

**LEON COUNTY EDUCATIONAL
FACILITIES AUTHORITY
FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
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SEPTEMBER 30, 2015**

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INDEPENDENT AUDITORS' REPORT

To the Authority Members,
Leon County Educational Facilities Authority:

Report on the Financial Statements

We have audited the accompanying financial statements 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 Leon County Educational Facilities Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Leon County Educational Facilities Authority'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 opinions 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 opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Leon County Educational Facilities Authority, as of September 30, 2015, and the respective changes in financial position and cash flows thereof 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, a component unit of Leon County Educational Facilities Authority, 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 4 – 10 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Leon County Educational Facilities Authority's basic financial statements. The Schedule of Operating Costs is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Operating Costs is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Operating Costs is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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 Leon County Educational Facilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Leon County Educational Facilities Authority's internal control over financial reporting and compliance.

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

Tallahassee, Florida
April 1, 2016

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015**

As management of the Leon County Educational Facilities Authority, we offer readers of the Leon County Educational Facilities Authority's financial statements this narrative overview and analysis of the financial activities of the Leon County Educational Facilities Authority for the fiscal year ended September 30, 2015.

These statements include the operations of LCEFA Ocala Road, LLC, (the "LLC") a component unit of Leon County Educational Facilities Authority.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Leon County Educational Facilities Authority's basic financial statements. The Leon County Educational Facilities Authority's basic financial statements are comprised of two components: 1) fund financial statements and 2) notes to the financial statements.

Fund financial statements. *A fund is a* grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Leon County Educational Facilities Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Leon County Educational Facilities Authority has three proprietary funds.

Proprietary funds. The 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 11 – 13 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 14-29 of this report.

Fund Financial Analysis

Net position may serve over time as a useful indicator of the Authority's financial position. In the case of Leon County Educational Facilities Authority, liabilities exceeded assets by \$40,108,474 at the close of the most recent fiscal year.

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015**

A portion of the Leon County Educational Facilities Authority'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 Leon County Educational Facilities Authority utilizes its capital assets to provide housing services to students; consequently, these assets are not available for future spending.

Leon County Educational Facilities Authority's Net Position (Deficit)

	2015	Restated 2014
Current assets	\$ 5,415,458	\$ 6,787,542
Noncurrent assets	27,433,183	28,335,776
Deferred outflows of resources	2,821,024	3,032,224
Total assets	35,669,665	38,155,542
Long-term liabilities outstanding	53,418,383	71,537,150
Current liabilities	22,359,756	4,837,715
Total liabilities	75,778,139	76,374,865
Net position:		
Net invested in capital assets	(17,782,962)	(17,734,012)
Restricted	4,298,468	4,280,922
Unrestricted	(26,623,980)	(24,766,233)
Total net position (deficit)	\$ (40,108,474)	\$ (38,219,323)

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

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015**

Leon County Educational Facilities Authority's Changes in Net Position (Deficit)

	2015	Restated 2014
Revenues:		
Program revenues:		
Charges for services	\$ 8,774,592	\$ 8,693,068
Interest and other income	2,624	1,720
Total revenues	8,777,216	8,694,788
Expenses:		
Student housing	10,666,367	10,226,040
Decrease in net position	(1,889,151)	(1,531,252)
Net position (deficit), beginning of year	(38,219,323)	(36,688,071)
Net position (deficit), end of year	\$ (40,108,474)	\$ (38,219,323)

The \$1,889,151 decrease in net position from 2014 to 2015 includes \$1,600,984 of depreciation and amortization expense, \$955,658 of interest expense on the Series 2003 bonds, \$780,113 on the Series A 1998 bonds, and \$1,563,125 on the Series B 1998 bonds.

Results of Operations. Southgate Fund's financial performance between years at the operating income level (before interest expense) was as follows:

Southgate Statement of Operations For the Fiscal Years Ended:				
	2015	2014	\$ CHG.	% CHG.
Revenues	\$ 6,409,193	\$ 6,298,526	\$ 110,667	1.7%
Operating expenses:				
Personnel costs	1,211,951	1,296,808	(84,857)	-6.5%
Other operating costs	1,204,736	1,009,251	195,485	19.4%
Food costs	824,245	763,346	60,899	8.0%
Utilities	666,025	620,870	45,155	7.3%
Repairs and maintenance	353,641	416,974	(63,333)	-15.1%
Depreciation and amortization	632,273	547,733	84,540	15.4%
Total operating expenses	4,892,871	4,654,982	237,889	5.1%
Operating income	\$ 1,516,322	\$ 1,643,544	\$ (127,222)	-7.8%

Southgate increased revenues 1.7% between years while, at the same time, operating expenses increased by 5.1%.

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015**

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

Southgate Statement of Operations For the Fiscal Years Ended:				
	2015	% of Revenues	2014	% of Revenues
Revenues	\$ 6,409,193	100.0%	\$ 6,298,526	100.0%
Operating expenses:				
Personnel costs	1,211,951	18.9%	1,296,808	20.6%
Other operating costs	1,204,736	18.8%	1,009,251	16.0%
Food costs	824,245	12.9%	763,346	12.1%
Utilities	666,025	10.4%	620,870	9.9%
Repairs and maintenance	353,641	5.5%	416,974	6.6%
Depreciation and amortization	632,273	9.9%	547,733	8.7%
Total operating expenses	<u>4,892,871</u>	<u>76.4%</u>	<u>4,654,982</u>	<u>73.9%</u>
Operating income	<u>\$ 1,516,322</u>	<u>23.6%</u>	<u>\$ 1,643,544</u>	<u>26.1%</u>

Last year, out of every dollar of revenue, management spent \$.74, yielding an operating income net margin of 26%. This fiscal year, out of every dollar of revenue, management spent \$.76, yielding an operating income net margin of 24%.

LCEFA Ocala Road, LLC Statement of Operations For the Fiscal Years Ended:				
Restated				
	2015	2014	\$ CHG.	% CHG.
Revenues	\$ 2,365,399	\$ 2,394,542	\$ (29,143)	-1.2 %
Operating expenses:				
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	0.4%
Total	<u>1,981,493</u>	<u>1,908,736</u>	<u>72,757</u>	<u>3.8%</u>
Operating income	<u>\$ 383,906</u>	<u>\$ 485,806</u>	<u>\$ (101,900)</u>	<u>-21.0%</u>

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015**

LCEFA Ocala Road, LLC Statement of Operations For the Fiscal Years Ended:				
	2015	% of Revenues	Restated 2014	% of Revenues
Revenues	\$ 2,365,399	100.0%	\$ 2,394,542	100.0%
Operating expenses:				
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	40.9%	965,133	40.3%
Total operating expenses	1,981,493	83.7%	1,908,736	79.7%
Operating income	\$ 383,906	16.3%	\$ 485,806	20.3%

As revenues decreased 1.2% between years, the 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 Leon County Educational Facilities Authority's investment in capital assets for its business type activities as of September 30, 2015, amounts to \$26,536,014 net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements, and equipment.

Additional information on the Leon County Educational Facilities Authority's capital assets can be found in note II.C. on page 19 of this report.

Long-term debt. At the end of the current fiscal year, the Leon County Educational Facilities Authority had long-term debt consisting of revenue bonds outstanding of approximately \$47,000,000. These bonds are secured solely by specified revenue sources.

These bonds, together with interest thereon, are not general obligations of the Authority 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 Authority payable solely and only from the pledged revenues, as specifically provided in all financing related agreements of the Authority. Bond obligations are not payable out of any fund or properties other than those of the Authority, and then only as to the particular project to which the bonds relate. 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 any Authority issued bonds or the interest thereon or other costs incident thereto.

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015**

Additional information on the Leon County Educational Facilities Authority's long-term debt can be found in note II.D. on pages 19 – 25 of this report.

Other Information

The Authority 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 Authority's financial condition.

Of continuing extraordinary note, however, as has been regularly reported to the Authority and to the LLC by its legal counsel and LLC management; significant issues pertaining to the original construction of the LLC 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 structures and related expenses and losses, not including attorney's fees) as generated by the 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 was filed by the Authority and 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 has been compelled to aggressively prosecute the case and will do so through trial if necessary. The cost of litigation has severely impacted the Authority and LLC's funds which might otherwise be available for the project or other Authority and 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.

As disclosed last year, the Authority was named as a defendant in a lawsuit over a leasehold interest in a vacant parcel within the LLC project. The lawsuit claimed that the lessee of such interest was entitled to terminate its obligations thereunder and be refunded monies provided by it in the initial development of the project, which was consideration to induce the Authority to allow such lessee use of the property to develop its own student housing. The Authority's position was that it had valid defenses against such claim and that it was not obligated to the lessee for any refund. In December 2015 this lawsuit was settled with formal approval by the Authority. Pursuant to such settlement, the Authority has now taken back title to the leasehold interest in exchange for a promissory note secured by that property from the Authority in the amount of \$235,000 payable at the rate of \$1,000 per month, zero interest, for three years with the remaining balance due at that time. It is anticipated that the property will be re-leased to another qualified entity to develop its own student housing within this three-year period, for a lump sum consideration above what the Authority owes pursuant to the settlement, plus sufficient excess to cover costs, legal expenses and the like previously incurred by the Authority in resolving the matter.

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2015**

Requests for Information

This financial report is designed to provide a general overview of the Leon County Educational Facilities Authority's finances for all those with an interest in the Authority'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.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

ASSETS	Southgate Fund	LCEFA Ocala Road, LLC Fund	Administrative Fund	Total
Current assets				
Cash and cash equivalents	\$ 296,466	\$ 5,430	\$ 62,938	\$ 364,834
Accounts receivable, net	36,885	20,262	-	57,147
Due from other funds	-	-	42,735	42,735
Inventories and prepaid items	180,625	39,025	-	219,650
Restricted assets:				
Cash and cash equivalents	334,487	124,575	-	459,062
Investments	2,411,495	1,860,535	-	4,272,030
Total current assets	<u>3,259,958</u>	<u>2,049,827</u>	<u>105,673</u>	<u>5,415,458</u>
Noncurrent assets				
Capital assets, not being depreciated	2,446,050	-	-	2,446,050
Capital assets, net of accumulated depreciation	10,313,648	13,776,316	-	24,089,964
Prepaid bond insurance	-	897,169	-	897,169
Total noncurrent assets	<u>12,759,698</u>	<u>14,673,485</u>	<u>-</u>	<u>27,433,183</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amounts on refunding	2,821,024	-	-	2,821,024
Total Assets and Deferred Outflows	<u>\$ 18,840,680</u>	<u>\$ 16,723,312</u>	<u>\$ 105,673</u>	<u>\$ 35,669,665</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	\$ 353,009	\$ 161,361	\$ 109,905	\$ 624,275
Deferred revenue	2,227,334	38,788	-	2,266,122
Deposits payable	113,250	124,374	-	237,624
Due to other funds	2,767	39,968	-	42,735
Accrued interest payable	45,000	150,000	-	195,000
Current portion of notes payable	-	29,000	-	29,000
Current portion of revenue bonds payable	405,000	18,560,000	-	18,965,000
Total current liabilities	<u>3,146,360</u>	<u>19,103,491</u>	<u>109,905</u>	<u>22,359,756</u>
Noncurrent liabilities				
Accrued interest payable	25,243,383	-	-	25,243,383
Revenue refunding bonds, Series 1998A	7,675,000	-	-	7,675,000
Revenue refunding bonds, Series 1998B	20,500,000	-	-	20,500,000
Total noncurrent liabilities	<u>53,418,383</u>	<u>-</u>	<u>-</u>	<u>53,418,383</u>
Total Liabilities	<u>56,564,743</u>	<u>19,103,491</u>	<u>109,905</u>	<u>75,778,139</u>
NET POSITION				
Net investment in capital assets	(12,999,278)	(4,783,684)	-	(17,782,962)
Restricted for debt service	2,587,732	1,710,736	-	4,298,468
Unrestricted	(27,312,517)	692,769	(4,232)	(26,623,980)
Total Net Position (Deficit)	<u>(37,724,063)</u>	<u>(2,380,179)</u>	<u>(4,232)</u>	<u>(40,108,474)</u>
Total Liabilities and Net Position	<u>\$ 18,840,680</u>	<u>\$ 16,723,312</u>	<u>\$ 105,673</u>	<u>\$ 35,669,665</u>

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

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION (DEFICIT)
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

	<u>Southgate Fund</u>	<u>LCEFA Ocala Road, LLC Fund</u>	<u>Administrative Fund</u>	<u>Total</u>
Operating revenues	\$ 6,409,193	\$ 2,365,399	\$ -	\$ 8,774,592
Operating expenses				
Personnel costs	1,211,951	276,044	49,992	1,537,987
Other operating costs	1,204,736	326,301	443,115	1,974,152
Food costs	824,245	-	-	824,245
Utilities	666,025	41,390	-	707,415
Repairs and maintenance	353,641	369,047	-	722,688
Depreciation and amortization	632,273	968,711	-	1,600,984
Total operating expenses	4,892,871	1,981,493	493,107	7,367,471
Operating income (loss)	1,516,322	383,906	(493,107)	1,407,121
Nonoperating revenues (expenses)				
Interest expense	(2,343,238)	(955,658)	-	(3,298,896)
Interest and other income	1,264	627	733	2,624
Total nonoperating revenues (expenses)	(2,341,974)	(955,031)	733	(3,296,272)
Loss before operating transfers	(825,652)	(571,125)	(492,374)	(1,889,151)
Transfers				
Transfers in of issuer and management fees per trust indenture	-	-	129,976	129,976
Transfers out of issuer and management fees per trust indenture	(129,976)	-	-	(129,976)
Total transfers	(129,976)	-	129,976	-
Change in net position	(955,628)	(571,125)	(362,398)	(1,889,151)
Net position (deficit), beginning of year, as restated	(36,768,435)	(1,809,054)	358,166	(38,219,323)
Net position (deficit), end of year	<u>\$ (37,724,063)</u>	<u>\$ (2,380,179)</u>	<u>\$ (4,232)</u>	<u>\$ (40,108,474)</u>

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

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>Southgate Fund</u>	<u>LCEFA Ocala Road, LLC Fund</u>	<u>Administrative Fund</u>	<u>Total</u>
Cash flows from operating activities				
Cash received from residents and others	\$ 6,611,079	\$ 2,215,625	\$ -	\$ 8,826,704
Cash paid to suppliers and others	(4,685,424)	(1,018,341)	(383,202)	(6,086,967)
Net cash provided by (used in) operating activities	<u>1,925,655</u>	<u>1,197,284</u>	<u>(383,202)</u>	<u>2,739,737</u>
Cash flows from noncapital financing activities				
Transfers in	-	-	204,041	204,041
Transfers out	(204,041)	-	-	(204,041)
Net cash provided by (used in) noncapital financing activities	<u>(204,041)</u>	<u>-</u>	<u>204,041</u>	<u>-</u>
Cash flows from capital and related financing activities				
Principal payments on long-term debt	(380,000)	(635,000)	-	(1,015,000)
Proceeds from notes payable	93,099	97,070	-	190,169
Payments on notes payable	(108,328)	(96,552)	-	(204,880)
Interest paid	(1,290,805)	(965,658)	-	(2,256,463)
Net cash used in capital and related financing activities	<u>(1,686,034)</u>	<u>(1,600,140)</u>	<u>-</u>	<u>(3,286,174)</u>
Cash flows from investing activities				
Purchases of property and equipment	(636,085)	(37,846)	-	(673,931)
Purchase of certificates of deposit and investments	(210,679)	-	-	(210,679)
Proceeds from certificates of deposit and investments	-	331,589	-	331,589
Interest and other proceeds	1,264	627	733	2,624
Net cash provided by (used in) investing activities	<u>(845,500)</u>	<u>294,370</u>	<u>733</u>	<u>(550,397)</u>
Net decrease in cash and cash equivalents	<u>(809,920)</u>	<u>(108,486)</u>	<u>(178,428)</u>	<u>(1,096,834)</u>
Cash and cash equivalents, beginning of year	<u>1,440,873</u>	<u>238,491</u>	<u>241,366</u>	<u>1,920,730</u>
Cash and cash equivalents, end of year	<u>\$ 630,953</u>	<u>\$ 130,005</u>	<u>\$ 62,938</u>	<u>\$ 823,896</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ 1,516,322	\$ 383,906	\$ (493,107)	\$ 1,407,121
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	632,273	968,711	-	1,600,984
Changes in assets and liabilities:				
Increase (decrease) in accounts payable and accrued expenses	(423,914)	(5,518)	109,905	(319,527)
Decrease in deposits payable	(8,083)	(11,911)	-	(19,994)
Increase (decrease) in deferred revenue	122,029	(131,151)	-	(9,122)
(Increase) decrease in accounts receivable	87,940	(6,712)	-	81,228
Increase in inventory and prepaid items	(912)	(41)	-	(953)
Total adjustments	<u>409,333</u>	<u>813,378</u>	<u>109,905</u>	<u>1,332,616</u>
Net cash provided by (used in) operating activities	<u>\$ 1,925,655</u>	<u>\$ 1,197,284</u>	<u>\$ (383,202)</u>	<u>\$ 2,739,737</u>
Supplemental Schedule of non cash operating, financing activities, and investing activities:				
Property and equipment purchased with accounts payables	\$ -	\$ 24,460	\$ -	\$ 24,460

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

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

I. Summary of Significant Accounting Policies:

(a) Reporting Entity

The Leon County Educational Facilities Authority (the “Authority”) is a public instrumentality created by the Higher Educational Facilities Authorities Law, Chapter 69-345, Laws of Florida, 1969 (Chapter 243, Part II, Florida Statutes), as revised and amended, to assist institutions of higher education within Leon County, Florida in the construction, financing or refinancing of projects (structures and machinery and equipment related to the operation of the structure) required or useful for the instruction of students or the operation of an institution of higher education. The accompanying financial statements present the Authority and its component unit, an entity for which the Authority is considered to be financially accountable.

A blended component unit, although a legally separate entity, is, in substance, part of the Authority’s operations. The one blended component unit of the Authority is LCEFA Ocala Road, LLC (the “LLC”). 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 governed by the Authority board members.

Measurement focus, basis of accounting, and financial statement presentation

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 Authority reports the following funds:

The *Southgate fund* accounts for the activities of the Authority’s Southgate Residence Hall rental operations.

The *LCEFA Ocala Road, LLC fund* accounts for the activities of the Authority’s component unit which serves largely fraternal organization oriented rental operations.

The *Administrative fund* accounts for the activities of the Authority’s administration of the rental operations.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

I. Summary of Significant Accounting Policies: (Continued)

(b) 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 Authority 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. *Inventories and Prepaid Items*

Inventories are valued at the lower of cost or market using the first-in/first-out (FIFO) method.

Certain prepayments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. *Capital Assets*

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

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

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

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

Assets	Years
Buildings and improvements	10 – 40
Furniture, fixtures and equipment	5 – 15

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
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)

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 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 Authority’s enterprise fund 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.

6. *Deferred Revenue*

Deferred revenue consists of operating revenues collected from Southgate and Heritage Grove 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 Authority 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 Authority’s financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

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

9. *Deferred outflows/inflows of resources*

In addition to assets, the statement of position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
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)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority does not have any of these items, which arise only under a modified accrual basis of accounting, that qualify for reporting in this category.

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

1. Operating and nonoperating revenues and expenses

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

The Authority 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 Authority are charges for rents and services. Operating expenses for the Authority 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.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

II. Detailed Notes on all Funds:

(a) Deposits and Investments

Deposits. At September 30, 2015, the Authority's carrying amount of deposits was \$823,896 and the bank balance was \$739,015. Of the bank balance, the Authority's deposits are entirely collateralized by Federal depository insurance or by collateral held by the Authority's custodial bank which is pledged to a state trust fund that provides security in accordance with Florida Security for Deposits Act, Chapter 280, for amounts held in excess of FDIC coverage.

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

Investments. At September 30, 2015 the Authority had the following investments:

	Fair Value
Money market funds	\$ <u>4,272,030</u>

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

Credit Risk – The Authority'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 Authority 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:

	Southgate Fund	LCEFA Ocala Road, LLC Fund	Administrative Fund	Total
Gross receivables	\$ 40,026	\$ 20,262	\$ –	\$ 60,288
Less: allowance for uncollectibles	3,141	–	–	3,141
Net total receivables	\$ 36,885	\$ 20,262	\$ –	\$ 57,147

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
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:

	<u>Beginning Balance, as restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 2,400,000	\$ -	\$ -	\$ 2,400,000
Construction in progress	-	46,050	-	46,050
Total capital assets not being depreciated	<u>2,400,000</u>	<u>46,050</u>	<u>-</u>	<u>2,446,050</u>
Capital assets being depreciated:				
Buildings and improvements	41,358,798	383,817	-	41,742,615
Equipment	5,397,294	268,524	-	5,665,818
Total capital assets being depreciated	<u>46,756,092</u>	<u>652,341</u>	<u>-</u>	<u>47,408,433</u>
Less accumulated depreciation:				
Buildings and improvements and equipment	(21,767,328)	(1,551,141)	-	(23,318,469)
Total capital assets being depreciated, net	<u>24,988,764</u>	<u>(898,800)</u>	<u>-</u>	<u>24,089,964</u>
Capital assets, net	<u>\$ 27,388,764</u>	<u>\$ (852,750)</u>	<u>\$ -</u>	<u>\$ 26,536,014</u>

Depreciation expense was charged as follows:

Southgate Fund	\$ 632,273
LCEFA Ocala Road, LLC	<u>918,868</u>
	<u>\$ 1,551,141</u>

(d) Long-term Debt

Southgate Fund

Revenue Refunding Bonds

On May 29, 1998, the Authority issued \$12,000,000 in Revenue Refunding Bonds Series 1998A and \$20,500,000 in Subordinated Revenue Refunding Bonds Series 1998B with an average interest rate of 7.283 percent to advance refund \$23,075,000, of 1991 Senior Certificates of Participation and \$1,145,000 of 1991 Subordinate Certificates of Participation. The net proceeds of \$30,408,190 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1991 Senior and Subordinate Certificates of Participation. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the financial statements. The reacquisition price exceeded the net carrying amount of the old debt by approximately \$7 million and is amortized over life of the new debt. At September 30, 2015, the amount of in substance defeased debt which remained outstanding was \$1,145,000.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
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 of the Authority 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 Authority 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 Authority, 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 Refunding Bonds were issued pursuant to an indenture of trust between the Authority and the Bank (the “indenture”). This indenture requires the Authority to establish and maintain restricted accounts and follow certain procedures for bond issuance and payments. The Authority deposits all receipts into a “revenue fund” which is used to pay operating expenses and then to fund the restricted bond accounts.

A summary of the Southgate Fund long-term debt at September 30, 2015 is as follows:

Revenue Refunding Bonds Series 1998A issued May 1998 in the amount of \$12,000,000 at an interest rate of 6.75% due in 30 annual installments. Interest is due semi-annually with principal maturity paid from March 1, 1999 through September 1, 2028.	\$ 8,080,000
Subordinated Revenue Refunding Bonds Series 1998B issued May, 1998 in the amount of \$20,500,000 at an interest rate of 7.625%. Interest is due annually on September 15th with principal maturity paid from September 2021 through September 2028.	20,500,000
Total Revenue Refunding Bonds	<hr style="border: 0.5px solid black;"/> 28,580,000
Less current portion (Series 1998A)	405,000
Total Revenue Refunding Bonds, noncurrent	<hr style="border: 0.5px solid black;"/> <u>\$ 28,175,000</u>

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

II. Detailed Notes on all Funds: (Continued)

(d) Long-term Debt (Continued)

The Series 1998B Bonds are secured only to the limited extent set forth in the indenture. The owners of the Series 1998B Bonds have limited rights to exercise remedies under the indenture. In the event of a default and acceleration of the Series 1998A Bonds and any Parity bonds, both of which are senior to the 1998B Bonds, and insufficient moneys remain in the trust estate to pay the Series 1998B Bonds after payment in full of the Series 1998A Bonds and any Parity bonds, the Series 1998B Bonds in excess of remaining amounts in the trust estate are subject to extinguishment and cancellation as provided in the indenture.

The Series 1998B Bonds are subordinated and subject in right of payment to the prior payment in full of the Series 1998A Bonds and any Parity Bonds. No payment on account of principal, premium, if any, or interest on any Series 1998B Bonds shall be made, nor shall any of the Trust Estate pledged under the Indenture be applied to the purchase or other acquisition or retirement of any Series 1998B Bonds, unless full payment of amounts then due and payable for principal, premium, if any, sinking funds, if any, and interest on the Series 1998A Bonds and any Parity Bonds has been made or duly provided for in accordance with the terms of the Indenture. In addition, no payment on account of principal, premium, if any, or interest on any Series 1998B Bonds shall be made, nor shall any of the Trust Estate pledged under the Indenture be applied to the purchase or other acquisition or retirement of any Series 1998B Bonds, if, at the time of such payment or application or immediately after giving effect thereto, (i) there are Series 1998A Bonds and any Parity Bonds Outstanding and unpaid and the Trustee or the Owners of the Series 1998A Bonds and any Parity Bonds have declared the acceleration of the Maturity thereof or (ii) there are Series 1998A Bonds and any Parity Bonds Outstanding and there has occurred an Event of Default which permits the Trustee or the Owners of Series 1998A Bonds and any Parity Bonds to declare the acceleration of the Maturity of the Series 1998A Bonds and any Parity Bonds, unless such acceleration (if declared) has been rescinded or such Event of Default has been cured or waived as permitted in the Indenture, or the Owners of a majority in aggregate principal amount of Series 1998A Bonds and any Parity Bonds Outstanding have consented to such payment.

The Series 1998A and 1998B Revenue bond debt service to maturity, excluding interest accrued on past due interest of the 1998B Bonds, is as follows:

	<u>1998 A</u>		<u>1998 B</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 405,000	\$ 545,400	\$ —	\$ 1,563,125
2017	435,000	518,063	—	1,563,125
2018	465,000	488,700	—	1,563,125
2019	495,000	457,313	—	1,563,125
2020	530,000	423,900		1,563,125
2021-2025	3,235,000	1,532,251	10,400,000	6,703,519
2026-2028	2,515,000	346,951	10,100,000	1,582,950
	<u>\$ 8,080,000</u>	<u>\$ 4,312,578</u>	<u>\$ 20,500,000</u>	<u>\$ 16,102,094</u>

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

II. Detailed Notes on all Funds: (Continued)

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

LCEFA Ocala Road, LLC Fund

Student Housing Revenue Bonds (Series 2003)

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

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 Heritage Grove 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	\$ —

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

	Principal	Interest
2016	\$ —	\$ 937,083
2017	—	937,083
2018	2,085,000	937,083
2019	—	839,088
2020	—	839,088
2021-2025	4,205,000	3,774,938
2026-2030	—	3,144,188
2030-2033	12,270,000	1,886,513
	\$ 18,560,000	\$ 13,295,064

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

II. Detailed Notes on all Funds: (Continued)

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

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

These bonds, together with interest thereon, are not general obligations of the Authority 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 Authority 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 Authority, 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.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

II. Detailed Notes on all Funds: (Continued)

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

These Revenue Bonds were issued pursuant to an indenture of trust between the Authority and the Bank (the "indenture"). This indenture requires the Authority to establish and maintain restricted accounts and follow certain procedures for bond issuance and payments. The Authority 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:

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

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 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Series 1998A revenue bonds payable	\$ 8,460,000	\$ --	\$ 380,000	\$ 8,080,000	\$ 405,000
Series 1998B revenue bonds payable	20,500,000	-	-	20,500,000	-
Series 2003 revenue bonds payable	19,195,000	-	635,000	18,560,000	18,560,000
Note payable	43,711	190,169	204,880	29,000	29,000
Total changes in long-term liabilities	<u><u>\$ 48,198,711</u></u>	<u><u>\$ 190,169</u></u>	<u><u>\$ 1,219,880</u></u>	<u><u>\$ 47,169,000</u></u>	<u><u>\$ 18,994,000</u></u>

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

II. Detailed Notes on all Funds: (Continued)

(d) Management Agreement

Southgate Fund

The Authority, with the consent, approval and joinder of the Series 1998 A and B bondholders of Southgate, renewed the management agreement with Asset Campus Housing, Inc. (“the Manager”), to provide dormitory management, retail space management, parking garage management and manual food service for the Southgate Residence Hall. The agreement is for a term of three years and commenced August 1, 2012, terminating July 31, 2015, with one year renewal options thereafter. Since the 1998 financing of Southgate, the active participation, consent and approval of the Series 1998 A and B bondholders has been required for the selection and retention of a management company by the Authority for the Southgate Residence Hall. The participation of the bondholders in the selection and retention of management at Southgate, as well as their regular monitoring of the financial activities and performance of the management of the facility, is considered by the Authority as a benefit and safeguard to the Southgate Residence Hall in that the bondholder representatives are possessed with expertise in the finances of student housing projects such as Southgate and therefore are able to provide an extra level of analysis and scrutiny of the management company and its operations, serving both the Southgate Residence Hall and its investors.

Together with the Authority, the Series A and B bondholders must also specifically approve all budgets for the Southgate Residence Hall operations proposed by the Manager, as well as any deviations or changes to the budget. The Trustee is prohibited from disbursing any funds to the management company, or otherwise on behalf of Southgate, without ascertaining that such disbursements are consistent with the approved budget, or, if not, are specifically approved by the appropriate bondholder representative, in addition to the Authority.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

II. Detailed Notes on all Funds: (Continued)

(e) **Management Agreement** (Continued)

The Manager is compensated in the form of a base compensation fee (the "*Base Management Fee*") equal to 3.0% of gross monthly receipts if occupancy is below 90%. In addition, the Authority is to pay, in arrears, an additional 0.25% of gross monthly receipts if the property reaches between 91.0% and 95.0% occupancy. If occupancy reaches 95.0% or greater, the fee will increase another 0.25% and remain at 3.5% of gross monthly receipts, unless property occupancy falls below 95.0%. Payment of the Base Management Fee will be made from the Operating Account monthly beginning on August 1, 2012, and thereafter on or before the fifth (5th) day of each succeeding month during the term of this Agreement. Upon the termination of this Agreement on a day other than the last day of the calendar month, the Base Management Fee shall be prorated on a per diem basis up to the date of termination.

In addition to the Base Management Fee (and any other fees paid to and expenses reimbursed to the Manager) and in order to provide incentive to the Manager to generate increased revenue at the Property, the Authority has agreed to pay to the Manager incentive fees (the "*Incentive Fees*") in the following manner: If the property should reach 90.0% occupancy, \$45,000 shall be paid to the Manager. If the property should reach 95.0% occupancy, an additional \$10,000 (a total of \$55,000) shall be paid to the Manager. The term "gross receipts" for the purposes of this Agreement shall include all proceeds from rent and from business interruption insurance, if any, but shall not include tenant security deposits unless forfeited and recognized as income by the Authority, nor shall such gross receipts include insurance loss proceeds, or any award or payment made by any governmental Authority in connection with the exercise of any right of eminent domain or any proceeds from the sale, exchange, mortgaging or refinancing of the Property. Management fees paid by the Southgate Fund for the year ended September 30, 2015 totaled \$281,743.

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

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

II. Detailed Notes on all Funds: (Continued)

(e) Management Agreement (Continued)

LCEFA Ocala Road, LLC

The Authority entered into an agreement with a corporation to rent, operate and manage the Project for a term of three years commencing on August 1, 2012 provided, however, that notwithstanding anything to the contrary, this agreement will terminate earlier if the Project is sold by the Authority. 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 Heritage Grove Fund for the year ended September 30, 2015 totaled \$116,823. The Manager will be compensated as follows:

% of Total Gross Revenue		
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 Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries various insurance coverages.

(b) Commitments and Contingencies

The Authority 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 Authority's financial condition.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

III. Other Information: (Continued)

(b) Commitments and Contingencies (continued)

Of continuing extraordinary note, however, as has been regularly reported to the Authority (and in its capacity as the member of LCEFA Ocala Road, LLC) by its legal counsel and LLC 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 structures 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 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 the LLC has been compelled to aggressively prosecute the case and will do so through trial if necessary. The cost of litigation has severely impacted the Authority's and 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.

As disclosed last year, the Authority was named as a defendant in a lawsuit over a leasehold interest in a vacant parcel within the Heritage Grove project. The lawsuit claimed that the lessee of such interest was entitled to terminate its obligations thereunder and be refunded monies provided by it in the initial development of the project, which was consideration to induce the Authority to allow such lessee use of the property to develop its own student housing. The Authority's position was that it had valid defenses against such claim and that it was not obligated to the lessee for any refund. In December 2015 this lawsuit was settled with formal approval by the Authority. Pursuant to such settlement, the Authority has now taken back title to the leasehold interest in exchange for a promissory note secured by that property from the Authority in the amount of \$235,000 payable at the rate of \$1,000 per month, zero interest, for three years with the remaining balance due at that time. It is anticipated that the property will be re-leased to another qualified entity to develop its own student housing within this three-year period, for a lump sum consideration above what the Authority owes pursuant to the settlement, plus sufficient excess to cover costs, legal expenses and the like previously incurred by the Authority in resolving the matter.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

III. Other Information: (Continued)

(c) Restatement of Beginning Net Position

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 in the LCEFA Ocala Road, LLC fund. 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 the Authority 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 Authority 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. See Note III (b) pertaining to the settlement of a lawsuit over a leasehold interest in a vacant parcel within the Heritage Grove project.

LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY

ADDITIONAL INFORMATION

SEPTEMBER 30, 2015

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
SCHEDULE OF OTHER OPERATING COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

Business-type Activities - Enterprise Funds

	Southgate Fund	LCEFA Ocala Road, LLC Fund	Administrative Fund	Total
Other operating costs				
Legal and professional fees	\$ 34,367	\$ 70,379	\$ 414,927	\$ 519,673
Bad debts	37,685	21,116	-	58,801
Telephone and internet	26,770	4,623	-	31,393
Management fees	281,743	116,823	-	398,566
Taxes	132,814	575	-	133,389
Property insurance	124,147	119,871	-	244,018
Other	256,127	68,921	8,188	333,236
Bank and credit card fees	31,143	6,985	-	38,128
Contract services	279,940	21,480	-	301,420
Scholarships	-	-	20,000	20,000
Reimbursement of common area expenses	-	(104,472)	-	(104,472)
Total other operating costs	<u>\$ 1,204,736</u>	<u>\$ 326,301</u>	<u>\$ 443,115</u>	<u>\$ 1,974,152</u>

- See accompanying notes to financial statements. -

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 Authority Members,
Leon County Educational Facilities Authority:

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 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 Leon County Educational Facilities Authority'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 Leon County Educational Facilities 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Leon County Educational Facilities Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Leon County Educational Facilities Authority's internal control.

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. However, as described below, we identified a certain deficiency in internal control that we consider to be material weakness.

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. We consider the following deficiency to be a material weakness:

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tlh@jmco.com

Finding 2015-001: Significant Adjustments- During the course of the audit, significant adjustments were made in order for the financial statements to be presented in accordance with accounting principles generally accepted in the United States of America (GAAP). We recommend management implement controls to ensure the budget basis financial statements are converted to “GAAP” basis financial statements prior to the audit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Leon County Educational Facilities 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described as follows:

Finding 2015-002: 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, LCEFA Ocala Road, 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 less than 1.00, the LCEFA Ocala Road, LLC is in default per section 8.08 of the loan agreement.

Finding 2015-003 Operating Reserve Requirement- The Trust Indenture requires that LCEFA Ocala Road, LLC maintain an “Operating reserve fund” of \$500,000. At September 30, 2015 the “Operating reserve fund” is less than \$500,000.

Finding 2015-004: LCEFA Ocala Road, LLC Fund 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.

Finding 2015-005 Southgate Fund Management Agreement- The management agreement with the manager of the housing facility expired August 1, 2015. That agreement did have a one year extension of time clause pending Bondholder approval. However, as of September 30, 2015 there was no written evidence of Bondholder approval of an extension of the management agreement. The manager has continued to operate the facilities under the same terms and conditions stipulated in the expired agreement.

An extension of the management agreement should be prepared and executed with the manager of the housing facilities.

Leon County Educational Facilities Authority's Response to Findings

Leon County Educational Facilities Authority's response to the findings identified in our audit are described in the accompanying Corrective Action Plan. Leon County Educational Facilities Authority'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

**INDEPENDENT AUDITORS' MANAGEMENT LETTER REQUIRED BY CHAPTER
10.550, RULES OF THE STATE OF FLORIDA OFFICE OF THE AUDITOR GENERAL**

To the Authority Members,
 Leon County Educational Facilities Authority:

Report on the Financial Statements

We have audited the financial statements of Leon County Educational Facilities Authority, as of and for the fiscal year ended September 30, 2015, and have issued our report thereon dated April 1, 2016.

Auditors' Responsibility

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.

Other Reports and Schedule

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* and Independent Accountant's Report on an examination conducted in accordance with AICPA Professional Standards, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated April 1, 2016, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report except as noted in the table below.

Tabulation of Uncorrected Audit Findings			
Description	Current Year Finding	2014-13 FY Finding #	2013-12 FY Finding #
Significant Adjustments	Finding 2015-001	Finding 2014-02	Finding 2010-01
Fixed Charges Coverage Ratio	Finding 2015-002	Finding 2014-03	Finding 2009-01

Official Title and Legal Authority

Section 10.554(1)(i)4., 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 disclosed as required by accounting principles generally accepted in the United States of America in Note I to the financial statements.

Financial Condition

Sections 10.554(a)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether or not Leon County Educational Facilities Authority 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 Leon County Educational Facilities Authority did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor Leon County Educational Facilities 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. In connection with our audit, we determined that Leon County Educational Facilities Authority has met the definition of a deteriorating financial condition, as defined in Rule 10.554(1)(f), Rules of the Auditor General.

Finding 2015-006 Deteriorating Financial Condition- The results of our financial condition assessment procedures produced results indicating a deteriorating financial condition evidenced by unfavorable financial indicators including a decrease in unrestricted net position, decrease in the ratio of cash and investments to current liabilities, decrease in the ratio of cash and investments to total operating expenses, increase in the ratio of current liabilities to operating revenues, decrease in the ratio of unrestricted net position to total operating revenues, and an increase of the ratio of accumulated depreciation to capital assets. These conditions have resulted from a number of factors including (1) lack of revenue that will be sufficient to cover debt service requirements and (2) structural damage from original construction of facilities at LCEFA Ocala Road, LLC including spending with relation to litigation and structural repairs. We recommend the Authority take appropriate action to resolve any findings or recommendations.

Annual Financial Report

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the Leon County Educational Facilities Authority for the fiscal year ended September 30, 2015, 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, 2015. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

Section 10.554(1)(i)2., 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)3., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, 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 which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

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

Tallahassee, Florida
April 1, 2016

INDEPENDENT ACCOUNTANTS' EXAMINATION REPORT

To the Authority Members
Leon County Educational Facilities Authority:

We have examined Leon County Educational Facilities Authority's compliance with Section 218.415, Florida Statutes, *Local Government Investment Policies*, for the year ended September 30, 2015. Management is responsible for Leon County Educational Facilities Authority's compliance with those requirements. Our responsibility is to express an opinion on Leon County Educational Facilities Authority's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about Leon County Educational Facilities Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Leon County Educational Facilities Authority's compliance with specified requirements.

In our opinion, Leon County Educational Facilities Authority complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2015.

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

Tallahassee, Florida
April 1, 2016

**LEON COUNTY EDUCATIONAL FACILITIES AUTHORITY
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

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 Leon County Educational Facilities Authority's corrective action plan/commentary is as follows:

FINDING 2015-001: SIGNIFICANT ADJUSTMENTS - The Authority has recently retained outside bookkeeping and financial oversight assistance to work with its Executive Director in order to more consistently maintain Authority administrative fund accounting records and to reconcile various financial reports and the like as prepared by the two separate management companies operating the Authority's two projects. Additionally, over the past year, two new members, both CPAs, have joined the Authority board and will be working closely with the property managers and the Executive Director to minimize the need for significant adjustments in the future. The Authority will also enlist the assistance of its Auditor in this effort. The Authority will seek to implement controls such that its budget basis financial statements are converted to "GAAP" basic financial statements prior to the audit.

FINDING 2015-002: 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.

FINDING 2015-003: 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.

FINDING 2015-004: 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.

FINDING 2015-005: SOUTHGATE SIGNED MANAGEMENT AGREEMENT -

The Authority and the Southgate manager are currently operating by mutual consent under the 1-year extension of time clause of the management agreement otherwise expiring August 1, 2015. The Bondholders are aware of the current status and have not objected. Formal extension/renewal of the management agreement beyond the provided for 1-year extension currently in effect has been deferred pending a possible sale of the Southgate facility, which is currently on the market. It is anticipated that if a sale of the property is not consummated or contracted for in the near future, that a written formalization of the management agreement extension/renewal will be prepared and executed with the manager of the facility.