 12, 2013, the Authority entered into a Memorandum of Understanding with Florida State University and Florida A&M University (the Universities) which outlines a restructuring plan, and establishes a framework for the continued operation of the Park. As part of the restructuring plan, the Authority will transfer to the Universities ownership in certain buildings and leasehold interests in lands, in exchange for a leasehold interest in a building and the retirement of debt. The Authority contemplates completing the transactions in March 2014.

Other Reports

Report of Independent Auditors 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*

The Board of Governors
Leon County Research and Development Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Leon County Research and Development Authority (the Authority), which comprise the statement of net position as of September 30, 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 29, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

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

Purpose of this Report

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

Thomas Howell Ferguson P.A.

Tallahassee, Florida
January 29, 2014

Management Letter

The Board of Governors
Leon County Research and Development Authority

We have audited the financial statements the Leon County Research and Development Authority (the Authority) as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated January 29, 2014.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 10.550, Rules of the Florida Auditor General. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in this report and schedule, which are dated January 29, 2014, should be considered in conjunction with this management letter.

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

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no recommendations made in the preceding 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 Authority complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

- Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) Deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note 1 to the financial statements.
- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Authority did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the Authority for the fiscal year ended September 30, 2013, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2013. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Authority's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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

Thomas Howell Ferguson P.A.

Tallahassee, Florida
January 29, 2014