

**LCEFA OCALA ROAD, LLC**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2015**

**LCEFA OCALA ROAD, LLC**  
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**SEPTEMBER 30, 2015**

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## INDEPENDENT AUDITORS' REPORT

To the Member,  
LCEFA Ocala Road, LLC:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of LCEFA Ocala Road, LLC, a component unit of Leon County Educational Facilities Authority, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise LCEFA Ocala Road, LLC's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

LCEFA Ocala Road, LLC's 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.

### ***Auditors' Responsibility***

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

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

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

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### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LCEFA Ocala Road, LLC, as of September 30, 2015, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

The accompanying financial statements have been prepared assuming that LCEFA Ocala Road, LLC, will continue as a going concern. As discussed in note III (d) to the basic financial statements, LCEFA Ocala Road, LLC, has suffered recurring losses from changes in net position and has a net position deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note III (d). The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

### ***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 3-7 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 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 any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2016 on our consideration of LCEFA Ocala Road, LLC'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 LCEFA Ocala Road, LLC's internal control over financial reporting and compliance.

*James Moore & Co., P.L.C.*

Tallahassee, Florida  
April 1, 2016

**LCEFA OCALA ROAD, LLC**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2015**

As management of the LCEFA Ocala Road, LLC, we offer readers of the LCEFA Ocala Road, LLC,'s financial statements this narrative overview and analysis of the financial activities of the LCEFA Ocala Road, LLC, for the fiscal year ended September 30, 2015.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the LCEFA Ocala Road, LLC,'s basic financial statements. The LCEFA Ocala Road, LLC,'s basic financial statements are comprised of two components: 1) basic financial statements and 2) notes to the financial statements.

**Basic financial statements.** These financial statements consist of statement of net position, statement of revenues, expenses, and changes in net position and statement of cash flows. The statement of net position and the statement of revenues, expenses, and changes in net position are intended to demonstrate the LLC's financial position as a result of the year's activities.

**Proprietary funds.** The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The basic financial statements can be found on pages 8 – 10 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 11 – 20 of this report.

**Fund Financial Analysis**

Net position may serve over time as a useful indicator of the LLC's financial position. In the case of LCEFA Ocala Road, LLC, liabilities exceeded assets by \$2,380,179 at the close of the most recent fiscal year.

A portion of the LLC's net position reflects a deficit in net investment in capital assets (e.g., land, buildings, machinery, and equipment). The deficit is created because the investment in capital assets is reduced by any related debt used to acquire those assets that is still outstanding as well as any accumulated depreciation on those assets. The LLC utilizes its capital assets to provide housing services to students; consequently, these assets are not available for future spending.

**LCEFA OCALA ROAD, LLC**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2015**

**LCEFA Ocala Road, LLC'S Net Position (Deficit)**

	<u>2015</u>	<u>Restated 2014</u>
Current assets	\$ 2,049,827	\$ 2,483,149
Noncurrent assets	14,673,485	15,579,890
Total assets	<u>16,723,312</u>	<u>18,063,039</u>
Long-term liabilities outstanding	-	18,560,000
Current liabilities	19,103,491	1,312,093
Total liabilities	<u>19,103,491</u>	<u>19,872,093</u>
Net position:		
Net invested in capital assets	(4,783,684)	(4,562,122)
Restricted	1,710,736	1,938,639
Unrestricted	692,769	814,429
Total net position (deficit)	<u>\$ (2,380,179)</u>	<u>\$ (1,809,054)</u>

An additional portion of the LLC's net position represents resources that are subject to external restrictions on how they may be used.

**LCEFA Ocala Road, LLC'S Changes in Net Position (Deficit)**

	<u>2015</u>	<u>Restated 2014</u>
Revenues:		
Program revenues:		
Charges for services	\$ 2,365,399	\$ 2,394,542
Interest and other income	627	631
Total revenues	<u>2,366,026</u>	<u>2,395,173</u>
Expenses:		
Student housing	<u>2,937,151</u>	<u>2,890,862</u>
Decrease in net position	(571,125)	(495,689)
Net position (deficit), beginning of year	<u>(1,809,054)</u>	<u>(1,313,365)</u>
Net position (deficit), end of year	<u>\$ (2,380,179)</u>	<u>\$ (1,809,054)</u>

The \$571,125 decrease in net position from 2014 to 2015 includes \$968,711 of depreciation and amortization expense, and \$955,658 of interest expense on the Series 2003 bonds.

**LCEFA OCALA ROAD, LLC**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2015**

**Results of Operations:** The LLC's financial performance between years at the operating income level (before interest expense) was as follows:

<b>Statement of Operations</b>				
<b>For the Fiscal Years Ended:</b>				
<b>Restated</b>				
	<b>2015</b>	<b>2014</b>	<b>\$ CHG.</b>	<b>% CHG.</b>
<b>Revenues</b>	\$ 2,365,399	\$ 2,394,542	\$ (29,143)	-1.2 %
<b>Operating expenses:</b>				
Personnel costs	276,044	255,114	20,930	8.2%
Other operating costs	326,301	312,655	13,646	4.4%
Utilities	41,390	45,888	(4,498)	-9.8%
Repairs and maintenance	369,047	329,946	39,101	11.9%
Depreciation and amortization	968,711	965,133	3,578	0.3%
Total	<u>1,981,493</u>	<u>1,908,736</u>	<u>72,757</u>	<u>3.8%</u>
<b>Operating income</b>	<u>\$ 383,906</u>	<u>\$ 485,806</u>	<u>\$ (101,900)</u>	<u>-20.9%</u>

The analysis below illustrates the LLC's operating expenses with comparison to revenue during the years:

<b>Statement of Operations</b>				
<b>For the Fiscal Years Ended:</b>				
	<b>2015</b>	<b>% of Revenues</b>	<b>Restated 2014</b>	<b>% of Revenues</b>
<b>Revenues</b>	\$ 2,365,399	100.0%	\$ 2,394,542	100.0%
<b>Operating expenses:</b>				
Personnel costs	276,044	11.7%	255,114	10.7%
Other operating costs	326,301	13.8%	312,655	13.2%
Utilities	41,390	1.7%	45,888	1.9%
Repairs and maintenance	369,047	15.6%	329,946	13.8%
Depreciation and amortization	968,711	41.0%	965,133	40.3%
Total operating expenses	<u>1,981,493</u>	<u>83.8%</u>	<u>1,908,736</u>	<u>79.7%</u>
<b>Operating income</b>	<u>\$ 383,906</u>	<u>16.2%</u>	<u>\$ 485,806</u>	<u>20.3%</u>

**LCEFA OCALA ROAD, LLC**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2015**

As revenues decreased 1.2% between years, LLC operational expenses increased by 3.8%. Last year, out of every dollar of revenue, management spent \$.80, yielding an operating income net margin of 20%. This fiscal year, out of every dollar of revenue, management spent \$.84, yielding an operating income net margin of 16%.

*Capital Asset and Debt Administration*

**Capital assets.** The LLC's investment in capital assets for its business type activities as of September 30, 2015, amounts to \$13,776,316 net of accumulated depreciation. This investment in capital assets includes buildings, improvements, and equipment.

Additional information on the LLC's capital assets can be found in note II.C. on page 15 of this report.

**Long-term debt.** At the end of the current fiscal year, the LLC had long-term debt consisting of revenue bonds outstanding and accrued interest of approximately \$19,000,000. These bonds are secured solely by specified revenue sources.

Additional information on the LLC's long term debt can be found in note II.D. on pages 15 - 18 of this report.

**Other Information**

***Contingencies***

The LLC is party to routine legal proceedings and litigation (tenant evictions and the like) arising in the ordinary course of business. In the opinion of management, the outcome of such routine actions will have no material impact on the LLC's financial condition.

Of continuing extraordinary note, however, as has been regularly reported to the Authority and the LLC by its legal counsel and management; significant issues pertaining to the original construction of the apartment buildings, discovered in the course of routine repair and inspection in May of 2012, continue to be addressed. These issues will continue to impact the property's operating funds and budget until resolution, as the management company has or may be required to offer rent concessions to maintain adequate occupancy levels while the property awaits or is under repair. Original estimates were that the cost to correct the issues would be in the neighborhood of \$3 million; however subsequent investigations and inspections of the extent of the deficiencies arising from the original construction, and more recent damages estimates (costs to repair the apartment buildings and related expenses and losses, not including attorney's fees) as generated by Authority and LLC retained experts in the course of the litigation over the past year are now in the neighborhood of \$10 million. The lawsuit against the original development/design/construction team for the LLC was filed by the Authority and the LLC in February 2014, and while a negotiated settlement had been pursued in an effort to more quickly obtain damages/compensation to effectuate necessary repairs, such has not been successful and the Authority and LLC have been compelled to aggressively prosecute the case and will do so through trial if necessary. The cost of litigation has severely impacted both the Authority's and the LLC's funds which might otherwise be available for the project or other Authority or LLC purposes. The Authority and LLC has sought (and continues to do so) both temporary financing and project refinancing from outside sources to support the litigation and expedite repairs to the property. Present debt restructuring has also been reviewed as a potential option.

**LCEFA OCALA ROAD, LLC**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**SEPTEMBER 30, 2015**

***Going Concern***

The financial statements have been prepared on a going concern basis, which assumes LCEFA Ocala Road, LLC will be able to meet the financial covenants and repayment terms of the 2003 Revenue Bonds. LCEFA Ocala Road, LLC has continuing deficits in operations and is in default on certain covenants of the 2003 Revenue Bonds. In addition, as described in note III (b), the property has structural damage arising from original construction its rental leaseholds. Even though those leaseholds are still occupied and rented, the lawsuit the Authority and the LLC has is ongoing and requiring large outlays of funds for continued prosecution.

The LLC and the Leon County Educational Facilities Authority (the “Authority”), as its sole member, believe that repayment of the principal on the 2003 Revenue Bonds will continue to occur assuming that the property remains occupied and rented consistent with current performance. Continued prosecution of the lawsuit and an ultimate recovery of damages sufficient to implement adequate repairs to the property must be assumed. Both during and after such time, alternate and/or additional financing and debt restructuring for the property will be pursued to further stabilize the ability to service debt. Absent these assumptions, the LLC and the Authority acknowledge that uncertainty will remain over the ability of the project to consistently meet debt service obligations as they fall due pursuant to the current schedules.

Management acknowledges that uncertainty remains over the ability of LCEFA Ocala Road, LLC to meet its funding requirements and to refinance or repay its 2003 revenue Bonds as they fall due.

**Requests for Information**

This financial report is designed to provide a general overview of the LLC’s finances for all those with an interest in the LLC's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Executive Director, P.O. Box 11154, Tallahassee, Florida 32302.

**LCEFA OCALA ROAD, LLC**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2015**

**ASSETS**

**Current assets**

Cash and cash equivalents	\$ 5,430
Accounts receivable, net	20,262
Prepaid items	39,025
Restricted assets:	
Cash and cash equivalents	124,575
Investments	1,860,535
Total current assets	<u>2,049,827</u>

**Noncurrent assets**

Capital assets, net of accumulated depreciation	13,776,316
Prepaid bond insurance	897,169
Total noncurrent assets	<u>14,673,485</u>

**Total Assets**

\$ 16,723,312

**LIABILITIES**

**Current liabilities**

Accounts payable and accrued expenses	\$ 161,361
Deferred revenue	38,788
Deposits payable	124,374
Due to related party	39,968
Accrued interest payable	150,000
Note payable	29,000
Revenue bonds payable	18,560,000
Total current liabilities	<u>19,103,491</u>

**NET POSITION**

Net investment in capital assets	(4,783,684)
Restricted for debt service	1,710,736
Unrestricted	692,769
Total net position (deficit)	<u>(2,380,179)</u>

**Total Liabilities and Net Position**

\$ 16,723,312

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

**LCEFA OCALA ROAD, LLC**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN NET POSITION (DEFICIT)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

<b>Operating revenues</b>	\$ <u>2,365,399</u>
<b>Operating expenses</b>	
Personnel costs	276,044
Other operating costs	326,301
Utilities	41,390
Repairs and maintenance	369,047
Depreciation and amortization	<u>968,711</u>
Total operating expenses	1,981,493
<b>Operating income</b>	<u>383,906</u>
<b>Nonoperating revenues (expenses)</b>	
Interest expense	(955,658)
Interest and other income	<u>627</u>
Total nonoperating revenues (expenses)	(955,031)
<b>Change in net position</b>	<u>(571,125)</u>
<b>Net position (deficit), beginning of year, as restated</b>	(1,809,054)
<b>Net position (deficit), end of year</b>	<u><u>\$ (2,380,179)</u></u>

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

**LCEFA OCALA ROAD, LLC**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

<b>Cash flows from operating activities</b>	
Cash received from residents and customers	\$ 2,215,625
Cash paid to suppliers and others	(1,018,341)
Net cash provided by operating activities	<u>1,197,284</u>
<b>Cash flows from capital and related financing activities</b>	
Principal payments on revenue bonds	(635,000)
Proceeds from note payable	97,070
Payments on note payable	(96,552)
Interest paid	(965,658)
Net cash used in capital and related financing activities	<u>(1,600,140)</u>
<b>Cash flows from investing activities</b>	
Purchases of property and equipment	(37,846)
Proceeds from certificates of deposit and investments	331,589
Interest and other proceeds	627
Net cash provided by investing activities	<u>294,370</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(108,486)</u>
<b>Cash and cash equivalents, beginning of year</b>	238,491
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 130,005</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	\$ 383,906
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	968,711
Changes in assets and liabilities:	
Decrease in accounts payable and accrued expenses	(5,518)
Decrease in deposits payable	(11,911)
Decrease in deferred revenue	(131,151)
Increase in accounts receivable	(6,712)
Increase in prepaid items	(41)
Total adjustments	<u>813,378</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ 1,197,284</u></u>
<b>Supplemental Schedule of non cash operating, financing activities, and investing activities:</b>	
Property and equipment purchased with accounts payables	\$ 24,460

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

**LCEFA OCALA ROAD, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

**I. Summary of Significant Accounting Policies:**

**(a) Reporting Entity**

LCEFA Ocala Road, LLC (the "LLC") is a single member limited liability company organized and existing under the laws of the State of Florida. The LLC was formed to own the leasehold interest in the property commonly known as Heritage Grove and financed with revenue bonded debt. The LLC is considered a component unit of Leon County Educational Facilities Authority (the "Authority") since the Authority is the single member of the LLC.

**(b) Measurement focus, basis of accounting, and financial statement presentation**

The LLC's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as presented by the Governmental Accounting Standards Board. The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The LLC accounts for the activities of Heritage Grove, which is largely fraternal organization oriented rental operations.

**(c) Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance—**

**1. *Deposits and Investments***

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

State statutes authorize the LLC to invest in direct obligations of the U.S. Treasury, Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, SEC registered money market funds with the highest credit quality rating, and savings and CD accounts in state-certified public depositories.

Investments are stated at fair value.

**2. *Prepaid Items***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

**LCEFA OCALA ROAD, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

**I. Summary of Significant Accounting Policies:** (Continued)

(c) **Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance—**  
(Continued)

**3. *Capital Assets***

Capital assets for business type activities include property, plant, equipment, and infrastructure assets. For financial reporting purposes, capital assets are defined by the LLC as assets with an initial cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

<b>Assets</b>	<b>Years</b>
Buildings and improvements	10-27.5
Furniture, fixtures and equipment	5-7

**4. *Receivables and Payables***

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

**5. *Restricted Assets***

Certain proceeds of the LLC’s revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants

**LCEFA OCALA ROAD, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

**I. Summary of Significant Accounting Policies:** (Continued)

- (c) **Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance–**  
(Continued)

**6. *Deferred Revenue***

Deferred revenue consists of operating revenues collected from residents for the 2015-2016 school year. The revenue is recognized as earned on a monthly basis.

**7. *Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**8. *Net position flow assumption***

Sometimes the LLC will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the LLC's financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the LLC's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

- (d) **Revenues and expenditures/expenses–**

**1. *Proprietary fund operating and nonoperating revenues and expenses***

Amounts reported as operating revenues include charges to customers or applicants for rents, services, or privileges provided.

The LLC distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. The principal operating revenues of the LLC are charges to customers for rents and services. Operating expenses for the LLC include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses

**LCEFA OCALA ROAD, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

**II. Detailed Notes on all Funds:**

**(a) Deposits and Investments**

**Deposits** – At September 30, 2015, the LLC’s carrying amount of deposits was \$130,005 and the bank balance was \$138,515. The LLC maintains cash and cash equivalent balances at a financial institution. Accounts at this institution are insured up to Federal Deposit Insurance Corporations (FDIC) limits.

**Investments** – At September 30, 2015 the LLC had the following investments:

	<b>Fair Value</b>
Money market funds	\$ 1,860,535

**Custodial Credit Risk** – The LLC’s policies limit deposits and investments to those instruments allowed by applicable state laws.

**Credit Risk** – The LLC’s policies are designed to maximize investment earnings while protecting the security of the principal and providing adequate liquidity, in accordance with applicable state laws.

**Interest Rate Risk** – In accordance with investment policy, the LLC manages its exposure to interest rate risk by limiting the maturity of its investments.

**(b) Receivables**

Receivables as of September 30, 2015, including the applicable allowances for uncollectible accounts, are as follows:

Gross receivables	\$	20,262
Less: allowance for uncollectibles		–
Net total receivables	\$	20,262

**LCEFA OCALA ROAD, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

**II. Detailed Notes on all Funds:** (Continued)

(c) **Capital Assets**

The following is a summary of capital assets at September 30, 2015:

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
Business-type activities				
Capital assets being depreciated:				
Buildings and improvements, as restated	\$ 23,362,888	\$ 32,048	\$ -	\$ 23,394,936
Equipment	980,260	30,258	-	1,010,518
Total capital assets being depreciated	24,343,148	62,306	-	24,405,454
Less accumulated depreciation:				
Buildings and improvements and equipment	(9,710,270)	(918,868)	-	(10,629,138)
Business-type capital assets, net	\$ 14,632,878	\$ (856,562)	\$ -	\$ 13,776,316

Depreciation for the year was \$918,868.

(d) **Long-term Debt**

Student Housing Revenue Bonds (Series 2003)

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

As a result of decreasing net position, the LLC was unable to remain in compliance with the financial covenants arising under the revenue bond indenture. The trustee and bond insurer have not waived the financial covenant requirements. A total of \$18,560,000 of revenue bonds is subject to accelerated maturity and, as such, the creditors may, at their option, give notice to the LLC that amounts owed are immediately due and payable. As a result, the full amount of the related revenue bonds has been classified as a current liability in the accompanying statement of net position.

A summary of the LLC's long-term debt at September 30, 2015 is as follows:

Student Housing Revenue Bonds Series 2003 issued December 2003 in the amount of \$23,315,000 with interest rates ranging from 3% - 5.125%. Interest is payable semiannually on each February 1 and August 1 with principal payable on August 1 of maturity dates as follows, unless earlier called for redemption.	\$ 18,560,000
Less current portion	18,560,000
Total Revenue Bonds, noncurrent	\$ -

**LCEFA OCALA ROAD, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

**II. Detailed Notes on all Funds:** (Continued)

(d) **Long-term Debt-**(Continued)

The Series 2003 Revenue bond debt service to maturity if not accelerated for default, is as follows:

	<b>Principal</b>	<b>Interest</b>
2016	\$ —	\$ 937,083
2017	—	937,083
2018	2,085,000	937,083
2019		839,088
2020-2024	4,205,000	3,985,188
2025-2029	—	3,144,188
2030-2033	12,270,000	2,515,350
	<b>\$ 18,560,000</b>	<b>\$ 13,295,063</b>

The series 2003 bonds maturing August 1, 2018, August 1, 2023, and August 1, 2033 are subject to mandatory sinking fund redemption prior to maturity in part at a redemption price of 100 percent of the principal amount plus interest accrued to the redemption amount as follows:

\$2,085,000 bonds maturing August 1, 2018

2016	\$665,000
2017	\$695,000
2018*	\$725,000

\$4,205,000 bonds maturing August 1, 2023

2019	\$760,000
2020	\$800,000
2021	\$840,000
2022	\$880,000
2023*	\$925,000

\$12,270,000 bonds maturing August 1, 2033

2024	\$970,000
2025	\$1,020,000
2026	\$1,070,000
2027	\$1,125,000
2028	\$1,185,000
2029	\$1,245,000
2030	\$1,310,000
2031	\$1,375,000
2032	\$1,450,000
2033*	\$1,520,000

\*Final maturity

**LCEFA OCALA ROAD, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

**II. Detailed Notes on all Funds:** (Continued)

(d) **Long-term Debt-**(Continued)

These bonds, together with interest thereon, are not general obligations and do not constitute obligations, either general or special, of the State of Florida, Leon County, Florida or any political subdivision thereof, but are special limited obligations of the LLC payable solely and only from the pledged revenues, as provided in the indenture. Neither Leon County, Florida, nor the State of Florida or any political subdivision are liable thereon; nor in any event are these bonds payable out of any fund or properties other than those of the LLC, and then only to the extent provided in the indenture. Neither the faith and credit nor the revenues or taxing power of Leon County, Florida, the State of Florida or any political subdivision is pledged to the payment of the principal of these bonds or the interest thereon or other costs incident thereto.

These Revenue Bonds were issued pursuant to an indenture of trust between the LLC and a financial institution. This indenture requires the LLC to establish and maintain restricted accounts and follow certain procedures for bond issuance and payments. The LLC deposits all receipts into a “revenue fund” which is used to pay operating expenses and then to fund the restricted bond accounts.

Note Payable

Note payable consisted of the following at September 30, 2015:

6% note payable to corporation, payable \$9,979 monthly, including interest, uncollateralized, due December 2015	\$ 29,000
Less: current portion	<u>29,000</u>
Total long-term debt, less current portion	<u><u>\$ —</u></u>

At September 30, 2015, note payable maturities for the next five years, and in the aggregate, were as follows:

<b>Year ended September 30,</b>	<b>Amount</b>
2016	\$ 29,000
2017	—
2018	—
2019	—
2020	—
Total	<u><u>\$ 29,000</u></u>

**LCEFA OCALA ROAD, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

**II. Detailed Notes on all Funds:** (Continued)

(d) **Long-term Debt-**(Continued)

Changes in long-term liabilities:

Long-term liability activity for the year ended September 30, 2015, was as follows:

<u>Business-type activities</u>	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
Series 2003 revenue bonds payable	\$ 19,195,000	\$ -	\$ 635,000	\$ 18,560,000	\$ 18,560,000
Note payable	28,482	97,070	96,552	29,000	29,000
Total changes in long-term liabilities	<u>\$ 19,223,482</u>	<u>\$ 97,070</u>	<u>\$ 731,552</u>	<u>\$ 18,589,000</u>	<u>\$ 18,589,000</u>

(e) **Management Agreement**

The LLC entered into an agreement with a corporation to rent, operate and manage the Project for a term of three years commencing on August 1, 2012 provided, however, that notwithstanding anything to the contrary, this agreement will terminate earlier if the Project is sold by the LLC. The owner has the right to terminate the Management Agreement on the last day of every contract year without cause and without penalty. Management fees paid by the LLC for the year ended September 30, 2015 totaled \$116,823. The Manager will be compensated as follows:

<u>% of Total Gross Revenue</u>		
3.0%	If the economic occupancy is	Below 90%
3.5%	If the economic occupancy is	90% – 94%
4.0%	If the economic occupancy is	95% – 96%
4.5%	If the economic occupancy is	97% – 98%
5.0%	If the economic occupancy is	99% – 100%

The LLC continues to operate under the terms of this agreement even though a new written and approved agreement or extension has not been executed.

**III. Other Information:**

(a) **Risk Management**

The LLC is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the LLC carries various insurance coverages.

**LCEFA OCALA ROAD, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

**III. Other Information:**

**(b) Commitments and Contingencies**

The LLC is party to routine legal proceedings and litigation (tenant evictions and the like) arising in the ordinary course of business. In the opinion of management, the outcome of such actions will have no material impact on the LLC's financial condition.

Of continuing extraordinary note, however, as has been regularly reported to the Authority and the LLC by its legal counsel and management; significant issues pertaining to the original construction of the apartment buildings, discovered in the course of routine repair and inspection in May of 2012, continue to be addressed. These issues will continue to impact the property's operating funds and budget until resolution, as the management company has or may be required to offer rent concessions to maintain adequate occupancy levels while the property awaits or is under repair. Original estimates were that the cost to correct the issues would be in the neighborhood of \$3 million; however subsequent investigations and inspections of the extent of the deficiencies arising from the original construction, and more recent damages estimates (costs to repair the apartment buildings and related expenses and losses, not including attorney's fees) as generated by Authority and LLC retained experts in the course of the litigation over the past year are now in the neighborhood of \$10 million. The lawsuit against the original development/design/construction team for the LLC was filed by the Authority and the LLC in February 2014, and while a negotiated settlement had been pursued in an effort to more quickly obtain damages/compensation to effectuate necessary repairs, such has not been successful and the Authority and LLC have been compelled to aggressively prosecute the case and will do so through trial if necessary. The cost of litigation has severely impacted both the Authority's and the LLC's funds which might otherwise be available for the project or other Authority or LLC purposes. The Authority and LLC has sought (and continues to do so) both temporary financing and project refinancing from outside sources to support the litigation and expedite repairs to the property. Present debt restructuring has also been reviewed as a potential option.

**LCEFA OCALA ROAD, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2015**

**III. Other Information:** (Continued)

**(c) Restatement**

Subsequent to the issuance of the September 30, 2014 financial statements, management became aware of an error in reporting \$153,000 of building stabilization cost. The effect of the correction of this item was to reduce capitalized assets and net position by this amount.

**(d) Going Concern**

The financial statements have been prepared on a going concern basis, which assumes LCEFA Ocala Road, LLC will be able to meet the financial covenants and repayment terms of the 2003 Revenue Bonds. LCEFA Ocala Road, LLC has continuing deficits in operations and is in default on certain covenants of the 2003 Revenue Bonds. In addition, as described in note III (b), the property has structural damage arising from original construction its rental leaseholds. Even though those leaseholds are still occupied and rented, the lawsuit the Authority and the LLC has is ongoing and requiring large outlays of funds for continued prosecution.

The LLC and the Authority, as its sole member, believe that repayment of the principal on the 2003 Revenue Bonds will continue to occur assuming that the property remains occupied and rented consistent with current performance. Continued prosecution of the lawsuit and an ultimate recovery of damages sufficient to implement adequate repairs to the property must be assumed. Both during and after such time, alternate and/or additional financing and debt restructuring for the property will be pursued to further stabilize the ability to service debt. Absent these assumptions the LLC and the Authority acknowledge that uncertainty will remain over the ability of the project to consistently meet debt service obligations as they fall due pursuant to the current schedules. Management acknowledges that uncertainty remains over the ability of LCEFA Ocala Road, LLC to meet its funding requirements and to refinance or repay its 2003 revenue Bonds as they fall due.

**(e) Ground Lease**

The leasehold interest in the property commonly known as Heritage Grove resides on real estate owned by the State of Florida Improvement Trust Fund. The annual ground lease rent is \$1 plus a \$300 administrative fee.

**(f) Subsequent Events**

The LLC has evaluated events and transactions for potential recognition or disclosure in the financial statements through April 1, 2016, the date the financial statements were available to be issued. No subsequent events have been recognized or disclosed.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Member,  
LCEFA Ocala Road, LLC:

We have audited, 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, the financial statements of the business-type activities of LCEFA Ocala Road, LLC as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise LCEFA Ocala Road, LLC's basic financial statements, and have issued our report thereon dated April 1, 2016.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered LCEFA Ocala Road, LLC'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LCEFA Ocala Road, LLC's internal control. Accordingly, we do not express an opinion on the effectiveness of LCEFA Ocala Road, LLC'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 over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

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## Compliance and Other Matters

As part of obtaining reasonable assurance about whether LCEFA Ocala Road, LLC'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described as follows:

**Fixed Charges Coverage Ratio**-The loan agreement related to the financing of the Heritage Grove Project requires in Section 8.08 entitled "Rate Covenant," that the project be operated in such a manner that the Fixed Charges Coverage Ratio be at least 1.2. In the event that it falls below the 1.2, the LLC is required to engage a financial consultant acceptable to the Bond Issuer to submit a report containing recommendations to remedy the Ratio noncompliance. In no event shall the Fixed Charges Coverage Ratio fall below 1.00. The Fixed Charges Coverage Ratio for the year ended September 30, 2015 was .85, calculated as follows:

Operating income	\$ 383,906
Depreciation and amortization	968,711
Interest and other income	627
Revenue Available for Fixed Charges	<u>\$ 1,353,244</u>
Principal paid	\$ 635,000
Interest paid	965,658
Fixed Charges	<u>\$ 1,600,658</u>
Fixed charges coverage ratio	.85

Since the fixed charges coverage ratio is less than 1, the LCEFA Ocala Road, LLC is in default per section 8.08 of the loan agreement.

**Operating Reserve Requirement** – The Trust Indenture requires that the LLC maintain an "Operating reserve fund" of \$500,000. At September 30, 2015 the "Operating reserve fund" is less than \$500,000.

**Management Agreement**- The management agreement with the manager of the housing facility expired August 1, 2015. That agreement did not have an extension of time clause. Since the expiration of the agreement, a new management agreement has not been executed. However, the manager has continued to operate the facilities under the same terms and condition stipulated in the expired agreement.

A new management agreement should be prepared, approved by the bond insurer, and executed with the manager of the housing facilities.

## **LCEFA Ocala Road, LLC's Response to Findings**

LCEFA Ocala Road, LLC's response to the findings identified in our audit are described in the accompanying Corrective Action Plan. LCEFA Ocala Road, LLC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.

James Moore & Co., P.L.C.

Tallahassee, Florida  
April 1, 2016

**LCEFA OCALA ROAD, LLC  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

**CORRECTIVE ACTION PLAN**

In response to the material weakness/deficiency findings set forth in the INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS, the corrective action plan/commentary is as follows:

**FIXED CHARGES COVERAGE RATIO** - As noted in prior year audits and corrective action plans, Heritage Grove (LCEFA Ocala Road, LLC) by and through the Authority, has requested a waiver from the bond insurer (ACA) regarding the coverage ratio requirements set forth in Section 8.08 of the loan agreement ("Rate Covenant"). Since 2012 that request has been denied thus causing the Authority/LCEFA Ocala Road, LLC to be classified as in default per Section 8.08 of the loan agreement. As disclosed previously, the Authority, pursuant to the requirement that Heritage Grove engage a financial consultant to submit a report containing recommendations to remedy the Ratio noncompliance did so (see Corrective Action Plan For The Year Ended September 30, 2014); subsequently the Authority, in January 2015 engaged another financial consultant, Wye River Independent Financial Advisors, a firm with extensive national finance and educational facilities experience, as well as considerable experience serving governmental and non-profit clients in Florida.

**According to Wye:**

*Based on our interviews and analysis, there does not appear to be any meaningful action (that is not already being undertaken) which will improve significantly the Project's operating performance. Rental rates are at market levels and there is relatively little room for significant increases without risk of triggering significant vacancies. Operating costs for the most part are in line with similar such facilities and sources of recent revenue shortfalls include delinquent CAM (Common Area Maintenance) payments and a Trustee initiated termination of an investment agreement in the DSRF which had been generating over \$60,000 in annual income.*

**Possible Solutions offered by Wye:**

1. *New Offering of Bonds: Refinance Series 2003 Bonds/ Finance repair cost with a new public issue of bonds.*
2. *Subordinate debt financing: Finance construction costs with loan that would be subordinate to Series 2003 Bonds*
3. *Florida State University Project Support: Secure financing and/or operating support from FSU.*

The Authority has investigated all of these possible solutions and has determined that, at the present time, none of them are feasible due primarily to the ongoing lawsuit (as referenced in the Audit Report) involving the significant construction defects at the Heritage Grove property. Unless and until substantial funds are recovered in this lawsuit in order to make repairs to the property, the property is not attractive to new investment and lacks equity sufficient for a refinancing that would also provide for needed repairs to the property in advance of satisfactory financial resolution of the lawsuit. Due largely to the pending litigation, direct support from the Florida State University, though sought, has not been obtainable.

Current market conditions and the ongoing significant costs of the litigation make it unlikely that the Fixed Charges Coverage Ratio will be brought into compliance any time in the near future; nor is it reasonable to expect that, given current conditions, that further engagement of a financial consultant will provide any meaningful recommendations as to a curative course of action. The Authority believes that continued prosecution of the construction lawsuit, resulting in sufficient recovery for repairs to the property, is its best option to put the Heritage Grove property back into a position where actions consistent with the possible solutions offered by Wye might be feasible.

Of note, while the outcome of any litigation is difficult to project, the Heritage Grove management company (Coastal Property Services) estimates an increase in occupancy of 3 percent and an increase in net rental income of \$58,000.00 for the next budget year. Over the past 12 years, projections by the management company have been within +/- 5% versus actual results. During this period Heritage Grove has averaged 97 percent occupancy placing it at the top or very near the top of apartment complexes in Leon County. Even with issues related to original construction defects and the current lawsuit seeking compensation to repair same, Heritage Grove continues to achieve an exemplary occupancy rate.

**OPERATING RESERVE REQUIREMENT** - The operating reserve fund has also been substantially impacted by the costs of the ongoing construction litigation regarding the Heritage Grove property together with the related substantial monthly expenditures for safety/precautionary stabilization mechanisms (pole jacks) installed throughout the property at an up-front cost of approximately \$83,000.00 and ongoing rental/maintenance of \$14,000.00 monthly, which will continue until permanent repair work is accomplished. Given the present and ongoing litigation and related maintenance expenses, it is likely that the operating reserve requirement will continue to be maintained at less than the designated \$500,000.00.

**LCEFA OCALA ROAD LLC MANAGEMENT AGREEMENT** -Coastal Property Services has managed the Heritage Grove project since its inception. The terms of original management agreement (except as to manager's compensation, hereafter noted) have been acknowledged by Coastal and the Authority/LCEFA Ocala Road, LLC to continue to govern operations of the property. Non-substantive modifications and renewals have been made since inception, and although disclosed to the trustee and the bond insurer (ACA) they were never formally approved (or disapproved) by ACA as contemplated by original agreements between the Authority and the bond insurer. In approximately 2014 ACA notified the Authority of the fact that it had not given formal approval of any changes or renewals of the original management agreement. Subsequent to that declaration, the Authority and the management company have stated and confirmed to ACA their agreement to continue the management relationship consistent with the terms of the original management agreement, save and except for provisions of that agreement which contemplated that the manager would not receive a fee for his services if the Heritage Grove property failed to meet the Fixed Charges Coverage Ratio standards as set forth in Section 8.08 (Rate Covenant). The manager and the Authority have proposed formalization of a new agreement in substance ratifying, readopting and renewing the terms of the original management agreement but providing for compensation to the manager. Such a proposal has been made to ACA but has neither been accepted or rejected. The parties have acquiesced to the current practice/status quo as regards management of the property and compensation to the manager. It is not known when or if such might be formalized between all the parties, such being an issue beyond the control of the Authority and the manager.