

Financial Statements

Leon County Educational Facilities Authority

*Years ended September 30, 2018 and 2017
with Report of Independent Auditors*



Leon County Educational Facilities Authority

Financial Statements

Years ended September 30, 2018 and 2017

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Report of Independent Auditors

The Authority Members
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, 2018 and 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.

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.

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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, 2018 and 2017, 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 8 to the financial statements, the Authority has suffered recurring losses from changes in net position, has a net position deficiency, and subsequent to year end has entered into a settlement agreement that raises substantial doubt about the ability of its blended component unit, LCEFA Ocala Road, LLC, to continue as a going concern. In addition, the net investments in capital assets of the Southgate Fund are in a significant deficit position, which causes the unrestricted net position of the Southgate Fund to also be in a deficit position. Management's plans and disclosures in regard to the matters associated with the blended component unit are described in Note 8. Mitigation efforts in regard to the Southgate Fund are described in Note 6. The financial statements do not include any adjustments that might result from the outcome of these uncertainties. 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.

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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 15, 2019, 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.



Tallahassee, Florida
November 15, 2019

Leon County Educational Facilities Authority Management's Discussion and Analysis

September 30, 2018 and 2017

As management of the Leon County Educational Facilities Authority (the 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, 2018 and 2017.

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

Overview of the Financial Statements

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

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

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

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

The basic financial statements can be found on pages 11 – 13 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 14 - 29 of this report.

Fund Financial Analysis

Net position may serve over time as a useful indicator of the Authority's financial position. In the case of Leon County Educational Facilities Authority, liabilities exceeded assets by approximately \$34,600,000 at the close of the most recent fiscal year and by approximately \$43,500,000 at the end of the prior fiscal year.

Leon County Educational Facilities Authority
Management's Discussion and Analysis

September 30, 2018 and 2017 (continued)

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 outstanding related debt used to acquire those assets, 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)

	2018	2017
		<i>(as restated)</i>
Current assets	\$ 9,681,014	\$ 4,955,461
Noncurrent assets	24,211,231	25,035,893
Deferred outflows of resources	-	2,398,624
Total assets and deferred outflows of resources	33,892,245	32,389,978
Long-term liabilities outstanding	48,854,498	55,066,373
Current liabilities	19,720,856	20,868,732
Total liabilities	68,575,354	75,935,105
Net position:		
Net investment in capital assets	(42,215,909)	(46,460,340)
Restricted for debt service	7,166,897	3,071,246
Unrestricted	365,903	(156,033)
Total net position (deficit)	\$ (34,683,109)	\$ (43,545,127)

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

Leon County Educational Facilities Authority
Management's Discussion and Analysis

September 30, 2018 and 2017 (continued)

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

	2018	2017
		<i>(as restated)</i>
Revenues:		
Operating revenues	\$ 9,026,058	\$ 9,218,486
Interest and other non-operating income (expenses)	8,223,505	(2,876,550)
Net total revenues	17,249,563	6,341,936
Expenses:		
Student housing operating expenses	8,387,545	8,093,459
Increase (decrease) in net position	8,862,018	(1,751,523)
Net position (deficit) at beginning of year	(43,545,127)	(41,793,604)
Net position (deficit) at end of year	\$ (34,683,109)	\$ (43,545,127)

Net position increased by \$8,862,018 from 2017 to 2018. The significant factors contributing to this increase include:

- Income from operations of \$638,513.
- Settlement of a lawsuit of \$6,500,000, which was reported as non-operating revenue.
- \$7,195,264 received for the defeasance of the Series 1998 A bonds, which was reported as non-operating revenue and \$2,187,424 recorded as a loss on defeasance, a non-operating expense.
- Interest expense on bonds payable in the amount of \$3,077,815, which was reported as a non-operating expense.

Leon County Educational Facilities Authority
Management's Discussion and Analysis

September 30, 2018 and 2017 (continued)

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				
	2018	2017	\$ Change	% Change
Revenues	\$ 6,746,161	\$ 6,831,895	\$ (85,734)	(1.3%)
Operating expenses:				
Personnel costs	1,471,401	1,566,276	(94,875)	(6.1%)
Other operating costs	1,673,598	1,517,862	155,736	10.3%
Food costs	829,118	826,401	2,717	0.3%
Utilities	498,366	481,500	16,866	3.5%
Repairs and maintenance	243,508	611,764	(368,256)	(60.2%)
Depreciation and amortization	678,181	635,256	42,925	6.8%
Total operating expenses	5,394,172	5,639,059	(244,887)	(4.3%)
Operating income	\$ 1,351,989	\$ 1,192,836	\$ 159,153	13.3%

During the current year Southgate Fund decreased revenues 1.3% between years while, at the same time, operating expenses decreased 4.3%. In the prior fiscal year, Southgate Fund increased revenues 1.8% between years while, at the same time, operating expenses increased by 4.8%.

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				
	2018	Percent of Revenues	2017	Percent of Revenues
Revenues	\$ 6,746,161	100.0%	\$ 6,831,895	100.0%
Operating expenses:				
Personnel costs	1,471,401	21.8%	1,566,276	22.9%
Other operating costs	1,673,598	24.8%	1,517,862	22.2%
Food costs	829,118	12.3%	826,401	12.1%
Utilities	498,366	7.4%	481,500	7.0%
Repairs and maintenance	243,508	3.6%	611,764	9.0%
Depreciation and amortization	678,181	10.1%	635,256	9.3%
Total operating expenses	5,394,172	80.0%	5,639,059	82.5%
Operating income	\$ 1,351,989	20.0%	\$ 1,192,836	17.5%

Leon County Educational Facilities Authority
Management's Discussion and Analysis

September 30, 2018 and 2017 (continued)

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

LCEFA Ocala Road, LLC Fund's (the LLC) 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				
	2018	2017	\$ Change	% Change
Revenues	\$ 2,279,897	\$ 2,386,591	\$ (106,694)	(4.5%)
Operating expenses:				
Personnel costs	309,692	298,565	11,127	3.7%
Other operating costs	1,219,530	835,630	383,900	45.9%
Utilities	25,798	25,650	148	0.6%
Repairs and maintenance	317,473	277,250	40,223	14.5%
Depreciation and amortization	972,785	960,900	11,885	1.2%
Total operating expenses	2,845,278	2,397,995	447,283	18.6%
Operating loss	\$ (565,381)	\$ (11,404)	\$ (553,977)	4857.7%

This year, LCEFA Ocala Road, LLC Fund decreased revenues 4.5% between years while, at the same time, operating expenses increased by 18.6%. During the prior fiscal year, LCEFA Ocala Road, LLC Fund decreased revenues 1.5% between years while, at the same time, operating expenses decreased by 4.6%.

Leon County Educational Facilities Authority
Management's Discussion and Analysis

September 30, 2018 and 2017 (continued)

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				
	2018	Percent of Revenues	2017	Percent of Revenues
Revenues	\$ 2,279,897	100.0%	\$ 2,386,591	100.0%
Operating expenses:				
Personnel costs	309,692	13.6%	298,565	12.5%
Other operating costs	1,219,530	53.5%	835,630	35.0%
Utilities	25,798	1.1%	25,650	1.1%
Repairs and maintenance	317,473	13.9%	277,250	11.6%
Depreciation and amortization	972,785	42.7%	960,900	40.3%
Total operating expenses	2,845,278	124.8%	2,397,995	100.5%
Operating loss	\$ (565,381)	(24.8%)	\$ (11,404)	(0.5%)

This year, out of every dollar of revenue, management spent \$1.25, yielding an operating loss net margin of 25%. During the prior fiscal year, out of every dollar of revenue, management spent slightly more than \$1.00, yielding an operating loss net margin of 1%.

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, 2018 and 2017, amounts to \$23,463,589 and \$24,238,409, 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 \$37,000,000 and had long-term debt of \$45,000,000 at the end of prior fiscal year. These bonds are secured solely by specified revenue sources.

Leon County Educational Facilities Authority Management's Discussion and Analysis

September 30, 2018 and 2017 (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 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 project related to the bonds. 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 – 26.

Other Information

There have been significant issues pertaining to the original construction of the LLC apartment buildings which were discovered during routine repair and inspection in May of 2012. Recent damage estimates (i.e., costs to repair the structures and related expenses and losses, not including attorney fees), determined for the Authority by retained experts are approximately \$8-10 million.

The lawsuit against the original development/design/construction team was filed by the Authority and LLC in February 2014 and was ultimately settled in June 2018 for a total of \$7,235,600, before legal fees. The cost of litigation significantly impacted the Authority's funds that would be available for the project. The Authority and the LLC have determined that this settlement compensation will not cover all the repairs, and in October 2019 negotiated a settlement agreement with the bond insurer to address the LLC's inability to pay the debt service on the 2003 Revenue bonds and to remediate the LLC apartment buildings. Foreclosure proceeds and appointment of a receiver began upon execution of the settlement agreement. See Note 8 on page 28 for further information on the Authority's financial condition and its ability to continue as a going concern.

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
	2018			Total	
	Southgate Fund	LCEFA Ocala Road, LLC Fund	Administrative Fund		Total
					<i>(as restated)</i>
Assets					
Current assets:					
Cash and cash equivalents	\$ 483,996	\$ 63,989	\$ 701,331	\$ 1,249,316	\$ 419,569
Accounts receivable, net	623,533	11,959	-	635,492	531,900
Due from other funds	-	3,313	79,178	82,491	106,767
Inventory	-	-	-	-	57,054
Prepaid expenses and other current assets	160,660	36,715	-	197,375	171,040
Restricted cash and cash equivalents					
Restricted cash and cash equivalents	93,935	105,508	-	199,443	447,885
Restricted investments	1,084,614	6,232,283	-	7,316,897	3,221,246
Total current assets	2,446,738	6,453,767	780,509	9,681,014	4,955,461
Noncurrent assets:					
Capital assets, not being depreciated	2,400,000	-	235,000	2,635,000	2,822,147
Capital assets, net of accumulated depreciation	9,446,008	11,382,581	-	20,828,589	21,416,262
Prepaid bond insurance	-	747,642	-	747,642	797,484
Total noncurrent assets	11,846,008	12,130,223	235,000	24,211,231	25,035,893
Total assets	14,292,746	18,583,990	1,015,509	33,892,245	29,991,354
Deferred outflows of resources					
Deferred amounts on refunding	-	-	-	-	2,398,624
Total assets and deferred outflows of resources	\$ 14,292,746	\$ 18,583,990	\$ 1,015,509	\$ 33,892,245	\$ 32,389,978
Liabilities and net position (deficit)					
Current liabilities:					
Accounts payable and accrued expenses	\$ 426,230	\$ 247,970	\$ 2,073	\$ 676,273	\$ 605,461
Deferred revenue	1,813,319	124,330	-	1,937,649	1,890,448
Deposits payable	93,935	105,508	-	199,443	235,056
Due to other funds	3,313	79,178	-	82,491	106,767
Accrued interest payable	-	150,000	-	150,000	150,000
Current portion of note payable	-	-	200,000	200,000	216,000
Current portion of bonds payable	-	16,475,000	-	16,475,000	17,665,000
Total current liabilities	2,336,797	17,181,986	202,073	19,720,856	20,868,732
Noncurrent liabilities:					
Accrued interest payable	28,354,498	-	-	28,354,498	27,791,373
Bonds payable	20,500,000	-	-	20,500,000	27,275,000
Total noncurrent liabilities	48,854,498	-	-	48,854,498	55,066,373
Total liabilities	51,191,295	17,181,986	202,073	68,575,354	75,935,105
Net position (deficit):					
Net investment in capital assets	(37,008,490)	(5,242,419)	35,000	(42,215,909)	(46,460,340)
Restricted for debt service	1,084,614	6,082,283	-	7,166,897	3,071,246
Unrestricted	(974,673)	562,140	778,436	365,903	(156,033)
Total net position (deficit)	(36,898,549)	1,402,004	813,436	(34,683,109)	(43,545,127)
Total liabilities and net position (deficit)	\$ 14,292,746	\$ 18,583,990	\$ 1,015,509	\$ 33,892,245	\$ 32,389,978

See accompanying notes.

Leon County Educational Facilities Authority
Statements of Revenues, Expenses, and Changes in Net Position

	Years ended September 30,				2017
	2018			Total	
	Southgate Fund	LCEFA Ocala Road, LLC Fund	Administrative Fund		Total
Operating revenues	\$ 6,746,161	\$ 2,279,897	\$ -	\$ 9,026,058	\$ 9,218,486
Operating expenses					
Salaries and employee benefits	1,471,401	309,692	37,500	1,818,593	1,903,052
Food	829,118	-	-	829,118	826,401
Utilities	498,366	25,798	-	524,164	507,150
Depreciation and amortization expense	678,181	972,785	-	1,650,966	1,596,156
Other expenses	1,917,106	1,537,003	110,595	3,564,704	3,260,700
Total operating expenses	<u>5,394,172</u>	<u>2,845,278</u>	<u>148,095</u>	<u>8,387,545</u>	<u>8,093,459</u>
Operating income (loss)	<u>1,351,989</u>	<u>(565,381)</u>	<u>(148,095)</u>	<u>638,513</u>	<u>1,125,027</u>
Nonoperating revenues (expenses)					
Interest expense	(2,204,653)	(873,162)	-	(3,077,815)	(3,198,216)
Bond transaction fee	(312,145)	-	-	(312,145)	-
Interest income	29,548	17,812	1,998	49,358	21,666
Loss on debt defeasance and restructuring	(2,187,424)	-	-	(2,187,424)	-
Other income	7,195,264	6,500,449	55,818	13,751,531	300,000
Total nonoperating revenues (expenses)	<u>2,520,590</u>	<u>5,645,099</u>	<u>57,816</u>	<u>8,223,505</u>	<u>(2,876,550)</u>
Income (loss) before operating transfers	<u>3,872,579</u>	<u>5,079,718</u>	<u>(90,279)</u>	<u>8,862,018</u>	<u>(1,751,523)</u>
Transfers					
Transfers in - issuer and management fees per trust indenture	336,871	-	1,011,220	1,348,091	152,041
Transfers out - issuer and management fees per trust indenture	<u>(1,011,220)</u>	<u>-</u>	<u>(336,871)</u>	<u>(1,348,091)</u>	<u>(152,041)</u>
Total transfers	<u>(674,349)</u>	<u>-</u>	<u>674,349</u>	<u>-</u>	<u>-</u>
Change in net position	<u>3,198,230</u>	<u>5,079,718</u>	<u>584,070</u>	<u>8,862,018</u>	<u>(1,751,523)</u>
Net position (deficit) at beginning of year	<u>(40,096,779)</u>	<u>(3,677,714)</u>	<u>229,366</u>	<u>(43,545,127)</u>	<u>(41,585,770)</u>
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(207,834)</u>
Net position (deficit) at beginning of year, as restated	<u>(40,096,779)</u>	<u>(3,677,714)</u>	<u>229,366</u>	<u>(43,545,127)</u>	<u>(41,793,604)</u>
Net position (deficit) at end of year	<u>\$ (36,898,549)</u>	<u>\$ 1,402,004</u>	<u>\$ 813,436</u>	<u>\$ (34,683,109)</u>	<u>\$ (43,545,127)</u>

See accompanying notes.

Leon County Educational Facilities Authority

Statements of Cash Flows

	Years ended September 30,				
	2018			2017	
	Southgate Fund	LCEFA Ocala Road, LLC Fund	Administrative Fund	Total	Total
Operating activities					
Cash received from tenants	\$ 6,636,923	\$ 2,332,744	\$ -	8,969,667	\$ 8,973,938
Cash payments to suppliers	(3,218,221)	(1,542,151)	(91,696)	(4,852,068)	(4,487,359)
Cash payments to personnel	(1,471,401)	(309,692)	(37,500)	(1,818,593)	(1,903,052)
Net cash provided by (used in) by operating activities	<u>1,947,301</u>	<u>480,901</u>	<u>(129,196)</u>	<u>2,299,006</u>	<u>2,583,527</u>
Noncapital and related financing activities					
Transfers in	336,871	-	1,011,220	1,348,091	152,041
Transfers out	(1,011,220)	-	(336,871)	(1,348,091)	(152,041)
Proceeds from settlement and other sources	6,883,119	6,500,449	55,818	13,439,386	300,000
Net cash provided by noncapital and related financing activities	<u>6,208,770</u>	<u>6,500,449</u>	<u>730,167</u>	<u>13,439,386</u>	<u>300,000</u>
Capital and related financing activities					
Principal payments on bonds	(7,240,000)	(725,000)	-	(7,965,000)	(1,158,304)
Payments on notes payable	-	-	(16,000)	(16,000)	(12,000)
Interest paid	(1,430,328)	(873,162)	-	(2,303,490)	(2,031,716)
Net cash used in capital and related financing activities	<u>(8,670,328)</u>	<u>(1,598,162)</u>	<u>(16,000)</u>	<u>(10,284,490)</u>	<u>(3,202,020)</u>
Investing activities					
Purchases of property and equipment	(588,304)	(238,000)	-	(826,304)	(474,175)
Sale of certificates of deposit and investments	1,318,991	-	-	1,318,991	960,586
Interest received	29,548	17,812	1,998	49,358	21,666
Purchases of certificates and investments	-	(5,414,642)	-	(5,414,642)	-
Net cash provided by (used in) investing activities	<u>760,235</u>	<u>(5,634,830)</u>	<u>1,998</u>	<u>(4,872,597)</u>	<u>508,077</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	245,978	(251,642)	586,969	581,305	189,584
Cash, cash equivalents, and restricted cash at beginning of year	331,953	421,139	114,362	867,454	677,870
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 577,931</u>	<u>\$ 169,497</u>	<u>\$ 701,331</u>	<u>\$ 1,448,759</u>	<u>\$ 867,454</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	\$ 1,351,989	\$ (565,381)	\$ (148,095)	\$ 638,513	\$ 1,125,027
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	678,181	972,785	-	1,650,966	1,596,156
Changes in operating assets and liabilities:					
Accounts payable and accrued expenses	33,243	42,947	(5,377)	70,813	95,272
Deposits payable	(12,465)	(23,148)	-	(35,613)	(1,607)
Deferred revenue	2,989	44,212	-	47,201	112,315
Inventory	57,054	-	-	57,054	(11,586)
Accounts receivable	(112,227)	8,635	-	(103,592)	(355,256)
Due to other funds	(24,276)	-	-	(24,276)	13,072
Due from other funds	-	-	24,276	24,276	(13,072)
Prepaid expenses and other assets	(27,187)	851	-	(26,336)	23,206
Net cash provided by (used in) operating activities	<u>\$ 1,947,301</u>	<u>\$ 480,901</u>	<u>\$ (129,196)</u>	<u>\$ 2,299,006</u>	<u>\$ 2,583,527</u>

See accompanying notes.

Leon County Educational Facilities Authority

Notes to Financial Statements

Years ended September 30, 2018 and 2017

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 develop 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.

Leon County Educational Facilities Authority

Notes to Financial Statements

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. In the current year, nonoperating revenues included funds received in the defeasance of the Revenue Refunding Bond Series 1998A as described in Note 6, and funds received in a settlement as described in Note 9.

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.”

Leon County Educational Facilities Authority

Notes to Financial Statements

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:

	<u>Useful Lives</u>
Buildings	10 – 40 years
Improvements	10 – 40 years
Equipment and furnishings	5 – 15 years

Interfund Balances and Transfers

The due to/due from balances represent amounts remaining from loans to fund operations. Interfund transfers are primarily for operations.

Leon County Educational Facilities Authority

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Deferred Revenue

Deferred revenue consists of operating revenues collected from Southgate and Heritage Grove residents for the 2018-2019 school year. The revenue is recognized as earned on a monthly basis.

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 has reported deferred charge on refunding associated with the Revenue Refunding Bonds Series 1998A bonds 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. During the year ended September 30, 2018, the Authority entered into an agreement that allowed for the defeasance of the Revenue Refunding Bonds Series 1998A and the full recognition of the deferred outflow of resources in the amount of \$2,398,624. See Note 6 for additional information regarding that transaction.

In addition to liabilities, the statements of net position may 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 is not 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.

Prior Period Adjustment

Net position as of September 30, 2017 and 2016 was restated to reflect an adjustment to the accrued interest payable related to the Series 1998B bonds in the Southgate Fund in the amount of \$207,834.

Leon County Educational Facilities Authority

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Reclassification

Certain balances on the statements of net position and statements of cash flows for the year ended September 30, 2017, have been reclassified to be consistent with the classifications adopted for the year ended September 30, 2018.

Subsequent Events

The Authority has evaluated subsequent events through November 15, 2019, the date the financial statements were available to be issued. During the period from September 30, 2018 to November 15, 2019, the Authority had the following material recognizable subsequent events:

- Settlement Agreement negotiated with the bond insurer as more fully described in Note 8
- Payment of the note payable as more fully described in Note 6
- Payment in October 2018 of \$100,000 reported in accounts payable and accrued expenses to settle litigation

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 \$7,316,897 and \$3,221,246 at September 30, 2018 and 2017, respectively.

Leon County Educational Facilities Authority

Notes to Financial Statements

2. Deposits and Investments (continued)

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, 2018 and 2017, 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 security and liquidity while protecting the principal in accordance with applicable state laws.

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

3. Receivables

Receivables as of September 30, 2018, including the applicable allowances for uncollectible accounts, are as follows:

	Southgate Fund	LCEFA Ocala Road, LLC Fund	Total
Gross receivables	\$ 626,674	\$ 11,959	\$ 638,633
Less: allowance for uncollectibles	(3,141)	–	(3,141)
Total receivables, net	\$ 623,533	\$ 11,959	\$ 635,492

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

	Southgate Fund	LCEFA Ocala Road, LLC 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

Leon County Educational Facilities Authority

Notes to Financial Statements

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, 2018:

Descriptions	Balance at September 30, 2017	Additions	Deletions	Balance at September 30, 2018
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	2,822,147	-	(187,147)	2,635,000
Capital assets being depreciated:				
Buildings and improvements	45,225,681	436,191	-	45,661,872
Equipment	2,616,767	577,260	-	3,194,027
Total capital assets being depreciated	47,842,448	1,013,451	-	48,855,899
Less accumulated depreciation	(26,426,186)	(1,601,124)	-	(28,027,310)
Total capital assets being depreciated, net	21,416,262	(587,673)	-	20,828,589
Capital assets, net	<u>\$ 24,238,409</u>	<u>\$ (587,673)</u>	<u>\$(187,147)</u>	<u>\$ 23,463,589</u>

6. Long-term Debt

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

Descriptions	Balance at September 30, 2017	Additions	Deletions	Balance at September 30, 2018	Due Within One Year
1998A Bonds	\$ 7,240,000	\$ -	\$ 7,240,000	\$ -	\$ -
1998B Bonds	20,500,000	-	-	20,500,000	-
2003 Bonds	17,200,000	-	725,000	16,475,000	16,475,000
Note Payable	216,000	-	16,000	200,000	200,000
Total	<u>\$ 45,156,000</u>	<u>\$ -</u>	<u>\$ 7,981,000</u>	<u>\$ 37,175,000</u>	<u>\$ 16,675,000</u>

Leon County Educational Facilities Authority

Notes to Financial Statements

6. Long-term Debt (continued)

Southgate Fund

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

<u>Descriptions</u>	<u>2018</u>	<u>2017</u>
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
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	20,500,000	27,740,000
Less current portion (Series 1998A)	—	465,000
Total Revenue Refunding Bonds, noncurrent	\$ 20,500,000	\$ 27,275,000

Revenue Refunding Bonds

On May 29, 1998, the Authority issued \$12,000,000 in Revenue Refunding Bonds Series 1998A (the Series A Bonds) and \$20,500,000 in Subordinated Revenue Refunding Bonds Series 1998B (the Series B Bonds) with an average interest rate of 7.283% to advance refund \$23,075,000 of 1991 Senior Certificates of Participation and \$1,145,000 of 1991 Subordinate Certificates of Participation.

On or about June 15, 2018, the Authority executed an acquisition and forbearance agreement (the Agreement) with an investor to effectively purchase the Series A Bonds and the Series B Bonds. Under the terms of the Agreement, the investor provided the Trustee funds in the amount of \$7,195,264 (recorded as other income) to defease the Series A Bonds effective July 18, 2018. In addition, the Agreement provided for the investor to exercise an agreement between the Authority and the owners of the Series B Bonds to acquire the outstanding principal of these bonds for a total price of \$12,668,000. The Agreement also provided that the investor will not assess or require the payment or accrual of interest on past due installments of interest or declare or seek or allow to have declared any event of default in respect of non-payment of principal and interest on the Series B Bonds. The defeasance of the Series 1998A bonds and the restructuring of the terms of the Series 1998B bonds resulted in a loss on defeasance and restructuring of \$2,187,424.

Leon County Educational Facilities Authority

Notes to Financial Statements

6. Long-term Debt (continued)

The Agreement also provides for the investor to use its commercially reasonable efforts to structure a transaction to facilitate the Authority's release from this debt obligation and ownership of Southgate Residence Hall Project (the Project). At any time on or after the first anniversary of this Agreement, the investor is granted the option to purchase the Authority's interest in the Project at an option price equal to amounts due with respect to the Series B Bonds which may be paid by tendering such Series B Bonds to the Authority or the Trustee for cancellation.

As of September 30, 2018, the Series B bonds have accumulated unpaid interest of \$28,354,498. If the option to purchase is not exercised, the Series 1998B Bond debt service to maturity, excluding interest accrued on past due interest, is as follows:

	<u>Principal</u>	<u>Interest</u>
2019	\$ —	\$ 1,563,125
2020	—	1,563,125
2021	—	1,563,125
2022	2,300,000	1,563,125
2023-2027	14,545,000	4,881,525
2028-2029	3,655,000	278,694
	<u>\$20,500,000</u>	<u>\$ 11,412,719</u>

Leon County Educational Facilities Authority

Notes to Financial Statements

6. Long-term Debt (continued)

LCEFA Ocala Road, LLC Fund

Student Housing Revenue Bonds (Series 2003)

In December 2003, the Authority issued Heritage Grove Project (the “Project”) Student Housing Revenue Bonds (Series 2003) in the amount of \$23,315,000, with interest rates ranging from 3% to 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 \$16,475,000 and \$17,200,000 of revenue bonds at September 30, 2018 and 2017, 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:

	<u>Principal</u>	<u>Interest</u>
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
	<u>\$ 16,475,000</u>	<u>\$ 10,694,066</u>

Leon County Educational Facilities Authority

Notes to Financial Statements

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:

	<u>Principal</u>
2018	725,000*

*Deposited in the sinking fund in 2018, and paid August 1.

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

	<u>Principal</u>
2019	\$ 760,000
2020	800,000
2021	840,000
2022	880,000
2023	925,000
	<u>\$ 4,205,000</u>

Leon County Educational Facilities Authority

Notes to Financial Statements

6. Long-term Debt (continued)

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

	<u>Principal</u>
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
	<u>\$ 12,270,000</u>

The Revenue Refunding Bonds and the Student Housing Revenue 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 indentures. 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 indentures. 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.

The Revenue Refunding Bonds and the Student Housing Revenue Bonds were issued pursuant to indentures of trust between the Authority and the Bank (the "Indentures"). These Indentures require the Authority to establish and maintain restricted accounts and follow certain procedures for bond issuance and payments. The Authority deposits all receipts into "revenue funds" as directed by the Indentures, which is used to pay operating expenses and then to fund the restricted bond accounts.

Leon County Educational Facilities Authority

Notes to Financial Statements

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, 2018 and 2017 were \$200,000 and \$216,000, respectively. The note was paid in full as scheduled.

7. Management Agreement

Southgate Fund

The Authority, with the consent, approval and joinder of the Series 1998B bondholders of Southgate, entered into 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. Since the 1998 financing of Southgate, the active participation, consent and approval of the Series 1998B 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 1998B 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, are specifically approved by the appropriate bondholder representative and the Authority.

Leon County Educational Facilities Authority

Notes to Financial Statements

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 may pay to the Manager incentive fees. Management fees paid by the Southgate Fund for the years ended September 30, 2018 and 2017 totaled \$231,053 and \$262,936, respectively.

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

LCEFA Ocala Road, LLC

The Authority entered into an agreement with a corporation to rent, operate and manage the Project for a term of three years commencing on August 1, 2012 provided, however, that notwithstanding anything to the contrary, this agreement will terminate earlier if the Project is sold by the Authority. The owner has the right to terminate the Management Agreement on the last day of every contract year without cause and without penalty. Management fees, based on occupancy level, were paid by the Heritage Grove Fund for the years ended September 30, 2018 and 2017 totaled \$97,120 and \$99,080, respectively.

Although the agreement has not been formally renewed, the LLC will continue to operate generally under the terms of this agreement until a new agreement is executed.

Leon County Educational Facilities Authority

Notes to Financial Statements

8. Financial Condition and Going Concern

The financial statements have been prepared on a going concern basis, which assumes LCEFA's blended component unit, LCEFA Ocala Road, LLC (the LLC or Heritage Grove), will be able to meet the financial covenants and repayment terms of the 2003 Revenue Bonds. The LLC has continuing deficits in operations and is in default on certain covenants of the 2003 Revenue Bonds.

On or about March 12, 2018, the Heritage Grove construction lawsuit was settled and the LLC was awarded \$6,500,000, net of legal fees, to effectuate repairs to the buildings caused by design, engineering and construction flaws from the original construction of the project. The proceeds received from the settlement were recorded as other income in the LLC fund. The settlement funds have been transferred to the Trustee and the process for determining costs and timing began early in fiscal year 2019.

In October 2019, LCEFA and the LLC engaged in negotiations with ACA Financial Guaranty, Inc. (the Bond Insurer), in order to address the LLC's inability to pay debt service on the Series 2003 Bonds and remediate the Heritage Grove Project (the Project); resolve any disputes that have arisen or may arise; and to ensure an orderly transition of the Project. The result of such negotiations was a Settlement Agreement, dated October 29, 2019, which provided the following:

- Commencement of foreclosure and appointment of a receiver to manage, control and remediate the Project;
- The transfer of the Project through foreclosure or assignment of the LLC's leasehold interest at the earlier of certain events defined in the Settlement Agreement (Project Transfer);
- Indemnification of the LCEFA and the LLC, subject to specified limitations;
- Waivers and releases of the LCEFA, the LLC, and related persons, subject to specified limitations; and
- The Bond Insurer's and receiver's compliance with covenants in the financing documents for the Series 2003 Bonds.

Upon completion of the Settlement Agreement terms, substantially all of the LLC's assets and liabilities will no longer be reported by the LLC.

Leon County Educational Facilities Authority

Notes to Financial Statements

9. 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.

Additional Information

Leon County Educational Facilities Authority

Schedule of Other Operating Expenses

	Years ended September 30,				2017
	2018			Total	
	Southgate Fund	LCEFA Ocala Road, LLC Fund	Administrative Fund		
Other operating expenses					Total
Legal and professional	\$ 126,644	\$ 834,642	\$ 99,258	\$ 1,060,544	\$ 590,226
Bad debt	36,058	(53,434)	-	(17,376)	24,382
Telephone and internet	240,180	2,072	-	242,252	306,488
Management fee	231,053	97,120	-	328,173	363,621
Taxes	128,022	260	-	128,282	133,320
Property insurance	112,510	114,183	-	226,693	201,427
Other	624,495	215,012	11,322	850,829	548,176
Bank and credit card	20,023	1,280	15	21,318	46,600
Contract services	154,613	8,395	-	163,008	157,446
Repair and maintenance	243,508	317,473	-	560,981	889,014
Total other operating expenses	<u>\$ 1,917,106</u>	<u>\$ 1,537,003</u>	<u>\$ 110,595</u>	<u>\$ 3,564,704</u>	<u>\$ 3,260,700</u>

See report of independent auditors.

Other Reports

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

The 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, 2018, 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 15, 2019.

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:

Finding 2018-001: Financial Reporting, Account Reconciliations, and Journal Entries

Prior to 2018 the Authority's accounting function was not designed to accumulate all of its accounting activity and transactions on a periodic basis to allow for timely and accurate financial reporting. The accounting records and information for the Southgate and Heritage Grove properties are maintained by each property's management company and the Authority relies on the management companies for reporting the accounting information for the properties. The Authority contracted with an accountant during 2018 to implement procedures for collecting and processing property management financial information and to assist the Authority in its year end closing and audit. Although this has improved the flow of information and facilitated the audit process, the Authority has been unable to accurately and timely maintain its accounting records. The delays were largely due to Southgate's accounting processes not being performed timely and accurately. This required multiple requests for revised and updated information. As a result of those observed conditions, our audit procedures identified a large number of adjustments necessary for the fair reporting of the Authority's activities and account balances.

We recommend that the Authority centralize its accounting function by separating the property management function from the accounting function in order to produce timely and accurate financial reports. It should continue developing and documenting policies and procedures 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 receipts and disbursements. The information provided by Southgate and Heritage Grove should be accumulated, recorded and reviewed by the Authority's accountant on a monthly basis. Centralization and oversight of the accounting function should improve the accuracy and timeliness of the Authority's financial reporting.

Management Response:

The Authority will continue to work with its contracted third-party Certified Public Accounting firm and management companies to continue to improve the quality and efficiency of its accounting processes. We believe further benefits of these efforts will become evident in the audit for the fiscal year ending September 30, 2019. Existing resources and contractual arrangements prohibit immediate implementation of a completely centralized accounting system, but all fund activity is being captured in a centralized system at year-end closing.

Finding 2018-002: Property Management Cash Receipts and Rental Controls

We noted during our audit that one of the Authority's outsourced property management company's 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 bank once per month as opposed to weekly or daily.

We recommend that duties for receipt, recording and deposit of cash receipts be separated at Southgate property management company. 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.

Management Response:

We will work with both management companies to strengthen their cash management and controls over the rent collected by them, in accordance with the auditors' suggestions. We will ensure there are written procedures to address the separation of duties for receipt, recording and deposit of cash receipts and the monthly reconciliation of lease agreements to actual payments. Additional resources and contractual arrangements would be necessary to segregate the receipt, recording and deposit of cash receipts from the property management companies.

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 2018-003: 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, 2018 was calculated as follows:

Revenue Available	2018
Operating income (loss)	\$ (565,381)
Depreciation and amortization	972,785
Interest and other income	17,812
Revenue available for fixed charges	<u>\$ 425,216</u>
Fixed Charges	
Principal due and payable during the period	\$ 725,000
Interest due and payable during the period	873,162
Fixed charges	<u>\$ 1,598,162</u>
Fixed charges coverage ratio	0.27

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.

Management Response:

Although Heritage Grove has historically operated at a high occupancy level, the property has not been able to increase rental rates each year as originally modeled. This slower growth in rental rates has impacted the ability to meet the coverage ratio requirement.

As noted in previous audits and corrective action plans, the Authority has 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.

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 clients in Florida. According to Wye’s analysis, there does not appear to be any action (that is not already being undertaken) that will improve significantly the Project’s operating performance. Rental rates are at market levels and there is relatively little room for significant increases without the risk of triggering significant vacancies. Operating costs are in line with similar such facilities and sources of recent revenue shortfalls. Possible solutions offered by the consultant, included: (1) provide a new offering of bonds (i.e., refinance the outstanding Series 2003 Bonds), (2) subordinate debt financing (i.e., finance construction costs with loan that would be subordinate to Series 2003 Bonds), or (3) Florida State University (FSU) Project Support (i.e., secure financing and/or operating support from FSU.

The Authority has investigated these possible solutions and has determined that, at the present time, unless and until substantial funds are secured to make repairs to the property, the property is not attractive to new investment and lacks enough equity for a refinancing that would provide for needed repairs. Direct support from the Florida State University, though sought, has not been obtained.

Finding 2018-004: Operating Reserve Requirement

The Trust Indenture requires that LCEFA Ocala Road, LLC maintain an “Operating reserve fund” of \$500,000. At September 30, 2018 the “Operating reserve fund” has not been funded.

Management Response:

The operating reserve fund has been substantially and unavoidably impacted by the costs of the Heritage Grove property construction litigation which amounted to just over \$1,000,000, together with the related substantial ongoing monthly expenditures of \$14,000 per month or \$168,000 per year. In the Fall of 2018, one of the eight apartment buildings was vacated in anticipation of the destructive testing necessary to assess the amount of damage to the building and to develop estimates for repair and rehabilitation. Having one of the eight buildings vacant is an immediate reduction of 12.5% in potential rental income or approximately \$144,000 for the year. This building, in addition to a second building in the Fall of 2019 will continue to be vacant until at least August 2020, for a total of approximately \$288,000 annual revenue loss and \$432,000 cumulative revenue loss. All these factors make it difficult to build up a \$500,000 operating reserve.

Finding 2018-005: 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.

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

Management Response:

It is anticipated that a new management agreement will be prepared, approved by the bond insurer, and executed with the manager of the housing facilities in the fiscal year 2019-2020.

Finding 2018-006: 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, 2018 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.

Management Response:

It is anticipated that a new management agreement will be prepared, approved by the bond insurer, and executed with the manager of the housing facilities in fiscal year 2019-2020.

Finding 2018-007: Audit Report Filing

The Authority did not timely file their audit report for the year ended September 30, 2018 with the State of Florida, Department of Financial Services.

Management Response:

As previously noted, the Authority is working to improve its accounting processes to facilitate completing the audit on a timely basis.

Authority's Response to Findings

The Authority's response to the findings identified in our audit is described previously. 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.

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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 15, 2019

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, 2018 and have issued our report thereon dated November 15, 2019.

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 15, 2019, 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 shown on the following page.

Description	Tabulation of Uncorrected Audit Findings			
	Current Year Findings #	2016-17 FY Finding #	2015-16 FY Finding #	2014-15 FY Finding #
Significant Adjustments	2018-001	2017-001	2016-001	2015-001
Account Reconciliations and Journal Entries	2018-001	2017-001	2016-002	N/A
Property Management Cash Receipts and Rental Controls	2018-002	2017-002	N/A	N/A
Fixed Charges Coverage Ratio	2018-003	2017-003	2016-003	2015-002
Operating Reserve Requirement	2018-004	2017-004	2016-004	2015-003
LCEFA Ocala Road, LLC Fund Management Agreement	2018-005	2017-005	2016-005	2015-004
Southgate Fund Management Agreement	2018-006	2017-006	2016-006	2015-005
Audit Report Filing	2018-007	2017-007	2016-007	N/A
Deteriorating Financial Condition	2018-008	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 to identify 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.b. and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures for the Authority and issued finding 2018-008. 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 2018-008: Deteriorating Financial Condition

Our financial condition assessment procedures produced results indicating a deteriorating financial condition evidenced by unfavorable financial indicators including income from operations that are insufficient to cover annual debt service; 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) structural damage from original construction of facilities at LCEFA Ocala Road, LLC including legal and maintenance fees incurred during the litigation proceedings against the contractors, (2) Accrued interest on the Southgate Series B bonds, and (3) Bonded debt in excess of the carrying value of the collateralized property. During the year ended September 30, 2018, the Authority restructured the debt on the Southgate property and received funds from the settlement of litigation on the LCEFA Ocala Road, LLC property. Subsequent to year end, the Authority and the LCEFA Ocala Road, LLC negotiated a settlement agreement that upon execution appointed a receiver as discussed in Note 8 to the financial statements.

Management Response:

The Authority believes the appointment of a receiver is the best of a limited number of options for Heritage Grove. While the Authority prevailed in mediation for a settlement of the construction litigation, the settlement proceeds are not enough to remediate the extensive deficiencies in the problems stemming from the original construction, make the needed upgrades, and operate the property.

The Authority believes that the current low vacancy rate stems from a combination of factors, including poor aesthetics caused by the shoring systems in every building, the dated interiors of the apartment units and the ongoing developments in FSU's fraternity system.

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*.

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Special District Component Units

Section 10.554(1)(i)5.c., *Rules of the Auditor General*, requires, if appropriate, that we communicate the failure of a special district that is a component unit of a county, municipality, or special district, to provide 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 did note any special district component units that failed to provide the necessary information for proper reporting in accordance with Section 218.39(3)(b), *Florida Statutes*.

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.



Tallahassee, Florida
November 15, 2019

Independent Accountant's Report on Compliance with Local Government Investment Policies

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, 2018. 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, 2018, 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, 2018.



Tallahassee, Florida
November 15, 2019