Financial Statements

Leon County Educational Facilities Authority

Years ended September 30, 2017 and 2016
with Report of Independent Auditors

Thomas Howell Ferguson P.A.

Certified Public Accountants

Leon County Educational Facilities Authority

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Report of Independent Auditors

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Leon County Educational Facilities Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Leon County Educational Facilities Authority (the Authority), which comprise the statements of net position as of September 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of September 30, 2017 and 2016, and the changes in its net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 9 to the financial statements, the Authority has suffered recurring losses from changes in net position and has a net position deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 9. The 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 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's financial statements. The schedule of operating expenses is presented for purposes of additional analysis and is not a required part of the financial statements.

The schedule of operating expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 expenses is fairly stated, in all material respects, in relation to the 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 November 9, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Thomas Howell Ferguson P.A.

Tallahassee, Florida
November 9, 2018

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 years ended September 30, 2017 and 2016.

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 - 31 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 approximately $43,000,000 at the close of the most recent fiscal year and by approximately $42,000,000 at the end of the prior fiscal year.

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)

	2017	2016
Current assets	**$ 4,955,461**	$ 5,319,913
Noncurrent assets	**25,035,893**	26,207,716
Deferred outflows of resources	**2,398,624**	2,609,824
Total assets	**32,389,978**	34,137,453
Long-term liabilities outstanding	**54,858,539**	54,584,239
Current liabilities	**20,868,732**	21,389,914
Total liabilities	**75,727,271**	75,974,153
Net position:		
Net investment in capital assets	**(46,252,506)**	(45,134,329)
Restricted for debt service	**3,071,246**	4,031,832
Unrestricted	**(156,033)**	(483,203)
Total net position (deficit)	**$ (43,337,293)**	$ (41,585,700)

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's Changes in Net Position (Deficit)

	2017	2016
Revenues:		
Program revenues:		
Charges for services	**$ 9,218,486**	$ 9,137,552
Interest and other income (expenses)	**(2,876,550)**	(2,776,998)
Net total revenues	**6,341,936**	6,360,554
Expenses:		
Student housing	**8,093,459**	8,007,075
Decrease in net position:	**(1,751,523)**	(1,646,521)
Net position (deficit) at beginning of year, as restated	**(41,585,770)**	(39,939,249)
Net position (deficit) at end of year	**$ (43,337,293)**	$ (41,585,770)

The decrease in net position of $1,751,523 from 2016 to 2017 includes $1,596,156 of depreciation expense and the rest of the decrease is due to an increase in salaries of $175,225.

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

	2017	2016	$ Change	% Change
Revenues	**$ 6,831,895**	$ 6,714,001	$ 117,894	1.8%
Operating expenses:				
Personnel costs	**1,566,276**	1,432,006	134,270	9.4%
Other operating costs	**1,517,862**	1,265,661	252,201	19.9%
Food costs	**826,401**	818,671	7,730	0.9%
Utilities	**481,500**	475,543	5,957	1.3%
Repairs and maintenance	**611,764**	743,780	(132,016)	(17.7%)
Depreciation and amortization	**635,256**	643,078	(7,822)	(1.2%)
Total operating expenses	**5,639,059**	5,378,739	260,320	4.8%
Operating income	**$ 1,192,836**	$ 1,335,262	$ (142,426)	(10.7%)

During the current year Southgate Fund increased revenues 1.8% between years while, at the same time, operating expenses increased 4.8%. In the prior fiscal year Southgate Fund increased revenues 1.7% between years while, at the same time, operating expenses increased by 11%.

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

Southgate
Statement of Operations
for the Fiscal Years Ended

	2017	**Percent of Revenues**	**2016**	**Percent of Revenues**
Revenues	**$ 6,831,895**	100.0%	$ 6,714,001	100.0%
Operating expenses:				
Personnel costs	**1,566,276**	22.9%	1,432,006	21.3%
Other operating costs	**1,517,862**	22.2%	1,265,661	18.9%
Food costs	**826,401**	12.1%	818,671	12.2%
Utilities	**481,500**	7.0%	475,543	7.1%
Repairs and maintenance	**611,764**	9.0%	743,780	11.1%
Depreciation and amortization	**635,256**	9.3%	643,078	9.6%
Total operating expenses	**5,639,059**	82.5%	5,378,739	80.2%
Operating income	**$ 1,192,836**	17.5%	$ 1,335,262	19.8%

This fiscal year, out of every dollar of revenue, management spent $.82, yielding an operating income net margin of 18%. Last year, out of every dollar of revenue, management spent $.80, yielding an operating income net margin of 20%.

LCEFA Ocala Road, LLC Fund's financial performance between years at the operating income level (before interest expense) was as follows:

LCEFA Ocala Road, LLC
Statement of Operations
for the Fiscal Years Ended

	2017	**2016**	**$ Change**	**% Change**
Revenues	**$ 2,386,591**	$ 2,423,551	$ (36,960)	(1.5%)
Operating expenses:				
Personnel costs	**298,565**	253,682	44,883	17.7%
Other operating costs	**835,630**	1,006,018	(170,388)	(16.9%)
Utilities	**25,650**	6,447	19,203	297.9%
Repairs and maintenance	**277,250**	278,076	(826)	(0.3%)
Depreciation and amortization	**960,900**	968,168	(7,268)	(0.8%)
Total operating expenses	**2,397,995**	2,512,391	(114,396)	(4.6%)
Operating loss	**$ (11,404)**	$ (88,840)	$ 77,436	87.2%

This year, LCEFA Ocala Road, LLC Fund decreased revenues 1.5% between years while, at the same time, operating expenses decreased by 4.6%. During the prior fiscal year, LCEFA Ocala Road, LLC Fund decreased revenues 2.5% between years while, at the same time, operating expenses increased by 18.9%.

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

LCEFA Ocala Road, LLC
Statement of Operations
for the Fiscal Years Ended

	2017	Percent of Revenues	2016	Percent of Revenues
Revenues	**$ 2,386,591**	100.0%	$ 2,423,551	100.0%
Operating expenses:				
Personnel costs	**298,565**	12.5%	253,682	10.5%
Other operating costs	**835,630**	35.0%	1,006,018	41.5%
Utilities	**25,650**	1.1%	6,447	0.3%
Repairs and maintenance	**277,250**	11.6%	278,076	11.5%
Depreciation and amortization	**960,900**	40.3%	968,168	39.9%
Total operating expenses	**2,397,995**	100.5%	2,512,391	103.7%
Operating loss	**$ (11,404)**	-0.5%	$ (88,840)	-3.7%

This year, out of every dollar of revenue, management spent slightly more than $1.00, yielding an operating loss net margin of 3.7%. During the prior fiscal year, out of every dollar of revenue, management spent $1.03, yielding an operating loss net margin of 3%.

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, 2017 and 2016, amounts to $24,238,409 and $25,360,390, respectively, 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 5 on page 20 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 $45,000,000 and had long-term debt of $46,000,000 at the end of prior fiscal year. 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.

Additional information on the Leon County Educational Facilities Authority's long-term debt can be found in Note 6 on pages 20 – 27 and also Note 11 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. 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 several years are now approximately $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 which has been settled (see Note 10 in the financial statements). 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.

The Authority received notice from a tenant purporting to terminate its lease at Heritage Grove Apartments and also demanded a full refund of capital contribution to the leased units together with other fees. This case was settled through mediation subsequent to the date of the financial statements and is not expected to have a material financial impact on the Authority.

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

Statements of Net Position

	September 30, 2017				2016
	Southgate Fund	LCEFA Ocala Road, LLC Fund	Administrative Fund	Total	Total
Assets					
Current assets:					
Cash and cash equivalents	$ 225,553	$ 79,654	$ 114,362	$ 419,569	$ 441,196
Accounts receivable, net	511,306	20,594	-	531,900	176,644
Due from other funds	-	3,313	103,454	106,767	93,695
Inventory	57,054	-	-	57,054	45,468
Prepaid expenses and other current assets	133,474	37,566	-	171,040	144,404
Restricted cash and cash equivalents					
Restricted cash and cash equivalents	106,400	341,485	-	447,885	236,674
Restricted investments	2,403,605	817,641	-	3,221,246	4,181,832
Total current assets	3,437,392	1,300,253	217,816	4,955,461	5,319,913
Noncurrent assets:					
Capital assets, not being depreciated	2,587,147	-	235,000	2,822,147	2,635,000
Capital assets, net of accumulated depreciation	9,348,738	12,067,524	-	21,416,262	22,725,390
Prepaid bond insurance	-	797,484	-	797,484	847,326
Total noncurrent assets	11,935,885	12,865,008	235,000	25,035,893	26,207,716
Total assets	15,373,277	14,165,261	452,816	29,991,354	31,527,629
Deferred outflows of resources					
Deferred amounts on refunding	2,398,624	-	-	2,398,624	2,609,824
Total assets and deferred outflows of resources	$ 17,771,901	$ 14,165,261	$ 452,816	$ 32,389,978	$ 34,137,453
Liabilities and net position (deficit)					
Current liabilities:					
Accounts payable and accrued expenses	$ 392,988	$ 205,023	$ 7,450	$ 605,461	$ 510,189
Deferred revenue	1,810,330	80,118	-	1,890,448	1,778,063
Deposits payable	106,400	128,656	-	235,056	236,663
Due to other funds	27,589	79,178	-	106,767	93,695
Accrued interest payable	-	150,000	-	150,000	150,000
Current portion of note payable	-	-	216,000	216,000	40,304
Current portion of bond payable	465,000	17,200,000	-	17,665,000	18,330,000
Total current liabilities	2,802,307	17,842,975	223,450	20,868,732	21,138,914
Noncurrent liabilities:					
Accrued interest payable	27,583,539	-	-	27,583,539	26,628,239
Note payable	-	-	-	-	216,000
Revenue refunding bonds, Series 1998A	6,775,000	-	-	6,775,000	7,240,000
Revenue refunding bonds, Series 1998B	20,500,000	-	-	20,500,000	20,500,000
Total noncurrent liabilities	54,858,539	-	-	54,858,539	54,584,239
Total liabilities	57,660,846	17,842,975	223,450	75,727,271	75,723,153
Net position (deficit):					
Net investment in capital assets	(40,989,030)	(5,282,476)	19,000	(46,252,506)	(45,134,329)
Restricted for debt service	2,403,605	667,641	-	3,071,246	4,031,832
Unrestricted	(1,303,520)	937,121	210,366	(156,033)	(483,203)
Total net position (deficit)	(39,888,945)	(3,677,714)	229,366	(43,337,293)	(41,585,700)
Total liabilities and net position (deficit)	$ 17,771,901	$ 14,165,261	$ 452,816	$ 32,389,978	$ 34,137,453

See accompanying notes.

Leon County Educational Facilities Authority

Statements of Revenues, Expenses, and Changes in Net Position

	Years ended September 30, 2017				2016
	Southgate Fund	LCEFA Ocala Road, LLC Fund	Administrative Fund	Total	Total
Operating revenues	$ 6,831,895	$ 2,386,591	$ -	$ 9,218,486	$ 9,137,552
Operating expenses					
Salaries and employee benefits	1,566,276	298,565	38,211	1,903,052	1,729,390
Food	826,401	-	-	826,401	818,671
Utilities	481,500	25,650	-	507,150	481,990
Depreciation and amortization expense	635,256	960,900	-	1,596,156	1,611,246
Other expenses	2,129,626	1,112,880	18,194	3,260,700	3,365,778
Total operating expenses	5,639,059	2,397,995	56,405	8,093,459	8,007,075
Operating income (loss)	1,192,836	(11,404)	(56,405)	1,125,027	1,130,477
Nonoperating revenues (expenses)					
Interest expense	(2,292,388)	(905,828)	-	(3,198,216)	(3,254,529)
Interest income	13,519	8,118	29	21,666	9,531
Other income	-	300,000	-	300,000	468,000
Total nonoperating revenues (expenses)	(2,278,869)	(597,710)	29	(2,876,550)	(2,776,998)
Loss before operating transfers	(1,086,034)	(609,114)	(56,376)	(1,751,524)	(1,646,521)
Transfers					
Transfers in - issuer and management fees per trust indenture	-	-	152,041	152,041	145,764
Transfers out - issuer and management fees per trust indenture	(152,041)	-	-	(152,041)	(145,764)
Total transfers	(152,041)	-	152,041	-	-
Change in net position	(1,238,074)	(609,114)	95,665	(1,751,523)	(1,646,521)
Net position at beginning of year	(38,650,871)	(3,068,600)	133,701	(41,585,770)	(40,108,474)
Prior period adjustment	-	-	-	-	169,225
Net position (deficit) at beginning of year, as restated	(38,650,871)	(3,068,600)	133,701	(41,585,770)	(39,939,249)
Net position (deficit) at end of year	$ (39,888,945)	$ (3,677,714)	$ 229,366	$ (43,337,293)	$ (41,585,770)

See accompanying notes.

Leon County Educational Facilities Authority

Statements of Cash Flows

	Years ended September 30,				
	2017				2016
	Southgate Fund	LCEFA Ocala Road, LLC Fund	Administrative Fund	Total	Total
Operating activities					
Cash received from tenants	**$ 6,577,797**	**$ 2,396,141**	**$ -**	**$ 8,973,938**	$ 8,716,113
Cash payments to suppliers	**(2,209,130)**	**(1,084,412)**	**(27,316)**	**(3,320,858)**	(3,231,320)
Cash payments to personnel	**(1,566,276)**	**(298,565)**	**(38,211)**	**(1,903,052)**	(1,729,390)
Net cash provided by (used in) by operating activities	**2,802,391**	**1,013,164**	**(65,527)**	**3,750,028**	3,755,403
Noncapital and related financing activities					
Transfers in	**-**	**-**	**152,041**	**152,041**	145,764
Transfers out	**(152,041)**	**-**	**-**	**(152,041)**	(145,764)
Net cash provided by (used in) noncapital and related financing activities	**(152,041)**	**-**	**152,041**	**-**	-
Capital and related financing activities					
Principle payments on bonds	**(435,000)**	**(723,304)**	**-**	**(1,158,304)**	(1,070,696)
Payments on notes payable	**-**	**-**	**(12,000)**	**(12,000)**	(7,000)
Interest paid	**(2,292,388)**	**(905,828)**	**-**	**(3,198,216)**	(3,254,529)
Net cash used in capital and related financing activities	**(2,727,388)**	**(1,629,132)**	**(12,000)**	**(4,368,520)**	(4,332,225)
Investing activities					
Purchases of property and equipment	**(359,423)**	**(114,752)**	**-**	**(474,175)**	(136,933)
Sale of certificates of deposit and investments	**296,700**	**-**	**-**	**296,700**	(288,810)
Proceeds from certificates of deposit and investments	**13,519**	**972,004**	**29**	**985,552**	856,539
Net cash provided by (used in) investing activities	**(49,204)**	**857,252**	**29**	**808,077**	430,796
Net (decrease) increase in cash, cash equivalents, and restricted cash	**(126,242)**	**241,284**	**74,543**	**189,585**	(146,026)
Cash, cash equivalents, and restricted cash at beginning of year	**458,196**	**179,855**	**39,819**	**677,870**	823,896
Cash, cash equivalents, and restricted cash at end of year	**$ 331,954**	**$ 421,139**	**$ 114,362**	**$ 867,455**	$ 677,870
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	**$ 1,192,836**	**$ (11,404)**	**$ (56,405)**	**$ 1,125,027**	$ 1,130,477
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	**635,256**	**960,900**	**-**	**1,596,156**	1,611,246
Changes in operating assets and liabilities:					
Accounts payable and accrued expenses	**60,756**	**30,566**	**3,950**	**95,272**	(119,818)
Deposits payable	**(2,300)**	**693**	**-**	**(1,607)**	(961)
Deferred revenue	**105,186**	**7,129**	**-**	**112,315**	(297,668)
Accrued interest payable	**955,300**	**-**	**-**	**955,300**	1,339,856
Deferred outflow	**211,200**	**-**	**-**	**211,200**	211,200
Inventory	**(11,586)**	**-**	**-**	**(11,586)**	32,825
Accounts receivable	**(356,984)**	**1,728**	**-**	**(355,256)**	(119,497)
Due to other funds	**13,072**	**-**	**-**	**13,072**	21,750
Due from other funds	**-**	**-**	**(13,072)**	**(13,072)**	(50,960)
Prepaid expenses and other assets	**(346)**	**23,552**	**-**	**23,206**	(3,047)
Net cash provided by (used in) operating activities	**$ 2,802,390**	**$ 1,013,164**	**$ (65,527)**	**$ 3,750,027**	$ 3,755,403
Supplemental disclosures of cash flow information					
Capital asset purchases financed through accounts payable	**$ -**	**$ -**	**$ -**	**$ -**	$ 13,846

See accompanying notes.

1. Summary of Significant Accounting Policies

Description of Organization

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 blended component unit, an entity for which the Authority is considered to be financially accountable.

Although a legally separate entity, a blended component unit, is, in substance, part of the Authority's operations. The one blended component unit of the Authority is LCEFA Ocala Road, LLC (the LLC or Heritage Grove). 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 joint activities of the Authority's administration of the rental operations.

1. Summary of Significant Accounting Policies (continued)

Revenue Recognition

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

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

Cash, Cash Equivalents, 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, Florida Prime, 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, interest-bearing time deposits or savings accounts in qualified public depositories, and Federal agencies and instrumentalities.

Investments are stated at fair value.

Accounts Receivables and Payables

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

The Authority provides an allowance for doubtful accounts based upon the anticipated collectability of each specific account. Additional information can be found in Note 3 to the financial statements.

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 or from other funds” (i.e., the current portion of loans) or “advances to or from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to or from other funds.”

1. Summary of Significant Accounting Policies (continued)

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 statements of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

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.

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 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:

	Useful Lives
Buildings	10 – 40 years
Improvements	10 – 40 years
Equipment and furnishings	5 – 15 years

Deferred Revenue

Deferred revenue consists of operating revenues collected from Southgate and Heritage Grove residents for the 2017-2018 school year. The revenue is recognized as earned on a monthly basis.

1. Summary of Significant Accounting Policies (continued)

Amortization

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net 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 statements 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.

In addition to liabilities, the statements 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.

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.

Subsequent Events

The Authority has evaluated subsequent events through November 9, 2018, the date the financial statements were available to be issued. During the period from September 30, 2017 to November 9, 2018, the Authority did not have any material recognizable subsequent events other than as described in Note 11.

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

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

2. Deposits and Investments

Deposits. 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 the Florida Security for Public 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. The Authority's investments consist of money market funds in the amount of $3,221,246 and $4,181,832 at September 30, 2017 and 2016, respectively.

Fair Value. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. All of the investments of the Authority for the year ended September 30, 2017 and 2016, are classified as level 1. Level 1 inputs are quoted prices in active markets for identical assets.

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.

2. Deposits and Investments (continued)

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

3. Receivables

Receivables as of September 30, 2017, including the applicable allowances for uncollectible accounts, are as follows:

	Southgate Fund	LCEFA Ocala Road, LLC Fund	Administrative Fund	Total
Gross receivables	**$ 514,447**	**$ 20,594**	**$ –**	**$ 535,041**
Less: allowance for uncollectibles	**(3,141)**	**–**	**–**	**(3,141)**
Total receivables, net	**$ 511,306**	**$ 20,594**	**$ –**	**$ 531,900**

Receivables as of September 30, 2016, including the applicable allowances for uncollectible accounts, are as follows:

	Southgate Fund	LCEFA Ocala Road, LLC Fund	Administrative Fund	Total
Gross receivables	$ 157,463	$ 22,322	$ –	$ 179,785
Less: allowance for uncollectibles	(3,141)	–	–	(3,141)
Total receivables, net	$ 154,322	$ 22,322	$ –	$ 176,644

4. 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.

5. Capital Assets

Following is a summary of the changes in capital assets for the year ending September 30, 2017:

Descriptions	Balance at September 30, 2016	Additions	Deletions	Balance at September 30, 2017
Capital assets not being depreciated:				
Land	$ 2,635,000	$–	$–	$ 2,635,000
Construction in progress	–	187,147	–	187,147
Total capital assets not being depreciated	2,635,000	187,147	–	2,822,147
Capital assets being depreciated:				
Buildings and improvements	42,142,956	166,165	–	42,309,121
Equipment	5,462,306	71,021	–	5,533,327
Total capital assets being depreciated	47,605,262	237,186	–	47,842,448
Less accumulated depreciation	(24,879,872)	(1,546,314)	–	(26,426,186)
Total capital assets being depreciated, net	22,725,390	(1,309,128)	–	21,416,262
Capital assets, net	$ 25,360,390	$ (1,121,981)	$ –	$ 24,238,409

6. Long-term Debt

A summary of changes in the long-term debt of the Authority is as follows:

Descriptions	Balance at September 30, 2016	Additions	Deletions	Balance at September 30, 2017	Due Within One Year
1998A Bonds	$ 7,675,000	$ –	$ 435,000	$ 7,240,000	$ 465,000
1998B Bonds	20,500,000	–	–	20,500,000	–
2003 Bonds	17,895,000	–	695,000	17,200,000	17,200,000
Note Payable	228,000	–	12,000	216,000	216,000
Financed Insurance	28,304	–	28,304	–	–
Total	$ 46,326,304	$ –	$ 1,170,304	$ 45,156,000	$ 17,881,000

6. Long-term Debt (continued)

Southgate Fund

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

Descriptions	2017	2016
Revenue Refunding Bonds Series 1998A issued May 1998A in the amount of $12,000,000 at an interest rate of 6.75% due in 30 annual installments. Interest is due semi-annually with principal maturity paid from March 1, 1999 through September 1, 2028.	**$ 7,240,000**	$ 7,675,000
Subordinated Revenue Refunding Bonds Series 1998B issued May 1998 in the amount of $20,500,000 at an interest rate of 7.625%. Interest is due annually on September 15th with principal maturity paid from September 2021 through September 2028.	**20,500,000**	20,500,000
Total Revenue Refunding Bonds	**27,740,000**	28,175,000
Less current portion (Series 1998A)	**465,000**	435,000
Total Revenue Refunding Bonds, noncurrent	**$ 27,275,000**	$ 27,740,000

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.

6. 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.

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.

6. Long-term Debt (continued)

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:

	1998A	1998A	1998B	1998B
	Principal	**Interest**	**Principal**	**Interest**
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	565,000	388,125	–	1,563,125
2022	605,000	349,988	2,300,000	1,563,125
2023-2027	3,685,000	1,080,676	14,545,000	4,881,525
2028-2029	895,000	60,413	3,655,000	278,694
	$ 7,240,000	$ 3,249,115	$ 20,500,000	$ 12,975,844

6. Long-term Debt (continued)

<u>LCEFA Ocala Road, LLC Fund</u>

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 $17,200,000 and $17,895,000 of revenue bonds at September 30, 2017 and 2016, respectively, 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 statements of net position.

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

	Principal	Interest
2018	$ 725,000	$ 873,163
2019	–	839,088
2020	–	839,088
2021	–	839,088
2022	–	839,088
2023-2027	4,205,000	3,564,688
2028-2032	–	3,144,188
2033	12,270,000	628,838
	$ 17,200,000	$ 11,567,229

6. 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:

	Principal
2016	$ 665,000*
2017	695,000*
2018	725,000
	$ 2,085,000

*Deposited in the sinking fund

$4,205,000 Bonds maturing August 1, 2023:

	Principal
2019	$ 760,000
2020	800,000
2021	840,000
2022	880,000
2023	925,000
	$ 4,205,000

6. Long-term Debt (continued)

$12,270,000 Bonds maturing August 1, 2033:

	Principal
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
	$ 12,270,000

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 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.

6. Long-term Debt (continued)

Administrative Fund

Pursuant to a settlement agreement dated November 18, 2015, the administrative fund recorded a note payable in the amount of $1,000 monthly payable through November 1, 2018, at which time the remaining principal balance is due. The note payable balances at September 30, 2017 and 2016 were $216,000 and $228,000, respectively.

7. Management Agreement

Southgate Fund

The Authority, with the consent, approval and joinder of the Series 1998 A and B bondholders of Southgate, has a 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 and terminated 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.

7. 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 years ended September 30, 2017 and 2016 totaled $262,936 and $279,228, respectively.

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.

7. 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 not withstanding 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 years ended September 30, 2017 and 2016 totaled $99,080 and $112,615, respectively. The Manager, based on certain agreed-upon occupancy levels, will be compensated as follows:

% of Total Gross Revenue	Occupancy Level
3.0%	Below 90%
3.5%	90% – 94%
4.0%	95% – 96%
4.5%	97% – 98%
5.0%	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.

8. Restatement of Beginning Net Position

Accounting errors were identified and adjustments were made to certain account balances subsequent to the issuance of the financial statements for the years ended September 30, 2015 and 2016. The errors identified and corrected the reporting of certain revenues and expenses in the proper period. The effect of the corrections was to increase net assets at October 1, 2015 by $169,225.

9. 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 10, the property has structural damage arising from original construction of its rental leaseholds. Although the lawsuit described in Note 10 has been settled (see subsequent events described in Note 11), the potential impact on occupancy as repairs are made is uncertain.

9. Going Concern (continued)

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. Alternate and/or additional financing and debt restructuring for the LLC property will be pursued to further stabilize the ability to service debt. However, 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.

See Note 11 for additional subsequent events, including the execution of an acquisition and forbearance agreement associated with the Series 1998A and 1998B bonds.

10. Commitments and Contingencies

During the ordinary course of business, the Authority is involved in various litigation and carries commercial insurance to mitigate such risks. The ultimate outcome of such litigation is uncertain. However, management and legal counsel are of the opinion that any resulting unfavorable outcomes would have minimal adverse economic impact on the Authority.

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. 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 are now estimated to be near $10 million. See Note 11 for additional information regarding this litigation.

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. 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.

11. Subsequent Events

<u>Heritage Grove</u>

On or about March 12, 2018, the Heritage Grove construction lawsuit has been settled. Ocala Road, LLC, was awarded $6,560,000 to effectuate repairs to the buildings caused by design, engineering and construction flaws from the original construction of the project. The funds have been transferred to the Trustee and the process for generating bids for the construction began in mid-September, 2018.

<u>Southgate</u>

On or about June 15, 2018, the Authority executed an acquisition and forbearance agreement (the Agreement) with EMET Municipal Real Estate Strategy II, LP (EMET) to effectively purchase the Leon County Educational Facility Authority Revenue Refunding Bonds (Southgate Residence Hall Project), Series 1998A (the Series A Bonds) and the Leon County Educational Facilities Authority Subordinated Revenue Refunding Bonds (Southgate Residence Hall Project), Series 1998B (the Series B Bonds).

Under the terms of the Agreement, EMET will exercise a previous agreement between the Authority and the owners of the Series B Bonds to acquire the outstanding principal and interest due for a total price of $12,668,000. Further, EMET has agreed under the terms of the Agreement, to forbear from exercising remedies with respect to certain defaults under the Indenture of Trust dated May 1, 1998. In addition, the Agreement provides for EMET to provide the Trustee sufficient funds for the defeasance of the Series A Bonds on the earliest practicable optional call date.

<u>Tenant Lawsuit</u>

A case was settled through mediation subsequent to the date of the financial statements and is not expected to have a material financial impact on the Authority.

Additional Information

Leon County Educational Facilities Authority

Schedule of Other Operating Expenses

	Years ended September 30,				
	2017				2016
	Southgate Fund	**LCEFA Ocala Road, LLC Fund**	**Administrative Fund**	**Total**	**Total**
Other operating expenses					
Legal & professional	**$ 150,075**	**$ 432,041**	**$ 8,110**	**$ 590,226**	$ 561,510
Bad debt	**23,187**	**1,195**	**-**	**24,382**	99,275
Telephone & internet	**304,516**	**1,972**	**-**	**306,488**	182,592
Management fee	**262,936**	**99,080**	**1,605**	**363,621**	391,843
Taxes	**133,070**	**250**	**-**	**133,320**	140,662
Property insurance	**111,944**	**89,483**	**-**	**201,427**	267,143
Other	**337,768**	**201,929**	**8,479**	**548,176**	510,449
Bank & CC	**44,710**	**1,890**	**-**	**46,600**	31,032
Contract services	**149,656**	**7,790**	**-**	**157,446**	148,515
Scholarships	**-**	**-**	**-**	**-**	10,906
Repair & maintenance	**611,764**	**277,250**	**-**	**889,014**	1,021,851
Total other operating expenses	**$ 2,129,626**	**$ 1,112,880**	**$ 18,194**	**$ 3,260,700**	$ 3,365,778

See report of independent auditors.

Other Reports

Thomas Howell Ferguson P.A.
Certified Public Accountants

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Authority Members
Leon County Educational Facilities Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Leon County Educational Facilities Authority (the Authority), which comprise the statement of net position as of September 30, 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 9, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described below that we consider to be material weaknesses:

Thomas Howell Ferguson P.A.
Certified Public Accountants

Finding 2017-001: Financial Reporting, Account Reconciliations, and Journal Entries

The Authority lacks centralized accounting processes to allow for timely and accurate financial reporting. Currently, each fund accounts for day to day activities associated with the Authority's managed properties or for the administrative activities for the Authority. However, we noted no process for consolidating the activity of each fund, for recording necessary year-end accruals, for posting and approving journal entries necessary for financial reporting, or for preparing and reviewing certain account reconciliations such as cash, payables and capital assets As a result of those observed conditions, our audit procedures identified a large number of adjustments necessary for the fair reporting of the Authorities activities and account balances.

We recommend that a centralized accounting system be developed that accounts for the activity of each fund including the posting of journal entries, recording of monthly or annual accruals, performance of monthly account reconciliations and recording cash deposits and disbursements. Written policies and procedures that includes the identification of preparation and review responsibilities should be developed and approved to support the centralized accounting system.

Finding 2017-002: Property Management Cash Receipts and Rental Controls

We noted during our audit that both of the Authority's outsourced property management companies lacked segregation of duties over cash receipts such that it is possible that rental payments can be received, deposited and recorded by the same person. In regard to the Southgate property, we tested, but were unable to rely on controls associated with the rental receipts. Conditions identified during our tests of controls included instances in which tenant payments did not agree to the lease amount or payment terms associated with the lease agreement, instances in which an addendum to the lease amount was not available to support changes in the lease payment and instances where there was no documentation of when rental payments were received. In regard to Southgate tenant and food deposits received, we noted no requirement to document who accessed the safe in which funds are temporarily held prior to deposit in the bank. We also noted no requirement to have more than one person present when the safe is opened. We also noted deposits could be held in the safe and taken to the back once per month as opposed to weekly or daily.

We recommend that duties for receipt, recording and deposit of cash receipts be separated at both property management companies. Procedures should also be developed to log and document receipt of funds and ensure secure and timely deposit of receipts. Finally, each property management company should prepare monthly reconciliation of lease agreements to actual payments to ensure receipts are received in terms of the signed lease agreements.

Thomas Howell Ferguson P.A.
Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described as follows:

Finding 2017-003: 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, 2017 was calculated as follows:

Revenue Available		**2017**
Operating income (loss)	$	(11,404)
Depreciation and amortization		960,900
Interest and other income		8,118
Revenue available for fixed charges	$	957,614
Fixed Charges		
Principal due and payable during the period	$	695,000
Interest due and payable during the period		937,083
Fixed charges	$	1,632,083
Fixed charges coverage ratio		.59

Since the fixed charges coverage ratio is less than 1.00, an event of default is deemed to have occurred as defined in Section 1001 of the Trust Indenture.

Finding 2017-004: Operating Reserve Requirement

The Trust Indenture requires that LCEFA Ocala Road, LLC maintain an "Operating reserve fund" of $500,000. At September 30, 2017 the "Operating reserve fund" is less than $500,000.

Finding 2017-005: 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 2017-006: 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, 2017 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.

Finding 2017-007: Audit Report Filing

The Authority did not timely file their audit report for the year ended September 30, 2017 with the State of Florida, Department of Financial Services.

Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying corrective action plan. The 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.

Thomas Howell Ferguson P.A.

Tallahassee, Florida
November 9, 2018

Thomas Howell Ferguson P.A.

Certified Public Accountants

Management Letter

The Authority Members
Leon County Educational Facilities Authority

Report on the Financial Statements

We have audited the financial statements of the Leon County Educational Facilities Authority (the Authority) as of and for the fiscal year ended September 30, 2017, and have issued our report thereon dated November 9, 2018.

Auditor's 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 Auditor General*.

Other Reporting Requirements

We have issued our Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and our Independent Accountant's report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports, which are dated November 9, 2018, 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 not been taken to address the certain recommendations made in the preceding annual financial audit reports as follows.

Tabulation of Uncorrected Audit Findings			
Description	**Current Year Finding #**	**2015-16 FY Finding #**	**2014-15 FY Finding #**
Significant Adjustments	2017-001	2016-001	2015-001
Account Reconciliations and Journal Entries	2017-001	2016-002	N/A
Property Management Cash Receipts and Rental Controls	2017-002	N/A	N/A
Fixed Charges Coverage Ratio	2017-003	2016-003	2015-002
Operating Reserve Requirement	2017-004	2016-004	2015-003
LCEFA Ocala Road, LLC Fund Management Agreement	2017-005	2016-005	2015-004
Southgate Fund Management Agreement	2017-006	2016-006	2015-005
Audit Report Filing	2017-007	2016-007	N/A
Deteriorating Financial Condition	2017-008	2016-008	2015-006

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. Such information has been disclosed in Note 1 to the financial statements.

Financial Condition and Management

Sections 10.554(1)(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 the 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 the Authority did not meet one or more 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 and issued finding 2017-008. It is management's responsibility to monitor the Authority's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Finding 2017-008: 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, a deficit in the net position representing the Authority's investment in capital assets net of related debt, and current liabilities in excess of current assets in the LCEFA Ocala Road, LLC Fund resulting from the classification of long-term debt as current due to noncompliance with certain debt covenants. 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 in relation to litigation and structural repairs. However, due to certain subsequent events associated with both the Southgate and LCEFA Ocala Road, LLC funds and disclosed in Note 11, management believes that these conditions will reverse in subsequent fiscal years.

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, we did have several recommendations that have been communicated in the Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards.*

Annual Financial Report

Sections 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 Authority for the fiscal year ended September 30, 2017, 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, 2017. In connection with our audit, we determined as of the date of this letter the annual financial report had not been filed, however we will verify the agreement of that report to the audited financial statements once it has been filed.

Special District Component Units

Section 10.554(1)(i)5.d., *Rules of the Auditor General*, requires that we determine whether or not a special district that is a component unit of a county, municipality, or special district, provided the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), *Florida Statutes*. In connection with our audit, we determined that all special district component units provided the necessary information for proper reporting in accordance with Section 218.39(3)(b), *Florida Statutes*.

Thomas Howell Ferguson P.A.
Certified Public Accountants

Additional Matters

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, the Authority Members, and the Leon County Board of County Commissioners, and is not intended to be and should not be used by anyone other than these specified parties.

Thomas Howell Ferguson P.A.

Tallahassee, Florida
November 9, 2018

Thomas Howell Ferguson P.A.
Certified Public Accountants

Independent Accountant's Report

The Authority Members
Leon County Educational Facilities Authority

We have examined Leon County Educational Facilities Authority's (the Authority) compliance with Section 218.415, *Florida Statutes*, Local Government Investment Policies, for the year ended September 30, 2017. The Authority's management is responsible for compliance with those requirements. Our responsibility is to express an opinion on the 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Authority is in compliance with Section 218.415, *Florida Statutes*, Local Government Investment Policies, for the year ended September 30, 2017, in all material respects. An examination involves performing procedures to obtain evidence about the Authority's compliance. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance with the investment policy, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, Leon County Educational Facilities Authority complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2017, in all material respects.

Thomas Howell Ferguson P.A.

Tallahassee, Florida
November 9, 2018

Authority Statement on "Going Concern" capability of Heritage Grove/Ocala Road LLC

The financial statements have been prepared on a going concern assumption that LCEFA Ocala Road, LLC will continue its normal Heritage Grove business operations and that the owners of the Leon County Educational Facilities Authority Student Housing Revenue Bonds (Heritage Grove Project at Florida State University) Series 2003 will be paid per the terms of these 2003 Revenue Bonds.

Fundamental to this assumption is the fact that these 2003 Revenue Bonds are fully insured by ACA Financial Guaranty Corporation. Founded in 1997, ACA Financial Guaranty Corporation is a monoline bond insurance company licensed in 50 states and 5 territories and regulated by the Maryland Insurance Administration. Any shortfall in revenue that cannot meet both the principal and/or interest payments due the owners of these 2003 Revenue Bonds must be covered by ACA Financial Guaranty Corporation as the bond insurer.

The Heritage Grove property has struggled for several years with the effects of structural deficiencies discovered in the residential (rental units) buildings arising from defects in their original construction, which required the Leon County Educational Facilities Authority and LCEFA Ocala Road, LLC to initiate a lawsuit in 2013 for damages against numerous parties involved in the design and construction of the Heritage Grove development. The legal proceedings were finally concluded in the summer of 2018 with settlement payments totaling $6,560,000 being received to apply to necessary repairs and reimbursements. In addition to the $6.56M, there have been approximately $740,000 in smaller settlements made in the past three years that was used to pay for attorney and expert fees and other litigation costs. Also, $300,000 was used for emergency roofing repairs to three of the apartment buildings. As such, large outlays of costs for continued prosecution of the lawsuit will no longer be required, and the substantial ongoing costs of structural stabilization measures that had been incurred in safeguarding the impacted structures and residents will be eliminated by the repairs to the property which can now be made with the settlement proceeds.

NOTE – The construction lawsuit was settled through mediation in 2018. See "subsequent events" letter, pages 6, 7, 8, 9, 10 of this report

.Authority answer to Finding 2017-001: Account Reconciliations and Journal Entries

The Authority is of the opinion that a centralized accounting system such as the one described by the Auditor is not necessary to rectify the problems in account reconciliations and journal entries cited in Finding 2017-001. The Authority has contracted with a third party C.P.A. to work with the two management companies that are responsible for the accounting in the Southgate and Ocala Road LLC funds. Great progress has already been made in the few months since this effort began. The Accountant continues to work closely with both funds especially in the areas of recording necessary year end accruals; posting and approving necessary journal entries and a host of other deficiencies that have challenged us for years. We believe the benefits of these efforts will become evident in the audit for the fiscal year ending September 30, 2018.

In addition, each of the funds are free-standing and autonomous from one another with their own rules, requirements, policies and procedures. There would be conflicts inherent in attempting to centralize the accounting. The Authority believes the most appropriate approach is to strengthen each fund's respective accounting system

Authority answer to Finding 2017-002: Property Management Cash Receipts and Rental Controls

As in our answer to Finding 2017–001, we intend to work with both management companies to strengthen their cash management and controls on the rent they collect, account reconciliations and journal entries according to the Auditor's suggestions.

Authority answer to Finding 2017-002: Property Management Cash Receipts and Rental Controls

As in our answer to Finding 2017–001, we intend to work with both management companies to strengthen their cash management and controls on the rent they collect, account reconciliations and journal entries according to the Auditor's suggestions.

Authority answer to FINDING 2017 - 003: FIXED CHARGES COVERAGE RATIO

Though the Heritage Grove property has always operated at a high occupancy level and at market rental rates, rental increases were not implemented consistently each year since the property's opening as anticipated in original financial plan for the property, which has continually impacted the ability to meet the coverage ratio requirement. Rental increases were not made for periods of time due to market conditions that would have created the likelihood of substantial vacancies in the property. As noted in previous audits and corrective action plans, the Authority over the years had regularly requested and received a waiver from the bond insurer (ACA) regarding the coverage ratio requirements set forth in Section 8.08 of the loan agreement ("Rate Covenant"). However, since 2012 that request has been denied, causing the Authority/LCEFA Ocala Road, LLC to be in default under Section 8.08 of the loan agreement. As also disclosed previously, in January 2015, the Authority, pursuant to the requirement that Heritage Grove engage a financial consultant, engaged 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 as a result of 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.

The operating reserve fund has been substantially and unavoidably impacted by the costs of the ongoing construction litigation regarding the Heritage Grove property, now in the neighborhood of $750,000. together with the related substantial monthly expenditures ($14,000/month - $168,000/year) for safety/precautionary stabilization mechanisms installed throughout the property, as addressed in prior years reports. Given the ongoing litigation and related expenses, it is likely that the operating reserve requirement will continue to be maintained at less than the designated $500,000.00 for the next fiscal year.

NOTE – The construction lawsuit was settled through mediation in 2018. See "subsequent events" letter, pages 6, 7, 8, 9, 10 of this report.

AUTHORITY ANSWER TO FINDING 2017-005: LCEFA OCALA ROAD LLC FUND MANAGEMENT AGREEMENT

As noted in prior year reports and remains unchanged, the terms of the original management agreement (except as to manager's compensation, hereafter noted) have been acknowledged by Coastal Property Services (which has managed the Heritage Grove project since its inception) 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 reasonable compensation to the manager. Such a proposal has been presented 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. Nevertheless, the Authority and Coastal Properties will make an effort to negotiate with ACA to produce an acceptable agreement.

AUTHORITY ANSWER TO FINDING 2017-006: SOUTHGATE FUND MANAGEMENT AGREEMENT

The Authority and the Southgate manager continue to operate by mutual consent pursuant to the management agreement which, after automatic extension, expired August 1, 2016. The Authority, in cooperation with the new Southgate Bondholders, EMET Capital, will be negotiating a new management agreement with the Authority which should be in place by March 1, 2019.

AUTHORITY ANSWER TO FINDING 2017 - 007: AUDIT REPORT FILING

James Moore & Co. had been contracted by the Authority for more than 20 years. Due to a miscommunication, the Authority believed that would continue for the 2015-2016 fiscal year but that was incorrect and as a result, the Authority did not have an Auditor beginning October 1, 2016. An RFP was advertised via a newspaper ad, direct mail solicitation and Leon County’s website.

Most auditors were reluctant to take on the Authority as a client primarily due to the construction lawsuit and related financial problems at Heritage Grove (LCEFA Ocala Road LLC, dba Heritage Grove), so for several months no proposals were offered. After another two months of negotiations, Thomas Howell Ferguson C.P.A. (“THF”) was finally engaged as auditor by the Authority. The audit report was already severely past due for the Auditor General and Leon County. Because THF was in its first year as the Authority’s Auditor which included a change in accounting personnel and because they were working to maintain the very highest standards of excellence, the audit took much longer to complete than normal.

AUTHORITY ANSWER TO FINDING 2017 -007: AUDIT REPORT FINDING, CONT.

Also, our third party C.P.A. did not start work on the 2016-2017 audit until March 5, 2018, which again put the Authority well behind schedule. In October, 2018, work began on the 2017-2018 audit which should mean the Authority can finish that audit by or close to the March 31, 2019 deadline for Leon County and the State of Florida.

Due to certain subsequent events associated with both the Southgate and LCEFA Ocala Road, LLC funds and disclosed in Note 11, management believes that these conditions will not continue.