Financial Statements

Leon County Research and Development Authority

Years ended September 30, 2014 and 2013
with Report of Independent Auditors

Thomas Howell
Ferguson P.A.

Leon County Research and Development Authority

Financial Statements

Years ended September 30, 2014 and 2013

Contents

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, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years 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.

Thomas Howell Ferguson P.A.
Certified Public Accountants

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, 2014 and 2013, 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 8, 2015 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.

Thomas Howell Ferguson P.A.

Tallahassee, Florida
January 8, 2015

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, 2014. 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

- 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. The Authority completed the transaction on March 18, 2014. The Authority transferred to the Universities ownership of the Shaw, Sliger and Centennial buildings and related improvements and fixtures, as well as the leasehold interest in 96 gross acres of developed and undeveloped land. In exchange, the Authority received from the Universities control of the leasehold interest and related subleases in the Johnson building, and the retirement of bonds associated with the Centennial Building. The financial impact of this restructuring transaction is further discussed below, and in Note 9 to the financial statements.

- The Authority's assets exceeded liabilities as of September 30, 2014, by $9.113 million (net assets). Of this amount, $4.306 million represents unrestricted net assets that are available to meet ongoing obligations to tenants and creditors.

- Fund net position decreased by $3.392 million. $3.058 million of this decrease is attributable to the loss on the transfer of operations related to the restructuring noted above. $0.445 million of the decrease is attributable to depreciation and amortization expense.

- Current assets consisting of cash and cash equivalents and accounts receivable increased by $300,823 from the prior year. Additionally, a decrease in restricted assets of $400,033 is attributable to unrestricting previously restricted assets as a result of the restructuring. Current liabilities consisting of accounts payable, unearned revenue, and current portion of bond payable decreased by $402,679. Also related to the restructuring, $246,328 of this decrease is attributable to recognition of previously unearned revenue, and $157,813 of this decrease is attributable to the retirement of the bond payable.

- Earnings on investments decreased by $14,497 to $20,306 for fiscal year 2014 from $34,803 for fiscal year 2013. Investment earnings began to stabilize and increase slightly later in the year.

- 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 2013 and 2014.

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. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in 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 two years:

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

	2014	2013	2012	Change 2014	Change 2013
Assets					
Current assets	$ 4,342	$ 4,042	$ 4,054	$ 300	$ (12)
Restricted assets	-	400	397	(400)	3
Noncurrent assets	4,807	11,458	12,061	(6,651)	(603)
Total assets	$ 9,149	$ 15,900	$ 16,512	$ (6,751)	$ (612)
Liabilities					
Current liabilities	$ 34	$ 437	$ 474	$ (403)	$ (37)
Noncurrent liabilities	2	2,958	3,360	(2,956)	(402)
Total liabilities	36	3,395	3,834	(3,359)	(439)
Net Position					
Invested in capital assets net of related debt	4,807	8,612	9,060	(3,805)	(448)
Restricted	-	400	397	(400)	3
Unrestricted	4,306	3,493	3,221	813	272
Total net position	9,113	12,505	12,678	(3,392)	(173)
Total liabilities and net position	$ 9,149	$ 15,900	$ 16,512	$ (6,751)	$ (612)

Capital Asset and Debt Administration

The majority of Authority assets are capital assets having a depreciated value of $4.8 million and representing 52.5 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.

As a result of the restructuring, the Authority transferred building, improvements and fixtures with a depreciated value of $6.2 million to the Universities, and Florida A&M University retired the outstanding bonds of $2.7 million.

Table 2
Statement of Revenue, Expenses, and Changes in Net Position
(*in thousands*)

The following table summarizes the changes in net position for the current and prior two years.

	2014	2013	2012	Change 2014	Change 2013
Operating revenues	$ 868	$ 1,238	$ 1,433	$ (370)	$ (195)
Operating expenses	(1,165)	(1,311)	(1,355)	146	44
Operating income (loss)	(297)	(73)	78	(224)	(151)
Nonoperating revenues (expenses)	(37)	(100)	(64)	63	(36)
Change in net position before special items	(334)	(173)	14	(161)	(187)
Loss on transfer of operations	(3,058)	-	-	(3,058)	-
Change in net position	(3,392)	(173)	14	(3,219)	(187)
Net position at the beginning of the year	12,505	12,678	12,664	(173)	14
Net position at end of year	$ 9,113	$ 12,505	$ 12,678	$ (3,392)	$ (173)

For the year ended September 30, 2014, Authority operating expenses exceeded operating revenues by $296,725. Changes in fund position before special items resulted in a decrease of $334,522 for the current year as compared to a decrease of $172,648 in 2013.

Total operating revenues decreased by $370,003. This is attributed to a $23,599 decrease in common area maintenance fees, a $7,157 decrease in management fees, a $9,523 decrease in other income, and a decrease in lease revenue of $329,724. The decreases in common area maintenance fees, management fees, and other income are predominately attributed to the restructuring. The decrease in lease revenue is attributed to a $218,209 decrease due to the restructuring, $102,625 due to the loss of a State agency tenant in fiscal year 2013, and $10,014 due to reduced tenant occupancy in the Morgan Building.

Total operating expenses decreased by $146,133. This was due to a decrease in depreciation and amortization of $169,669 as a result of the restructuring. Salaries and benefits increased by $14,344 and other expenses increased by $9,192.

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.
Executive Director

Holly Newell
Treasurer

Leon County Research and Development Authority

Statements of Net Position

	September 30, 2014	September 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	**$ 2,805,586**	$ 2,431,765
Designated cash and cash equivalents	**1,400,000**	1,400,000
Accounts receivable - leases and other, net	**132,090**	195,417
Accrued interest receivable	**2,733**	174
Prepaid expenses and other current assets	**1,989**	14,219
Total current assets	**4,342,398**	4,041,575
Restricted assets:		
Restricted cash and cash equivalents	**-**	400,033
Noncurrent assets:		
Bond issue costs, net of amortization	**-**	43,484
Capital assets, net of accumulated depreciation	**4,806,834**	11,415,073
Total assets	**$ 9,149,232**	$ 15,900,165
Liabilities and net position		
Current liabilities:		
Accounts payable and accrued expenses	**$ 33,866**	$ 32,404
Unearned revenue	**-**	246,328
Current portion of bond payable	**-**	157,813
Total current liabilities	**33,866**	436,545
Noncurrent liabilities:		
Bond payable, net of current portion	**-**	2,645,431
Unearned revenue	**2,488**	313,073
Total noncurrent liabilities	**2,488**	2,958,504
Total liabilities	**36,354**	3,395,049
Net position:		
Net investment in capital assets	**4,806,834**	8,611,831
Restricted for capital projects	**-**	400,033
Unrestricted	**4,306,044**	3,493,252
Total net position	**9,112,878**	12,505,116
Total liabilities and net position	**$ 9,149,232**	$ 15,900,165

See accompanying notes.

Leon County Research and Development Authority

Statements of Revenues, Expenses, and Changes in Net Position

	Years ended September 30, 2014	2013
Operating revenues		
Leases	**$ 630,875**	$ 794,600
Leases (security for the Series 2005 Bonds)	**144,309**	310,308
Common area management fees	**74,261**	97,860
Management fees	**6,350**	13,507
Other income	**12,172**	21,695
Total operating revenues	**867,967**	1,237,970
Operating expenses		
Salaries and employee benefits	**215,054**	200,710
Depreciation and amortization expense	**444,692**	614,361
Other expenses	**504,946**	495,754
Total operating expenses	**1,164,692**	1,310,825
Operating loss	**(296,725)**	(72,855)
Nonoperating revenues (expenses)		
Interest income	**20,306**	34,803
Amortization of bond issuance costs	**(1,535)**	(3,300)
Interest on bonds	**(56,568)**	(131,296)
Total nonoperating expenses	**(37,797)**	(99,793)
Change in net position before special items	**(334,522)**	(172,648)
Special items		
Loss from discontinued operations	**(3,057,716)**	-
Change in net position	**(3,392,238)**	(172,648)
Net position at beginning of year	**12,505,116**	12,677,764
Net position at end of year	**$ 9,112,878**	$ 12,505,116

See accompanying notes.

Leon County Research and Development Authority

Statements of Cash Flows

	Years ended September 30, 2014	2013
Operating activities		
Cash received from tenants	**$ 801,891**	$ 983,117
Other cash receipts	**12,172**	21,695
Cash payments to suppliers for goods and services	**(496,201)**	(550,707)
Cash payments to employees	**(208,171)**	(197,488)
Net cash provided by operating activities	**109,691**	256,617
Capital and related financing activities		
Purchase of capital assets	**(36,107)**	(15,255)
Proceeds received from tenant for bond payment	**2,745,976**	-
Principal paid on bonds	**(2,803,244)**	(150,800)
Interest paid on bonds	**(60,275)**	(131,296)
Net cash used in capital and related financing activities	**(153,650)**	(297,351)
Investing activities		
Interest and dividends on investments	**17,747**	39,432
Net cash provided by investing activities	**17,747**	39,432
Net decrease in cash and cash equivalents	**(26,212)**	(1,302)
Cash and cash equivalents at beginning of year	**4,231,798**	4,233,100
Cash and cash equivalents at end of year	**$ 4,205,586**	$ 4,231,798
Reconciliation of operating (loss) income to net cash provided by operating activities		
Operating loss	**$ (296,725)**	$ (72,855)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Depreciation and amortization	**444,692**	614,361
Changes in operating assets and liabilities:		
Unearned revenue	**(117,231)**	(243,694)
Accounts receivable	**63,327**	10,535
Prepaid expenses and other assets	**12,230**	(7,354)
Accounts payable and accrued expenses	**3,398**	(44,376)
Net cash provided by operating activities	**$ 109,691**	$ 256,617
Cash and cash equivalents consist of:		
Cash and cash equivalents	**$ 2,805,586**	$ 2,431,765
Designated cash and cash equivalents	**1,400,000**	1,400,000
Restricted cash	**-**	400,033
Total	**$ 4,205,586**	$ 4,231,798
Supplemental disclosures of cash flow information		
Transfer of capital assets due to restructuring	**$ 6,201,427**	**$ -**

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.

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.

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, 2014 and 2013, 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.

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 8, 2015, the date the financial statements were available to be issued. During the period from September 30, 2014 to January 8, 2015, 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. In prior years, the Authority transferred its leasehold interest in approximately 33 acres to Florida State University. On March 18, 2014, the Authority transferred its leasehold interest in approximately 96 gross acres of developed and undeveloped Park land to Florida State University and Florida A&M University (see Note 9 related to the restructuring transaction.)

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. The bonds were retired early on March 13, 2014 with funds provided by Florida A&M University as a result of the restructuring transaction (see Note 9.)

Following is a summary of the changes in long-term debt for the year ended September 30, 2014:

Titles of Issues	Balance Outstanding as of September 30, 2013	Additions (Payments)	Balance Outstanding as of September 30, 2014	Principal Due Within One Year
Centennial Bond, Series 2005	$ 2,803,244	$ (2,803,244)	$ –	$ –

4. Unearned Revenue

Shaw Building Project – On December 30, 2005, with funds provided by the Florida State University 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 were considered to be advance lease payments to the Authority and were amortized over the remaining term of the lease. Advance lease payments recognized as revenue for the fiscal years ended September 30, 2014 and 2013 were $114,556 and $246,328, respectively. The remaining unamortized balance of $439,682, as of March 18, 2014, was recognized in income as a result of the restructuring transaction (see Note 9.) 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.

5. Retirement Plan (continued)

The total retirement contributions for the fiscal years ended September 30, 2014, 2013, and 2012, were $16,602, $8,818, and $10,384, 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. Contributions to the plan for the years ended September 30, 2014 and 2013 were $11,597 and $0, respectively.

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, 2014 and 2013, $754,961, has 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 $515,115 and $460,698 as of September 30, 2014 and 2013, 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.

6. Commitments and Contingencies (continued)

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, 2014 and 2013. The costs are being amortized over a period of 10 years. Accumulated amortization of these costs is $52,891 and $46,279 as of September 30, 2014 and 2013, 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.

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.

6. Commitments and Contingencies (continued)

Sunnyland Solar Ground Lease – 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. As an inducement to enter into this lease, an entity related to the tenant, 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. The Authority expended escrowed funds during the fiscal years ended September 30, 2014 and 2013 of $0 and $10,000, respectively.

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 ($556 as of September 30, 2014). 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. This lease was terminated on March 18, 2014 as a result of the restructuring transaction (see Note 9.)

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.

On July 1, 2013, the Authority entered into a lease agreement with Bing Energy International LLC (Bing), and has subsequently amended the agreement to increase leased space. The amended agreement is for 5,504 square feet in the Collins Building with monthly lease payments of $4,197 through June 30, 2015 with options to renew for seven additional one-year terms.

7. Operating Leases (continued)

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. This lease was terminated on March 18, 2014 as a result of the restructuring transaction (see Note 9.)

Johnson Building

On October 1, 2005, the Authority entered into a 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 ($591 as of September 30, 2014). In addition to the management fee, the Research Foundation is also responsible for the annual common area fees. This lease was terminated on March 18, 2014 as a result of the restructuring transaction (see Note 9.)

Also as a result of the restructuring transaction, on March 18, 2014, the Authority received the leasehold interest for two lease agreements with the Government of the United States of America for 17,306 square feet in the Johnson Building. The monthly lease payment due under these agreements is $13,195 per month. These leases expire February 17, 2015 and October 23, 2015, and the Authority is in the process of negotiating new leases with the current tenant.

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.

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 is for 19 years, from November 24, 1996, through December 23, 2015. This lease was terminated on March 18, 2014 as a result of the restructuring transaction (see Note 9.)

Sliger and Morgan Buildings

During the years ended September 30, 2014 and 2013, the Authority recognized other short-term lease revenues from space in the Sliger and Morgan Buildings in the amount of $186,868 and $199,667, respectively.

7. Operating Leases (continued)

Administrative Office

During the years ended September 30, 2014 and 2013, the Authority also recognized other short-term lease revenues from space in the Administrative Office in the amount of $8,313 and $10,367, 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, 2014 and 2013, the Authority recognized common area revenue in the amount of $74,261 and $97,860, respectively.

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

	September 30,					
	2015	**2016**	**2017**	**2018**	**2019**	**Total**
Johnson	$ 129,688	$ 9,645	$ –	$ –	$ –	$ 139,333
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
Bing	37,771	–	–	–	–	37,771
Morgan	65,540	–	–	–	–	65,540
Admin Center	7,239	–	–	–	–	7,239
Ground leases	7,000	7,000	7,000	5,833	–	26,833
	$ 431,926	$ 201,333	$ 191,688	$ 190,521	$ 184,688	$ 1,200,156

8. Capital Assets

Following is a summary of the changes in capital assets for the year ending September 30, 2014:

Descriptions	Balance at September 30, 2013	Additions	Deletions	Balance at September 30, 2014
Buildings	$ 19,921,749	$ –	(11,120,406)	**$ 8,801,343**
Equipment and furnishings	68,183	1,771	(2,852)	**67,102**
Improvements	563,025	36,107	(470,680)	**128,452**
Land	635,921	–	–	**635,921**
Park and development costs	754,961	–	–	**754,961**
	21,943,839	37,878	(11,593,938)	**10,387,779**
Accumulated depreciation	(10,528,766)	(444,692)	5,392,513	**(5,580,945)**
Total	$ 11,415,073	$ (406,814)	$ (6,201,425)	**$ 4,806,834**

9. Restructuring

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. The Authority completed the transaction on March 18, 2014. The Authority transferred to the Universities ownership of the Shaw, Sliger and Centennial buildings and related improvements and fixtures, as well as the leasehold interest in 96 gross acres of developed and undeveloped land. In exchange, the Authority received from the Universities control of the leasehold interest and related subleases in the Johnson building, and the retirement of bonds associated with the Centennial Building. The loss from the restructuring is comprised of:

Buildings and improvements transferred (net of accumulated depreciation)	$ 6,201,427
Less: Bonds payable retired (net of unamortized bond issue costs)	(2,704,029)
Unearned revenue (unamortized balance)	(439,682)
Total loss from restructuring	$ 3,057,716

Revenue and expenses related to operations transferred in the restructuring included in the Statements of Revenues, Expenses, and Changes in Net Position are:

	For the fiscal year ending September 30,	
	2014	**2013**
Operating revenue	**$ 279,813**	$ 599,010
Operating expenses	**(22,370)**	(231,858)
Non-operating expenses	**(58,103)**	(134,596)
Net change	**$ 199,340**	$ 232,556

10. Designated Net Assets and Cash and Cash Equivalents

The Board of Governors has designated unrestricted net assets for the year ended September 30, 2014 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.

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*

Audit Committee
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 Leon County Research and Development Authority (the Authority), which comprise the statement of net position as of September 30, 2014, 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 8, 2015.

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. However, material weaknesses may exist that have not been identified.

Thomas Howell Ferguson P.A.
Certified Public Accountants

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 8, 2015

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 fiscal year ended September 30, 2014, and have issued our report thereon dated January 8, 2015.

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, which are dated January 8, 2015, 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:

- 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 is 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, 2014. 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.

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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.

Tallahassee, Florida
January 8, 2015