Financial Statements

Leon County Research and Development Authority

Years ended September 30, 2012 and 2011
with Report of Independent Auditors

Thomas Howell
Ferguson P.A.

Leon County Research and Development Authority

Financial Statements

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Contents

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Report of Independent Auditors

The Board of Governors
Leon County Research and Development Authority

We have audited the accompanying financial statements of the Leon County Research and Development Authority (the Authority), as of and for the years ended September 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the management of the Leon County Research and Development Authority. 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 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, presents fairly in all material respects, the financial position of the Leon County Research and Development Authority as of September 30, 2012 and 2011, and the changes in its financial position and its cash flows, for the years 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 December 14, 2012, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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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 the 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 inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Thomas Howell Ferguson P.A.

December 14, 2012

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, 2012. 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, 2012, by $12.678 million (net assets). Of this amount, $3.221 million represents unrestricted net assets that are available to meet ongoing obligations to tenants and creditors.

- Fund net assets increased by $13,716. This increase is attributed to operating revenues of $1.433 million, operating expenses of $1.355 million, and nonoperating revenue/expenses of ($0.064) million. Operating revenues decreased by $304,365, operating expenses decreased by $70,574, and nonoperating revenue/expenses increased by $25,740.

- Current assets consisting of cash and cash equivalents and accounts receivable increased by $142,286 from the prior year. The increase in cash is partially attributed to $100,000 held in trust for the benefit of the Authority as a result of an inducement to enter into certain leases.

- Earnings on investments increased $19,351 to $76,849 for fiscal year 2012 from $57,948 for fiscal year 2012.

- No significant deficiencies 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 2011 and 2012.

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

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

	2012	2011	Change
Assets			
Current assets	$ 4,054	$ 3,911	$ 143
Restricted assets	397	369	28
Noncurrent assets	12,061	12,603	(542)
Total assets	16,512	16,883	(371)
Liabilities			
Current liabilities	474	459	15
Noncurrent liabilities	3,360	3,760	(400)
Total liabilities	3,844	4,219	(385)
Net Assets			
Invested in capital assets net of related debt	9,060	9,455	(395)
Restricted	397	369	28
Unrestricted	3,221	2,840	381
Total net assets	12,678	12,664	14
Total liabilities and net assets	$ 16,512	$ 16,883	$ (371)

The vast majority of Authority assets are capital assets having a depreciated value of $12.0 million and representing 72.8 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 Assets
Year ending September 30
(*in thousands*)

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

	2012	2011	Change
Total operating revenues (lease revenue and other)	$ 1,433	$ 1,737	$ (304)
Total operating expenses	(1,355)	(1,425)	(70)
Operating income (loss)	78	312	(234)
Nonoperating revenues (expenses)	(64)	(90)	26
Change in net assets	14	222	(208)
Fund net assets at beginning of year	12,664	12,442	222
Fund net assets at end of year	$ 12,678	$ 12,664	$ 14

For the year ended September 30, 2012, Authority operating revenues exceeded operating expenses by $78,163. Changes in fund assets resulted in an increase of $13,716 for the year as compared to an increase of $221,767 in 2011.

Total operating revenues decreased by $304,365. This is attributed in part to a decrease in amortized unearned revenue of $216,526 related to the Johnson Building lease.

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. The ultimate use of these funds will be determined solely by the Authority, and are available upon request.

During the 2011 fiscal year, the Authority received a total of $100,000 from insurance policies and $250,000 in additional revenues related to unauthorized disbursements occurring from 2006 to April 2010. The Authority continues to seek other methods of restitution as may be available; however, such amounts are not expected to be significant. The Authority does not expect to receive additional insurance recoveries from its insurance company.

Budgetary Comparison Statement

Authority management prepared and the Authority Board approved a budget for fiscal year 2012. 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.

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 Assets

	September 30, 2012	September 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	**$ 2,435,837**	$ 2,294,258
Designated cash and cash equivalents	**1,400,000**	1,400,000
Accounts receivable - leases and other, net	**205,952**	205,463
Accrued interest receivable	**4,803**	4,517
Prepaid expenses and other current assets	**6,865**	6,933
Total current assets	**4,053,457**	3,911,171
Restricted assets:		
Restricted cash and cash equivalents	**397,263**	368,703
Noncurrent assets:		
Bond issue costs, net of amortization	**46,784**	50,084
Capital assets, net of accumulated depreciation	**12,014,178**	12,552,946
Total assets	**$ 16,511,682**	$ 16,882,904
Liabilities and fund net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 76,780**	$ 44,819
Unearned revenue	**246,327**	270,080
Current portion of bond payable	**150,817**	144,111
Total current liabilities	**473,924**	459,010
Noncurrent liabilities:		
Bond payable, net of current portion	**2,803,226**	2,954,034
Unearned revenue	**556,768**	805,812
Total noncurrent liabilities	**3,359,994**	3,759,846
Fund net assets:		
Invested in capital assets, net of related debt	**9,060,135**	9,454,801
Restricted for capital projects	**397,263**	368,703
Unrestricted	**3,220,366**	2,840,544
Total fund net assets	**12,677,764**	12,664,048
Total liabilities and fund net assets	**$ 16,511,682**	$ 16,882,904

See accompanying notes.

Leon County Research and Development Authority

Statements of Revenues, Expenses, and Changes in Fund Net Assets

	Years ended September 30, 2012	2011
Operating revenues		
Leases	**$ 861,358**	$ 1,043,244
Leases (security for the Series 2005 Bonds)	**310,308**	310,308
Common area management fees	**109,918**	110,097
Management fees	**13,197**	11,640
Other income	**138,250**	262,107
Total operating revenues	**1,433,031**	1,737,396
Operating expenses		
Salaries and employee benefits	**173,070**	216,752
Depreciation and amortization expense	**619,440**	613,466
Other expenses	**562,358**	595,224
Total operating expenses	**1,354,868**	1,425,442
Operating income	**78,163**	311,954
Nonoperating revenues (expenses)		
Interest income	**76,849**	57,498
Amortization of bond issuance costs	**(3,302)**	(3,302)
Interest on bonds	**(137,994)**	(144,383)
Total nonoperating revenues (expenses)	**(64,447)**	(90,187)
Change in fund net assets	**13,716**	221,767
Fund net assets at beginning of year	**12,664,048**	12,442,281
Fund net assets at end of year	**$ 12,677,764**	$ 12,664,048

See accompanying notes.

Leon County Research and Development Authority

Statements of Cash Flows

	Years ended September 30, 2012	2011
Operating activities		
Cash received from tenants	**$ 1,021,495**	$ 994,656
Other cash receipts	**138,250**	350,000
Cash payments to suppliers for goods and services	**(550,272)**	(625,619)
Cash payments to employees	**(177,540)**	(210,131)
Net cash provided by operating activities	**431,933**	508,906
Capital and related financing activities		
Purchase of capital assets	**(56,259)**	(164,206)
Principal paid on bonds	**(144,104)**	(137,715)
Interest paid on bonds	**(137,994)**	(144,383)
Net cash used in capital and related financing activities	**(338,357)**	(446,304)
Investing activities		
Interest and dividends on investments	**76,563**	54,970
Net cash provided by investing activities	**76,563**	54,970
Net increase in cash and cash equivalents	**170,139**	117,572
Cash and cash equivalents at beginning of year	**4,062,961**	3,945,389
Cash and cash equivalents at end of year	**$ 4,233,100**	$ 4,062,961
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income	**$ 78,163**	$ 311,954
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	**619,440**	613,466
Changes in operating assets and liabilities:		
Unearned revenue	**(272,797)**	(457,625)
Accounts receivable	**(489)**	64,885
Prepaid expenses and other assets	**68**	(6,933)
Accounts payable and accrued expenses	**7,548**	(16,841)
Net cash provided by operating activities	**$ 431,933**	$ 508,906
Cash and cash equivalents consist of:		
Cash and cash equivalents	**$ 2,435,837**	$ 2,294,258
Designated cash and cash equivalents	**1,400,000**	1,400,000
Restricted cash	**397,263**	368,703
Total	**$ 4,233,100**	$ 4,062,961

See accompanying notes.

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.

Election to Apply FASB Standards

The Authority has elected not to apply Financial Accounting Standards Board (FASB) accounting standards issued after November 30, 1989.

1. Summary of Significant Accounting Policies (continued)

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.

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 Chapter 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, 2012 and 2011, 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

1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

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.

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 December 14, 2012, the date the financial statements were available to be issued. During the period from September 30, 2012 to December 14, 2012, the Authority did not have any material recognizable subsequent events.

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.

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, 2012:

Titles of Issues	Balance Outstanding as of September 30, 2011	Additions (Payments)	Balance Outstanding as of September 30, 2012	Principal Due Within One Year
Centennial Bond, Series 2005	$ 3,098,145	$ (144,102)	$ 2,954,043	$ 150,817

The annual debt service requirement as of September 30, 2012, is as follows:

Year ending September 30,	Principal	Interest	Total
2013	$ 150,817	$ 131,279	$ 282,096
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 – 2022	1,038,358	372,122	1,410,480
2023 – 2027	1,088,244	110,663	1,198,907
Total	$ 2,954,043	$ 1,065,824	$ 4,019,867

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 will be amortized and recognized as revenue in the amount of $230,112 annually through November 1, 2011. The remaining amount to be amortized as of September 30, 2012, is $0. Also see Note 7 regarding lease obligations associated with this building.

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, 2012, is $800,567. 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, 2012, 2011, and 2010, were $10,384, $10,463, and $11,035, 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, 2012 and 2011.

6. Commitments and Contingencies

Master Plan Update and Future Park Development – The Authority is presently in the process of updating the Plan Unit Development (PUD) master development plan of the Park. 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, 2012 and 2011, $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 $406,281 and $346,440 as of September 30, 2012 and 2011, 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, 2012 and 2011. The costs are being amortized over a period of 10 years. Accumulated amortization of these costs is $39,668 and $33,057 as of September 30, 2012 and 2011, 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.

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. Solar Distributors of America, LLC, as tenant, will pay the Authority the sum of $10,000 per year for 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 Fund Net Assets for the year ending September 30, 2012.

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 ($539 as of September 30, 2012). 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. On October 25, 2012, the Authority granted the Research Foundation a 90 day extension to provide notice of termination of the lease. In addition to the management fee, the Research Foundation is also responsible for the annual common area fees.

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.

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, 2011.

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. On October 25, 2012, the Authority granted the Research Foundation a 90 day extension to provide notice of termination of the lease. The lease rate is the management fee of $500 plus the consumer price index increases for each year since October 1, 2005 ($573 as of September 30, 2012). 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.

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, 2011 and 2012, the Authority recognized other short-term lease revenues from space in the Sliger and Morgan Buildings in the amount of $194,520 and $220,652, respectively.

Administrative Office

During the years ended September 30, 2011 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, 2012 and 2011, the Authority recognized common area revenue in the amount of $109,918 and $110,097, respectively.

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

	September 30,					
	2013	**2014**	**2015**	**2016**	**2017**	**Total**
Sliger	$ –	$ –	$ –	$ –	$ –	$ –
DOT	128,635	128,635	128,635	128,635	128,635	643,175
DEP	171,782	171,782	171,782	171,782	171,782	858,910
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
Johnson	–	–	–	–	–	–
Johnson*	–	–	–	–	–	–
Shaw*	246,328	246,328	246,328	61,583	–	800,567
Ground leases	17,001	17,001	17,001	17,001	17,001	85,005
	$ 930,107	$ 930,107	$ 930,107	$ 745,362	$ 683,779	$ 4,219,462

**Deferred amortized lease revenue*

8. Changes in Capital Assets

Following is a summary of the changes in capital assets for the year ending September 30, 2012:

Descriptions	Balance at September 30, 2011	Additions	Deletions	Balance at September 30, 2012
Buildings	$ 19,834,294	$ 80,672	–	**$ 19,914,966**
Equipment and furnishings	68,183	–	–	**68,183**
Improvements	556,376	–	(1,824)	**554,552**
Land	635,921	–	–	**635,921**
Park and development costs	754,961	–	–	**754,961**
	21,849,735	80,672	(1,824)	**21,928,583**
Accumulated depreciation	(9,296,789)	(619,440)	1,824	**(9,914,405)**
Total	$ 12,552,946	$ (538,768)	$ –	**$ 12,014,178**

9. Related Party Transactions

During the year ended September 30, 2010, the Authority entered into an interlocal agreement with Leon County for various services including accounting, public information, management information, planning and engineering, legal, and administrative services. This agreement ended on February 28, 2011. Amounts paid for reimbursable amounts due to services provided under this contract for the year ended September 30, 2011, is $5,675, which does not include the value of personnel services rendered.

10. 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 $13,154 as of September 30, 2012.

11. Designated Net Assets and Cash and Cash Equivalents

The Board of Governors has designated unrestricted net assets for the year ended September 30, 2012 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.

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 the financial statements of the Leon County Research and Development Authority (the Authority), as of and for the year ended September 30, 2012, and have issued our report thereon dated December 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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*.

This report is intended solely for the information and use of management, the Audit Committee, the Board of Governors, Leon County, and the Auditor General, State of Florida, and is not intended to be and should not be used by anyone other than those specified parties.

Thomas Howell Ferguson P.A.

December 14, 2012

Management Letter

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Management Letter

The Board of Governors
Leon County Research and Development Authority

We have audited the financial statements of the Leon County Research and Development Authority (the Authority), as of and for the year ended September 30, 2012 and have issued our report thereon dated December 14, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. We have also issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters. Disclosures in that report, which is dated December 14, 2012, should be considered in conjunction with this management letter.

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

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. Corrective actions have been taken on each of the findings reported in the prior year.

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. There were no recommendations in the current year.

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that we address violations of provisions of contracts or 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 did not have any such findings.

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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 the 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 controls that are not significant deficiencies. In connection with our audit, we did not have any findings of violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse that we believed were inconsequential.

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 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*.

Pursuant to Section 218.32(1)(a), *Florida Statutes*, and 10.554(1)(i)7.b, *Rules of the Auditor General,* we determined that the annual financial report filed with the Florida Department of Financial Services agreed to the annual financial audit report.

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 the same.

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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.

December 14, 2012