

Financial Statements

Leon County Educational Facilities Authority

*Years ended September 30, 2021 and 2020
with Report of Independent Auditors*



Leon County Educational Facilities Authority

Financial Statements

Years ended September 30, 2021 and 2020

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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 Leon County Educational Facilities Authority (the Authority) which comprise the statement of net position as of September 30, 2021, 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 Leon County Educational Facilities Authority, as of September 30, 2021, and the changes in its net position and its cash flows for the year 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 experienced recurring losses from changes in net position, has a net position deficiency, and low occupancy rates 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 and the unrestricted net position of the Southgate Fund are 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 on pages 4 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Supplementary Information

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

The schedule of other 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 audits 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 other operating expenses is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Leon County Educational Facilities Authority's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 2, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2022 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 solely 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
March 10, 2022

Leon County Educational Facilities Authority Management's Discussion and Analysis

September 30, 2021, and 2020

As management of the Leon County Educational Facilities Authority (the Authority), we offer this overview and analysis of the financial activities of the Leon County Educational Facilities Authority for the fiscal years ended September 30, 2021, and 2020.

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 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 the: 1) fund financial statements and 2) notes to the financial statements.

Fund financial statements. A fund is a grouping of related accounts used to maintain control over resources that have specified 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 Authority maintains three individual funds, shown separately in the Statement of Net Position, and in the Statement of Revenues, Expenses, and Changes in Net Position, for the Southgate Fund, the LCEFA Ocala Road, LLC (aka, Heritage Grove), and the Administration Fund.

The basic financial statements are 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 are on pages 14-30 of this report.

Fund Financial Analysis

A useful indicator in an enterprise's financial condition is the net financial position. The Leon County Educational Facilities Authority's liabilities exceeded assets by approximately \$39.7 million at the close of the fiscal year 2021 and by approximately \$37.2 million at the end of the prior fiscal year.

The Leon County Educational Facilities Authority's net position is the result of its liabilities exceeding the current value of its assets. The 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
Management's Discussion and Analysis (continued)

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

	2021	2020
Current assets	\$ 4,716,765	\$ 5,698,209
Noncurrent assets	18,047,618	19,630,881
Total assets and deferred outflows of resources	22,764,383	25,329,090
Current liabilities	18,748,670	17,314,628
Long-term liabilities outstanding	43,697,181	45,165,618
Total liabilities	62,445,851	62,480,246
Net position:		
Net investment in capital assets	(41,627,376)	(41,238,541)
Restricted for debt service	668,829	929,564
Capital projects	2,151,821	3,084,862
Other purposes	280,377	147,989
Unrestricted	(1,155,119)	(75,030)
Total net deficit	(39,681,468)	(37,151,156)
Total Total liabilities and net deficit	\$ 22,764,383	25,329,090

In addition, a portion of the Leon County Educational Facilities Authority's net position represents resources that are subject to external restrictions regarding their use.

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

	2021	2020
Revenues:		
Operating revenues	\$ 7,703,879	\$ 7,865,842
Interest and other non-operating income (expenses)	(955,283)	(1,041,690)
Net total revenues	6,748,596	6,824,152
Expenses:		
Student housing operating expenses	9,278,908	7,668,644
Increase (decrease) in net position	(2,530,312)	(844,492)
Net position (deficit) at beginning of year	(37,151,156)	(36,306,664)
Net position (deficit) at end of year	\$ (39,681,468)	\$ (37,151,156)

The decrease in net position of \$2,530,312 and \$844,492 in fiscal year 2021 and 2020, respectively, is primarily due to occupancy shortfalls at LCEFA Ocala Road, LLC, professional fees, and other receivership related expenses (more details below) at LCEFA Ocala Road, LLC, and the respective debt burdens associated with both LCEFA Ocala Road, LLC, and Southgate.

Leon County Educational Facilities Authority
Management's Discussion and Analysis (continued)

Results of Operations.

Southgate financial results, excluding interest, for fiscal years 2021 and 2020 are below:

Southgate				
Statement of Operations				
for the Fiscal Years Ended				
	2021	2020	\$ Change	% Change
Revenues	\$ 6,649,920	\$ 6,434,180	\$ 215,740	3.35%
Operating expenses:				
Personnel costs	574,293	543,105	31,188	5.7%
Other operating costs	2,824,449	2,700,832	123,617	4.6%
Food costs	514,211	410,189	104,022	25.4%
Utilities	449,476	450,673	(1,197)	-0.3%
Repairs and maintenance	151,964	214,745	(62,781)	-29.2%
Depreciation and amortization	722,050	715,174	6,876	1.0%
Total operating expenses	5,236,443	5,034,718	201,725	4.0%
Operating income	\$ 1,413,477	\$ 1,399,462	\$ 14,015	1.0%

Revenues increased by approximately \$216,000 during fiscal year 2021 from 2020 levels, and operating expenses increased by approximately \$202,000. In the prior fiscal year, revenues decreased by approximately \$300,000 between years and operating expenses decreased by approximately \$210,000.

The analysis below illustrates Southgate's operating expenses as a percentage of revenue for fiscal years 2021 and 2020:

Southgate				
Statement of Operations				
for the Fiscal Years Ended				
	2021	Percent of Revenues	2020	Percent of Revenues
Revenues	\$ 6,649,920	100.0%	\$ 6,434,180	100.0%
Operating expenses:				
Personnel costs	574,293	8.6%	543,105	8.4%
Other operating costs	2,824,449	42.5%	2,700,832	42.0%
Food costs	514,211	7.7%	410,189	6.4%
Utilities	449,476	6.8%	450,673	7.0%
Repairs and maintenance	151,964	2.3%	214,745	3.3%
Depreciation and amortization	722,050	10.9%	715,174	11.1%
Total operating expenses	5,236,443	78.7%	5,034,718	78.2%
Operating income	\$ 1,413,477	21.3%	\$ 1,399,462	21.8%

Leon County Educational Facilities Authority
Management's Discussion and Analysis (continued)

Revenue increased by approximately \$216,000, while operating income increased by approximately \$14,000 due to better cost control in areas of operation, except for of higher food costs. The figures above do not reflect the impact of financing costs and the associated funding requirements.

The Covid-19 pandemic of 2020 and 2021 had an impact on operations as residents left Southgate during the Spring Semester of 2020. Southgate implemented Covid-19 protocols, including sanitation, food service, and social distancing in shared areas to meet state safety requirements for residences. The leasing for the Fall Semester of 2020 exceeded 97% occupancy as students remained interested in living in Southgate's facility.

During 2020, Southgate and its Property Manager (Asset Campus USA) were named in two class action lawsuits related to the refunding of prepaid rents and meal plans as well as for enforcing the executed leases with residents. The Federal Court declined to exercise jurisdiction over the matter and the cases were dismissed. Subsequently, one of the plaintiffs refiled their case in State Circuit Court. This case is proceeding, and Southgate intends to vigorously defend itself again.

LCEFA Ocala Road, LLC (the LLC) financial results, excluding interest, for fiscal years 2021 and 2020 are below:

LCEFA Ocala Road, LLC				
Statement of Operations				
for the Fiscal Years Ended				
	2021	2020	\$ Change	% Change
Revenues	\$ 1,053,959	\$ 1,431,662	\$ (377,703)	-26.4%
Operating expenses:				
Personnel costs	265,105	271,184	(6,079)	-2.2%
Other operating costs	2,265,403	962,090	1,303,313	135.5%
Utilities	149,566	107,691	41,875	38.9%
Repairs and maintenance	363,193	277,118	86,075	31.1%
Depreciation and amortization	913,955	922,322	(8,367)	-0.9%
Total operating expenses	3,957,222	2,540,405	1,416,817	55.8%
Operating loss	\$ (2,903,263)	\$ (1,108,743)	\$ (1,794,520)	161.9%

Revenues decreased by approximately \$380,000 and expenses increased by approximately \$1,420,000. As noted earlier, the primary driver of increased expenses was fees and costs associated with the property being in receivership. As a result, the LLC had a greater operating loss in fiscal year 2021 than in fiscal year 2020.

Leon County Educational Facilities Authority
Management's Discussion and Analysis (continued)

The analysis below illustrates the LLC's operating expenses as a percentage of revenue for fiscal years 2021 and 2020.

LCEFA Ocala Road, LLC				
Statement of Operations				
for the Fiscal Years Ended				
	2021	Percent of Revenues	2020	Percent of Revenues
Revenues	\$ 1,053,959	100.0%	\$ 1,431,662	100.0%
Operating expenses:				
Personnel costs	265,105	25.2%	271,184	18.9%
Other operating costs	2,265,403	214.9%	962,090	67.2%
Utilities	149,566	14.2%	107,691	7.5%
Repairs and maintenance	363,193	34.5%	277,118	19.4%
Depreciation and amortization	913,955	86.7%	922,322	64.4%
Total operating expenses	3,957,222	375.5%	2,540,405	177.4%
Operating loss	\$ (2,903,263)	-275.5%	\$ (1,108,743)	-77.4%

In fiscal year 2021, the LLC spent more than \$3.75 for every \$1.00 in revenues. The figures above do not reflect the impact of financing costs and the associated funding requirements.

There have been significant issues pertaining to the original construction of the LLC apartment buildings, found during routine repair and inspection in May of 2012. The lawsuit against the original development/design/construction team, filed by the Authority and LLC in February 2014 was 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 fiscal year 2021 financial results, as shown above, reflect a continued downward trend in leasing. Two of the buildings were completely empty for Fall Semester 2020 and occupancy was approximately 25%. In addition to the pandemic and transition to more remote learning, the reduced number of fraternities and current building conditions exacerbated the leasing challenges facing the LLC during fiscal year 2021. For Fall Semester 2021 (FY 2022), Heritage Grove leased all available space. The higher than usual enrollment numbers at FSU and individual room availability and moderate price point contributed to this uptick in lease rate. In fact, there was demand beyond what Heritage Grove had available.

In October 2019, LCEFA and the LLC engaged in negotiations with ACA Financial Guaranty, Inc. (the Bond Insurer), to address the LLC's inability to pay debt service on the Series 2003 Bonds and remediate the Heritage Grove situation. The result of such negotiations was a Settlement Agreement, dated October 29, 2019, which provided the following:

Leon County Educational Facilities Authority Management's Discussion and Analysis (continued)

- Commencement of foreclosure and appointment of a receiver to manage, control and remediate the resolution of situation.
- The transfer of the property through foreclosure or assignment of the LLC's leasehold interest at the earlier of certain events defined in the Settlement Agreement.
- 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.
- The Bond Insurer's and receiver's compliance with covenants in the financing documents for the Series 2003 Bonds.

The Court appointed receiver and the contracted management company are responsible for all oversight of the eight (8) apartment buildings and Common Areas. The Authority maintains a relationship with the three (3) equity houses and has collaborated with the receiver and Management Company to determine the appropriate CAM (common area maintenance) charges as required under the lease. The Advisory Council had an annual meeting in the Fall of 2020 in which Authority provided its support for changes to the monthly CAM fees.

The expectations were that repairs, and remediation would have started early in calendar 2020. Under the initial receiver, there was completion of the detailed project specifications and pricing. However, there was no actual remediation as of August 2021, which was almost two years into the process.

In July 2021, Emet Municipal Real Estate Strategy II, LP ("Emet") acquired 100% of the outstanding Series 2003 Bonds and assumed ACA's obligations as Bond Insurer under the settlement agreement. Subsequently, the Court approved a replacement receiver. Immediate safety repairs commenced in September 2021 to protect the residents with further substantive remediation and upgrade efforts, scheduled to begin in March 2022.

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, 2021, and 2020, amounts to \$17,428,505 and \$18,968,925, 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 is in Note 5 on page 21 of this report.

Long-term debt. At the end of the current fiscal year, the Leon County Educational Facilities Authority had short-term debt consisting of revenue bonds outstanding and accrued interest payable of \$15.3 million and had long-term debt of \$43.7 million at the end of prior fiscal year. The bonds are secured by specified revenue sources.

Leon County Educational Facilities Authority Management's Discussion and Analysis (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, are 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 is in Note 6 on pages 22-27.

Other Information

Upon completion of the above noted foreclosure, management anticipates discontinuing the LLC. The other LCEFA funds are going concerns and management has no intentions to discontinue their operations.

Requests for Information

This financial report provides 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 mailed to Executive Director, P.O. Box 11154, Tallahassee, Florida 32302.

Leon County Educational Facilities Authority

Statements of Net Position

September 30, 2021

(with summarized financial information at September 30, 2020)

	2021			2020	
	Southgate Fund	LCEFA Ocala Road, LLC Fund	Administrative Fund	Total	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 143,266	\$ -	\$ 591,727	\$ 734,993	\$ 944,626
Accounts receivable, net	250,182	29,558	-	279,740	92,555
Due from other funds	-	3,313	81,927	85,240	85,240
Prepaid expenses and other current assets	161,953	17,661	7,999	187,613	176,973
Restricted cash and cash equivalents					
Restricted cash and cash equivalents	991,971	2,437,208	-	3,429,179	4,398,815
Total current assets	<u>1,547,372</u>	<u>2,487,740</u>	<u>681,653</u>	<u>4,716,765</u>	<u>5,698,209</u>
Noncurrent assets:					
Capital assets, not being depreciated	2,400,000	-	-	2,400,000	2,400,000
Capital assets, net of accumulated depreciation	7,661,194	7,367,311	-	15,028,505	16,568,925
Prepaid bond insurance, net of accumulated amortization	-	619,113	-	619,113	661,956
Total noncurrent assets	<u>10,061,194</u>	<u>7,986,424</u>	<u>-</u>	<u>18,047,618</u>	<u>19,630,881</u>
Total assets	<u>\$ 11,608,566</u>	<u>\$ 10,474,164</u>	<u>\$ 681,653</u>	<u>\$ 22,764,383</u>	<u>\$ 25,329,090</u>
Liabilities and net position (deficit)					
Current liabilities:					
Accounts payable and accrued expenses	\$ 530,081	\$ 1,472,520	\$ -	\$ 2,002,601	\$ 569,780
Unearned revenue	1,130,769	28,131	-	1,158,900	1,468,501
Deposits payable	89,093	54,136	-	143,229	149,259
Due to other funds	3,313	81,927	-	85,240	85,240
Accrued interest payable	-	443,700	-	443,700	126,848
Current portion of bonds payable	-	14,915,000	-	14,915,000	14,915,000
Total current liabilities	<u>1,753,256</u>	<u>16,995,414</u>	<u>-</u>	<u>18,748,670</u>	<u>17,314,628</u>
Noncurrent liabilities:					
Accrued interest payable	23,197,181	-	-	23,197,181	24,665,618
Bonds payable	20,500,000	-	-	20,500,000	20,500,000
Total noncurrent liabilities	<u>43,697,181</u>	<u>-</u>	<u>-</u>	<u>43,697,181</u>	<u>45,165,618</u>
Total liabilities	<u>45,450,437</u>	<u>16,995,414</u>	<u>-</u>	<u>62,445,851</u>	<u>62,480,246</u>
Net position (deficit):					
Net investment in capital assets	(33,635,987)	(7,991,389)	-	(41,627,376)	(41,238,541)
Restricted for:					
Debt service	902,721	(233,892)	-	668,829	929,564
Capital projects	-	2,151,821	-	2,151,821	3,084,862
Other purposes	-	280,377	-	280,377	147,989
Unrestricted	(1,108,605)	(728,167)	681,653	(1,155,119)	(75,030)
Total net position (deficit)	<u>(33,841,871)</u>	<u>(6,521,250)</u>	<u>681,653</u>	<u>(39,681,468)</u>	<u>(37,151,156)</u>
Total liabilities and net position (deficit)	<u>\$ 11,608,566</u>	<u>\$ 10,474,164</u>	<u>\$ 681,653</u>	<u>\$ 22,764,383</u>	<u>\$ 25,329,090</u>

See accompanying notes.

Leon County Educational Facilities Authority

Statements of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2021

(with summarized financial information for the year ended September 30, 2020)

	Years ended September 30,				2020
	2021			Total	
	Southgate Fund	LCEFA Ocala Road, LLC Fund	Administrative Fund		
				Total	Total
Operating revenues	\$ 6,649,920	\$ 1,053,959	\$ -	\$ 7,703,879	\$ 7,865,842
Operating expenses					
Salaries and employee benefits	574,293	265,105	67,875	907,273	893,789
Food	514,211	-	-	514,211	410,189
Utilities	449,476	149,566	-	599,042	558,364
Depreciation and amortization expense	722,050	913,955	-	1,636,005	1,637,496
Other expenses	2,976,413	2,628,596	17,368	5,622,377	4,168,806
Total operating expenses	<u>5,236,443</u>	<u>3,957,222</u>	<u>85,243</u>	<u>9,278,908</u>	<u>7,668,644</u>
Operating income (loss)	<u>1,413,477</u>	<u>(2,903,263)</u>	<u>(85,243)</u>	<u>(1,575,029)</u>	197,198
Nonoperating revenues (expenses)					
Interest expense	(1,563,125)	(697,396)	-	(2,260,521)	(2,292,417)
Interest income	319	769	838	1,926	(59,273)
Gain (Loss) on debt defeasance and restructuring	1,250,000	-	-	1,250,000	1,250,000
Other income (expense)	57,539	(5,364)	1,137	53,312	60,000
Total nonoperating revenues (expenses)	<u>(255,267)</u>	<u>(701,991)</u>	<u>1,975</u>	<u>(955,283)</u>	<u>(1,041,690)</u>
Income (loss) before operating transfers	<u>1,158,210</u>	<u>(3,605,254)</u>	<u>(83,268)</u>	<u>(2,530,312)</u>	<u>(844,492)</u>
Transfers					
Transfers in - issuer and management fees per trust indenture	-	-	148,287	148,287	148,287
Transfers out - issuer and management fees per trust indenture	<u>(148,287)</u>	<u>-</u>	<u>-</u>	<u>(148,287)</u>	<u>(148,287)</u>
Total transfers	<u>(148,287)</u>	<u>-</u>	<u>148,287</u>	<u>-</u>	<u>-</u>
Change in net position	<u>1,009,923</u>	<u>(3,605,254)</u>	<u>65,019</u>	<u>(2,530,312)</u>	<u>(844,492)</u>
Net position (deficit) at beginning of year	<u>(34,851,794)</u>	<u>(2,915,996)</u>	<u>616,634</u>	<u>(37,151,156)</u>	<u>(36,306,664)</u>
Net position (deficit) at end of year	<u><u>\$ (33,841,871)</u></u>	<u><u>\$ (6,521,250)</u></u>	<u><u>\$ 681,653</u></u>	<u><u>\$ (39,681,468)</u></u>	<u><u>\$ (37,151,156)</u></u>

See accompanying notes.

Leon County Educational Facilities Authority

Statements of Cash Flows

Year ended September 30, 2021
(with summarized financial information for the year ended September 30, 2020)

	Years ended September 30,				2020
	2021			Total	
	Southgate Fund	LCEFA Ocala Road, LLC Fund	Administrative Fund	Total	Total
Operating activities					
Cash received from tenants	\$ 6,444,066	\$ 1,076,467	\$ -	\$ 7,520,533	\$ 7,774,081
Cash payments to suppliers	(3,867,928)	(1,424,298)	(21,224)	(5,313,450)	(5,134,278)
Cash payments to personnel	(893,763)	(265,105)	(67,875)	(1,226,743)	(1,219,366)
Net cash provided by (used in) operating activities	<u>1,682,375</u>	<u>(612,936)</u>	<u>(89,099)</u>	<u>980,340</u>	<u>1,420,437</u>
Noncapital and related financing activities					
Transfers in	-	-	148,287	148,287	148,287
Transfers out	(148,287)	-	-	(148,287)	(148,287)
Other sources	57,858	(4,594)	1,975	55,239	-
Net cash provided by (used in) noncapital and related financing activities	<u>(90,429)</u>	<u>(4,594)</u>	<u>150,262</u>	<u>55,239</u>	<u>-</u>
Capital and related financing activities					
Principal payments on bonds	-	-	-	-	(800,000)
Interest paid	(1,781,562)	(380,544)	-	(2,162,106)	(4,301,088)
Net cash used in capital and related financing activities	<u>(1,781,562)</u>	<u>(380,544)</u>	<u>-</u>	<u>(2,162,106)</u>	<u>(5,101,088)</u>
Investing activities					
Purchases of property and equipment	(44,661)	(8,081)	-	(52,742)	(64,264)
Interest received	-	-	-	-	1,286,280
Other revenues received	-	-	-	-	(35,554)
Net cash provided by (used in) investing activities	<u>(44,661)</u>	<u>(8,081)</u>	<u>-</u>	<u>(52,742)</u>	<u>1,186,462</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	(234,277)	(1,006,155)	61,163	(1,179,269)	(2,494,189)
Cash, cash equivalents, and restricted cash at beginning of year	1,369,514	3,443,363	530,564	5,343,441	7,837,630
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 1,135,237</u>	<u>\$ 2,437,208</u>	<u>\$ 591,727</u>	<u>\$ 4,164,172</u>	<u>\$ 5,343,441</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	\$ 1,413,477	\$ (2,903,263)	\$ (85,243)	\$ (1,575,029)	\$ 197,198
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	722,050	913,955	-	1,636,005	1,637,496
Changes in operating assets and liabilities:					
Accounts payable and accrued expenses	80,882	1,351,938	-	1,432,820	(193,013)
Deposits payable	(19,107)	13,077	-	(6,030)	(52,602)
Unearned revenue	(300,363)	(9,238)	-	(309,601)	(409,842)
Inventory	-	-	-	-	-
Accounts receivable	(205,854)	18,669	-	(187,185)	45,106
Due to other funds	-	-	-	-	-
Due from other funds	-	-	-	-	-
Prepaid expenses and other assets	(8,710)	1,926	(3,856)	(10,640)	196,094
Net cash provided by (used in) operating activities	<u>\$ 1,682,375</u>	<u>\$ (612,936)</u>	<u>\$ (89,099)</u>	<u>\$ 980,340</u>	<u>\$ 1,420,437</u>

See accompanying notes.

Leon County Educational Facilities Authority

Notes to Financial Statements

Years ended September 30, 2021 and 2020

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). The LLC was formed to develop the leasehold interest in the property commonly known as Heritage Grove. Heritage Grove is defined as the eight buildings located in Heritage Grove near the FSU campus. Excluded from the project are leasehold interests in five equity lots located in this same area (see Note 4). The LLC is governed by the Authority board members.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The basic financial statements of the Authority are composed of the following:

- Fund financial statements
- Notes to the financial statements
- Required supplementary information

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.

Leon County Educational Facilities Authority

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

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.

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. Nonoperating revenues included interest forgiven as part of the defeasance of the Revenue Refunding Bond Series 1998A as described in Note 6.

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.

Leon County Educational Facilities Authority

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

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.”

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.

Additionally, LCEFA’s blended component unit, LCEFA Ocala Road, LLC (the LLC), completed negotiations for the commencement of foreclosure and appointment of a receiver to manage, control and remediate Heritage Grove. As a result, all cash and cash equivalents for this fund are classified as restricted on the statement of net position because their use has been externally constrained by the appointment of a receiver.

Prepaid Items

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

Leon County Educational Facilities Authority

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

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 \$2,500 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

Unearned Revenue

Unearned revenue consists of operating revenues collected from Southgate and Ocala Road residents for the subsequent 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.

Leon County Educational Facilities Authority

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

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 does not have any deferred outflows of resources as of September 30, 2021 or 2020.

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 deferred inflows of resources as of September 30, 2021 or 2020.

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 and transactions for potential recognition and disclosure in the financial statements through March 10, 2022, the date the financial statements were available to be issued. During the period from September 30, 2021 to March 10, 2022, the Authority did not have any material recognizable subsequent events.

Use of Estimates

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

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

Leon County Educational Facilities Authority

Notes to Financial Statements

2. Deposits and Investments

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 or liability. Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs are other significant observable inputs of which are quoted prices on assets and liabilities in similar markets; Level 3 inputs are significant unobservable inputs.

Investments of the Authority include money market funds of \$902,721 and \$847,100 for the years ended September 30, 2021 and 2020, respectively, that are valued using amortized cost, which is a methodology utilizing Level 2 inputs. The Authority's investments have been classified as restricted cash and cash equivalents on the statements of net position.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure or the failure of the counterparty, the government's deposits may not be returned to it, or may not be able to recover the value of its investments that are in the possession of an outside party.

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. Due to the nature of the Authority's cash and Investments, there is no exposure to custodial credit risks.

Credit and Interest Rate Risk – The Authority's investment practices are governed by section 218.415(17), Florida Statutes. Investments authorized by section 218.415(17), Florida Statutes include:

1. The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969.
2. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
3. Interest-bearing time deposits or savings accounts in qualified public depositories.
4. Direct obligations of the U.S. Treasury.

At September 30, 2021, the Authority's money market funds had a credit rating of AAAM by Standard and Poor's. The weighted average days to maturity of the money market funds at September 30, 2021 was 29 days.

Leon County Educational Facilities Authority

Notes to Financial Statements

3. Receivables

Receivables as of September 30, 2021, including the applicable allowances for uncollectible accounts, are as follows:

	Southgate Fund	LCEFA Ocala Road, LLC Fund	Total
Gross receivables	\$ 251,850	\$ 144,169	\$ 396,019
Less: allowance for uncollectibles	<u>(1,668)</u>	<u>(114,611)</u>	<u>(116,279)</u>
Total receivables, net	<u>\$ 250,182</u>	<u>\$ 29,558</u>	<u>\$ 279,740</u>

Receivables as of September 30, 2020, including the applicable allowances for uncollectible accounts, are as follows:

	Southgate Fund	LCEFA Ocala Road, LLC Fund	Total
Gross receivables	\$ 49,422	\$ 48,227	\$ 97,649
Less: allowance for uncollectibles	<u>(5,094)</u>	<u>–</u>	<u>(5,094)</u>
Total receivables, net	<u>\$ 44,328</u>	<u>\$ 48,227</u>	<u>\$ 92,555</u>

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. There are three leasehold interests that are part of this ground lease. The ground lease collects Common Area Maintenance (CAM) fees from three of the properties and is recognized in the Ocala Road LLC fund as CAM revenue of \$179,709. Additionally, CAM expenses paid by the Ocala Road LLC for the year ended September 30, 2021 and 2020 were approximately \$202,000 and \$167,000, respectively.

Leon County Educational Facilities Authority

Notes to Financial Statements

5. Capital Assets

During the year ended September 30, 2019, it was determined that a significant decline in the service utility of the buildings owned by LCEFA Ocala Road, LLC (the LLC) had occurred. After further evaluation, management measured the impairment amount and determined the amount of impairment loss was \$1,407,627. As of September 30, 2021, two of the impaired buildings are idle and waiting repairs. The current carrying value of the idle buildings is approximately \$1,686,265.

The Authority reported depreciation expense of \$1,593,162 and \$1,594,653 for the years ending September 30, 2021 and 2020, respectively.

Following is a summary of the changes in capital assets for the year ending September 30, 2021:

<u>Descriptions</u>	<u>Balance at September 30, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 2021</u>
Capital assets not being depreciated:				
Land	\$ 2,400,000	\$ –	\$ –	\$ 2,400,000
Construction in progress	–	–	–	–
Total capital assets not being depreciated	<u>2,400,000</u>	<u>–</u>	<u>–</u>	<u>2,400,000</u>
Capital assets being depreciated:				
Buildings and improvements	45,771,004	25,978	–	45,796,982
Equipment	3,454,248	26,764	–	3,481,012
Total capital assets being depreciated	<u>49,225,252</u>	<u>52,742</u>	<u>–</u>	<u>49,277,994</u>
Less accumulated depreciation	<u>(32,656,327)</u>	<u>(1,593,162)</u>	<u>–</u>	<u>(34,249,489)</u>
Total capital assets being depreciated, net	<u>16,568,925</u>	<u>(1,540,420)</u>	<u>–</u>	<u>15,028,505</u>
Capital assets, net	<u>\$ 18,968,925</u>	<u>\$(1,540,420)</u>	<u>\$ –</u>	<u>\$ 17,428,505</u>

Leon County Educational Facilities Authority

Notes to Financial Statements

5. Capital Assets (continued)

Following is a summary of the changes in capital assets for the year ending September 30, 2020:

<u>Descriptions</u>	<u>Balance at September 30, 2019 <i>(as restated)</i></u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 2020</u>
Capital assets not being depreciated:				
Land	\$ 2,400,000	\$ –	\$ –	\$ 2,400,000
Construction in progress	–	–	–	–
Total capital assets not being depreciated	<u>2,400,000</u>	<u>–</u>	<u>–</u>	<u>2,400,000</u>
Capital assets being depreciated:				
Buildings and improvements	45,747,695	23,309	–	45,771,004
Equipment	3,413,293	40,955	–	3,454,248
Total capital assets being depreciated	<u>49,160,988</u>	<u>64,264</u>	<u>–</u>	<u>49,225,252</u>
Less accumulated depreciation	<u>(31,061,674)</u>	<u>(1,594,653)</u>	<u>–</u>	<u>(32,656,327)</u>
Total capital assets being depreciated, net	<u>18,099,314</u>	<u>(1,530,389)</u>	<u>–</u>	<u>16,568,925</u>
Capital assets, net	<u>\$ 20,499,314</u>	<u>\$(1,530,389)</u>	<u>\$ –</u>	<u>\$ 18,968,925</u>

6. Long-term Debt

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

<u>Descriptions</u>	<u>Balance at September 30, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 2021</u>	<u>Due Within One Year</u>
1998B Bonds	\$ 20,500,000	\$ –	\$ –	\$ 20,500,000	\$ –
2003 Bonds	14,915,000	–	–	14,915,000	14,915,000
Total	<u>\$ 35,415,000</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 35,415,000</u>	<u>\$ 14,915,000</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>Description</u>	<u>2021</u>	<u>2020</u>
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 2022 through September 2028.	\$ 20,500,000	\$ 20,500,000
Total Revenue Refunding Bonds	<u>20,500,000</u>	<u>20,500,000</u>
Less current portion (Series 1998B)	<u>—</u>	<u>—</u>
Total Revenue Refunding Bonds, noncurrent	<u>\$ 20,500,000</u>	<u>\$ 20,500,000</u>

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 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. 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. During the year ended September 30, 2021 and 2020, the investor forgave \$1,250,000 of debt service requirements consistent with the acquisition and foreclosure agreement, which has been reported on the statement of revenues, expenses and changes in net position as a gain on debt defeasance and restructuring.

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 SG 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 SG 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, 2021, the Series B bonds have accumulated unpaid interest of \$23,197,181. 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>
2022	\$ 2,300,000	\$ 1,563,125
2023	2,485,000	1,387,750
2024	2,715,000	1,198,269
2025	2,900,000	991,250
2026	3,095,000	770,125
2027-2030	7,005,000	812,825
	<u>\$20,500,000</u>	<u>\$ 6,723,344</u>

LCEFA Ocala Road, LLC Fund

Student Housing Revenue Bonds (Series 2003)

In December 2003, the Authority issued Heritage Grove 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.

Leon County Educational Facilities Authority

Notes to Financial Statements

6. Long-term Debt (continued)

On July 7, 2021, the bond insurer, ACA, paid off all existing Series 2003 bondholders pursuant to its insurance policy, received all outstanding bonds in subrogation to its policy payment and discharged all liabilities under its insurance policy. On July 14, 2021, for value received, ACA transferred all its rights under its bond insurance policy and the documents governing the Series 2003 Bonds including \$1,240,497.91 in unreimbursed expenses owed to ACA, and sold all the outstanding Series 2003 Bonds including \$14,915,000 in unpaid principal, to a fund managed by an affiliate of Emet Capital Management, LLC (Emet). As a result of such transactions, ACA is no longer a creditor to the Heritage Grove dormitory project and has no further interest therein. Emet maintained the same terms, payment schedule and covenants for Series 2003 Bonds.

As a result of decreasing net position and lower than expected occupancy, LCEFA Ocala Road, LLC (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 \$14,915,000 revenue bonds at September 30, 2021 and 2020, 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>
2022	\$ —	\$ 760,088
2023	—	760,088
2024	3,445,000	731,379
2025	—	587,838
2026	—	587,838
2027-2030	—	2,939,188
2031-2033	11,470,000	1,665,540
	<u>\$ 14,915,000</u>	<u>\$ 8,031,956</u>

Leon County Educational Facilities Authority

Notes to Financial Statements

6. Long-term Debt (continued)

The Series 2003 bonds maturing 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:

\$3,445,000 Bonds maturing August 1, 2023:

	<u>Principal</u>
2020	\$ 800,000*
2021	840,000**
2022	880,000
2023	925,000
	<u>\$ 3,445,000</u>

*Deposited in the sinking fund.

**This payment was deferred by the current bondholder (as noted above) and will be deposited in the sinking fund in future periods.

\$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	720,000
	<u>\$ 11,470,000</u>

Leon County Educational Facilities Authority

Notes to Financial Statements

6. Long-term Debt (continued)

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.

7. Management Agreement

Southgate Fund

The Authority, with the consent, approval and joinder of the Series 1998B bondholders of Southgate on April 10, 2012, 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 Authority operated under the terms of the original agreement for portions of the year ended September 30, 2020. A new written and approved extension was executed on March 1, 2020. The terms below are from the original agreement. In the new extension, Management Fee terms have changed.

Leon County Educational Facilities Authority

Notes to Financial Statements

7. Management Agreement (continued)

Under the original agreement, 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.

Under the terms of the new agreement effective March 1, 2020, each month that (a) Authority is using a third-party vendor to manage food service for the Project and (b) Manager is collecting revenue related to the Project's food service the base Management Fee will be three percent (3.0%) of seventy-one percent (71%) of Gross Monthly Collections for each month occupancy is below 90%. In any month that (a) and (b) above are not satisfied, the rate will be three percent (3.0%) of Gross Monthly Collections for each month occupancy is below 90%.

In addition, the Authority agrees to pay, an additional quarter percent (.25%) of Gross Monthly Collections to the Manager in addition to the Base Management Fee as an Incentive management fee for each month the property reaches between ninety-one percent (91%) and ninety-four and nine tenths percent (94.9%) occupancy. For each month occupancy reaches 95% or greater, Authority agrees to pay an additional quarter percent (.25%) of Gross Monthly Collections from the previous month and the total Management Fee will remain at three and one-half percent (3.5%) of Gross Monthly Collections for each month occupancy remains at 95% or greater.

Management fees paid by the Southgate Fund for the years ended September 30, 2021 and 2020 totaled \$270,150 and \$281,502, respectively.

LCEFA Ocala Road, LLC

The Receiver entered into a Management Agreement with Asset Campus Housing to rent, operate and manage Heritage Grove for a period of one year beginning on December 12, 2019, which shall automatically renew for consecutive annual one-year terms. The Receiver has the right to terminate the Management Agreement on the last day of every contract year without cause and without penalty.

Leon County Educational Facilities Authority

Notes to Financial Statements

7. Management Agreement (continued)

Fees paid by the Receiver for the first 12 months after the commencement date of the Management Agreement are equal to the greater of \$6,500 per month or 3.5% of the gross revenue generated from operations of the property. Fees for the thirteenth and subsequent months until the agreement is terminated shall be the greater of \$6,500 per month or a range of 3% to 5% of gross revenues generated from operations of the property based on the percentage of economic occupancy achieved. Management fees, based on occupancy level, were paid by the Ocala Road LLC Fund for the years ended September 30, 2021 and 2020 totaled \$78,000 and \$68,892, respectively.

8. Financial Condition and Going Concern

The financial statements have been prepared on a going concern basis, which assumes the Authority will continue as a going concern. However, the Authority's blended component unit, LCEFA Ocala Road, LLC (the LLC) has continuing deficits in operations associated with the Heritage Grove Project (the Project) and is in default on certain covenants of the 2003 Revenue Bonds, as well as low occupancy rates as of September 30, 2021, raising substantial doubt about the LLC's ability to continue as a going concern.

These conditions and events give rise to the assessment of a substantial doubt for the Project's ability within the LLC to continue as a going concern for a reasonable period of time. Management has evaluated these conditions and concluded that discontinuance of the operations of the Project in the near future is expected. The matters relate only to the operations and financial position of the Project within the LLC fund. The other LCEFA funds are not included with respect to these matters and management has no intentions to discontinue operations.

9. Interfund Balances

Interfund balances represent payments due from other funds responsible for particular expenditures to the funds that initially paid for them. Interfund balances are due and payable within one year.

Interfund receivable and payable balances at September 30, 2021, are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Administrative fund	\$ 81,927	\$ —
LCEFA Ocala Road, LLC fund	3,313	81,927
Southgate fund	—	3,313
	<u>\$ 85,240</u>	<u>\$ 85,240</u>

Leon County Educational Facilities Authority

Notes to Financial Statements

9. Interfund Balances (continued)

Each fund has a discrete purpose. However, often, there is a need for one fund to support a portion of another fund's activities. To accomplish this, monies are moved between funds through a process called interfund transfers. Interfund transfers, excluding transfers to other governmental entities, for the year ended September 30, 2021 consisted of the following.

	<u>Transfer Amount</u>
Transfer to the administrative fund from:	
Southgate fund	<u>\$ 148,287</u>

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.

11. Leases

LCEFA's blended component unit, LCEFA Ocala Road, LLC's (the LLC) buildings were built in 2004 with several subsequent improvements since 2004. As of September 30, 2021, the total cost of these buildings, improvements, and related furniture and equipment available for lease was \$24,832,457 with accumulated depreciation thereon of \$17,465,146. There are multiple noncancelable operating lease agreements with tenants for the rent of space within the various buildings. The lease agreements are limited to one-year terms and provide for monthly rentals over the lease terms and expire on May 1, 2022. Minimum future rentals to be collected under the terms of the lease agreements are limited to fiscal year 2021 and are determined to be approximately \$812,000 at September 30, 2021.

The Authority's Southgate Residence Hall was built in 1993 with several subsequent improvements. As of September 30, 2021, the total cost of these buildings, improvements, and related furniture and equipment available for lease was \$24,069,208 with accumulated depreciation thereon of \$14,829,487. There are multiple noncancelable operating lease agreements with tenants for the rent of space within the various buildings. The lease agreements are limited to one-year terms and provide for monthly rentals over the lease terms and expire on May 1, 2022. Minimum future rentals to be collected under the terms of the lease agreements are limited to fiscal year 2022 and are determined to be approximately \$1,989,000 at September 30, 2021.

Supplementary Information

Leon County Educational Facilities Authority

Schedule of Other Operating Expenses

Year ended September 30, 2021

(with summarized financial information for the year ended September 30, 2020)

	Years ended September 30,				2020
	2021			Total	
	Southgate Fund	LCEFA Ocala Road, LLC Fund	Administrative Fund		Total
Other operating expenses					
Legal and professional	\$ 234,386	\$ 1,538,485	\$ 5,968	\$ 1,778,839	\$ 505,258
Bad debt	47,154	111,631	-	158,785	160,138
Telephone and internet	246,579	2,850	-	249,429	245,518
Management fee	270,150	78,000	-	348,150	350,394
Taxes	142,132	250	-	142,382	143,565
Property insurance	236,662	165,631	-	402,293	395,126
Other	443,998	358,618	11,370	813,986	810,359
Bank and credit card	14,940	882	30	15,852	14,082
Contract services	1,189,909	6,702	-	1,196,611	1,052,504
Repair and maintenance	150,503	365,547	-	516,050	491,862
Total other operating expenses	<u>\$ 2,976,413</u>	<u>\$ 2,628,596</u>	<u>\$ 17,368</u>	<u>\$ 5,622,377</u>	<u>\$ 4,168,806</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, 2021, 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 March 10, 2022.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 financial statements. 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 2021-001: Fixed Charges Coverage Ratio

The loan agreement related to the financing of the Heritage Grove Project requires 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, 2021 was calculated as follows:

Revenue Available		2021
EBITDA	\$	(1,994,675)
Capital expenditures		(8,081)
Revenue available for fixed charges	\$	<u>(1,986,591)</u>
Fixed Charges		
Principal due and payable during the period	\$	–
Interest due and payable during the period		380,544
Fixed charges	\$	<u>380,544</u>
Fixed charges coverage ratio		(5.22)

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:

On October 29, 2019, LCEFA Ocala Road, LLC entered into a settlement agreement with the bond insurer. As such, compliance with these covenants is now the responsibility of the Receiver and not LCEFA Ocala Road, LLC.

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Finding 2021-002: Operating and Debt Service Reserve Requirements

The Trust Indenture requires that LCEFA Ocala Road, LLC maintain an “Operating reserve fund” of \$500,000. At September 30, 2020, the “Operating reserve fund” had not been funded. In addition, the Trust Indenture requires the balance of the debt service reserve fund be equal to or greater than the current debt service requirement for the bonds. At September 30, 2021, the amount deposited in the debt service reserve fund was \$66,147, which was less than the debt service requirement.

Management Response:

On October 29, 2019, LCEFA Ocala Road, LLC entered into a settlement agreement with the bond insurer. As such, compliance with these covenants is now the responsibility of the Receiver and not LCEFA Ocala Road, LLC.

Authority’s Response to Findings

The Authority’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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
March 10, 2022

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, 2021 and have issued our report thereon dated March 10, 2022.

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 March 10, 2022, 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 action is in progress to address the following prior audit findings.

Description	Tabulation of Uncorrected Prior Audit Findings		
	2020-2021 FY Finding#	2019-2020 FY Finding#	2018-19 FY Finding #
Fixed Charges Coverage Ratio	2021-001	2020-001	2019-001
Operating Reserve Requirement	2021-002	2020-002	2019-002
Deteriorating Financial Condition	2021-003	2020-003	2019-006

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

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that we communicate any recommendations to improve financial management. We noted no recommendations.

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 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 2021-003. 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 2021-003: 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, a deficit in the Authority's unrestricted net position, and current liabilities in excess of current assets in the LCEFA Ocala Road, LLC Fund (the Fund) resulting from the classification of long-term debt as current due to noncompliance with certain debt covenants associated with the Fund's 2003 bond series. 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. Although proceeds from the settlement are being used to repair the existing structural damage, occupancy is expected to be lower until repairs are completed.

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Management Response:

On October 29, 2019, LCEFA Ocala Road, LLC entered into a settlement agreement with the bond insurer. As such, compliance with these covenants is now the responsibility of the Receiver and not LCEFA Ocala Road, LLC.

The Authority believes the appointment of a receiver to be the best of a limited number of options for LCEFA Ocala Road, LLC. While the Authority prevailed in mediation for a settlement of the construction litigation, the proceeds have not been enough to remediate the extensive deficiencies resulting from the original construction, make the needed upgrades, operate the property and service the existing debt.

By the Fall of 2021, a new receiver had been approved by the court and the existing Bonds have changed hands. As a result, extensive repair work has been initiated with funding supported by the new Bondholder. The expectation is that all of the buildings will be remediated and upgraded by the end of Calendar 2023. In addition, the existing clubhouses will be modified to provide additional amenities to tenants and a new leasing center. The Authority does not believe these improvements and upgrades would have been possible outside of the receivership

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 note certain matters 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* as items 2021-001 and 2021-002.

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
March 10, 2022

Independent Accountant's Report on Compliance with
Section 218.415, *Florida Statutes*, 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, 2021. The Authority's management is responsible for compliance with the specified requirements. Our responsibility is to express an opinion on the Authority's compliance with the specified requirements 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 complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the Authority complied with the specified requirements. 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.

Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

In our opinion, Leon County Educational Facilities Authority complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2021.

This report is intended solely for the information and use of the Authority and the Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.



Tallahassee, Florida
March 7, 2022