

Financial Statements

Leon County Educational Facilities Authority

*Years ended September 30, 2022 and 2021
with Report of Independent Auditors*



Leon County Educational Facilities Authority

Financial Statements

Years ended September 30, 2022 and 2021

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Report of Independent Auditors

The Authority Members
Leon County Educational Facilities Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Leon County Educational Facilities Authority (the Authority) which comprise the statement of net position as of September 30, 2022 and 2021, the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of September 30, 2022 and 2021, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Substantial Doubt About the Authority's Ability to Continue as a 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 other conditions that raise 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 evaluation of the events and conditions and management's plans regarding these matters are also described in Note 8. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

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Prior Period Adjustment

As discussed in Note 12 to the financial statements, the bond insurance policy asset should have been defeased at September 30, 2021.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

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- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Leon County Educational Facilities Authority's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 10, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived, as restated.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by 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 GAAS, 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 audit 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 other operating expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information 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. The 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 GAAS. 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2023 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 Authority's internal control over financial reporting and compliance.

Thomas Howell Ferguson P.A.

Tallahassee, Florida
March 29, 2023

Leon County Educational Facilities Authority Management's Discussion and Analysis

September 30, 2022 and 2021

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, 2022 and 2021.

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 12-14 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 15-32 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 \$50.7 million at the close of the fiscal year 2022 and by approximately \$40.3 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)

| | <u>2022</u> | <u>2021</u> |
|---|----------------------|----------------------|
| Current assets | \$ 3,362,665 | \$ 4,716,765 |
| Noncurrent assets | <u>20,699,651</u> | <u>17,428,505</u> |
| Total assets and deferred outflows of resources | <u>24,062,316</u> | <u>22,145,270</u> |
| Current liabilities | 31,702,617 | 18,748,670 |
| Long-term liabilities outstanding | <u>43,088,798</u> | <u>43,697,181</u> |
| Total liabilities | <u>74,791,415</u> | <u>62,445,851</u> |
| Net position: | | |
| Net investment in capital assets | (39,789,147) | (41,627,376) |
| Restricted for debt service | 288,176 | 668,829 |
| Capital projects | 7 | 2,151,821 |
| Other purposes | - | 280,377 |
| Unrestricted | <u>(11,228,135)</u> | <u>(1,774,232)</u> |
| Total net deficit | <u>(50,729,099)</u> | <u>(40,300,581)</u> |
| Total liabilities and net deficit | <u>\$ 24,062,316</u> | <u>\$ 22,145,270</u> |

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)

| | <u>2022</u> | <u>2021</u> |
|--|------------------------|------------------------|
| Revenues: | | |
| Operating revenues | \$ 7,972,124 | \$ 7,703,879 |
| Interest and other non-operating income (expenses) | <u>(1,350,405)</u> | <u>(1,617,239)</u> |
| Net total revenues | 6,621,719 | 6,086,640 |
| Expenses: | | |
| Student housing operating expenses | <u>17,050,237</u> | <u>9,236,065</u> |
| Increase (decrease) in net position | <u>(10,428,518)</u> | <u>(3,149,425)</u> |
| Net position (deficit) at beginning of year | <u>(40,300,581)</u> | <u>(37,151,156)</u> |
| Net position (deficit) at end of year | <u>\$ (50,729,099)</u> | <u>\$ (40,300,581)</u> |

The decrease in net position of \$10,428,518 and \$3,149,425 in fiscal year 2022 and 2021, respectively, is largely due to advances from the Bondholder to fund repair and remediation to the existing buildings at Heritage Grove 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 2022 and 2021 are below:

| Southgate | | | | |
|-----------------------------------|---------------------|--------------|------------------|-----------------|
| Statement of Operations | | | | |
| for the Fiscal Years Ended | | | | |
| | 2022 | 2021 | \$ Change | % Change |
| Revenues | \$ 6,570,340 | \$ 6,649,920 | \$ (79,580) | -1.20% |
| Operating expenses: | | | | |
| Personnel costs | 575,253 | 574,293 | 960 | 0.2% |
| Other operating costs | 2,430,124 | 2,824,449 | (394,325) | -14.0% |
| Food costs | 493,688 | 514,211 | (20,523) | -4.0% |
| Utilities | 449,047 | 449,476 | (429) | -0.1% |
| Repairs and maintenance | 202,290 | 151,964 | 50,326 | 33.1% |
| Depreciation and amortization | 727,043 | 722,050 | 4,993 | 0.7% |
| Total operating expenses | 4,877,445 | 5,236,443 | (358,998) | -6.9% |
| Operating income | \$ 1,692,895 | \$ 1,413,477 | \$ 279,418 | 19.8% |

Revenues decreased by approximately \$80,000 during fiscal year 2022 from 2021 levels, and operating expenses decreased by approximately \$359,000. In the prior fiscal year, revenues decreased by approximately \$216,000 between years and operating expenses decreased by approximately \$202,000.

The analysis below illustrates Southgate's operating expenses as a percentage of revenue for fiscal years 2022 and 2021:

| Southgate | | | | |
|-----------------------------------|---------------------|----------------------------|--------------|----------------------------|
| Statement of Operations | | | | |
| for the Fiscal Years Ended | | | | |
| | 2022 | Percent of Revenues | 2021 | Percent of Revenues |
| Revenues | \$ 6,570,340 | 100.0% | \$ 6,649,920 | 100.0% |
| Operating expenses: | | | | |
| Personnel costs | 575,253 | 8.8% | 574,293 | 8.6% |
| Other operating costs | 2,430,124 | 37.0% | 2,824,449 | 42.5% |
| Food costs | 493,688 | 7.5% | 514,211 | 7.7% |
| Utilities | 449,047 | 6.8% | 449,476 | 6.8% |
| Repairs and maintenance | 202,290 | 3.1% | 151,964 | 2.3% |
| Depreciation and amortization | 727,043 | 11.1% | 722,050 | 10.9% |
| Total operating expenses | 4,877,445 | 74.2% | 5,236,443 | 78.7% |
| Operating income | \$ 1,692,895 | 25.8% | \$ 1,413,477 | 21.3% |

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

Revenue decreased by approximately \$80,000, while operating income increased by approximately \$279,000 due to better cost control in areas of operations and food costs. The figures above do not reflect the impact of financing costs and the associated funding requirements.

LCEFA Ocala Road, LLC (the LLC) financial results, excluding interest, for fiscal years 2022 and 2021 are below:

| LCEFA Ocala Road, LLC | | | | |
|-----------------------------------|------------------------|-----------------------|-----------------------|-----------------|
| Statement of Operations | | | | |
| for the Fiscal Years Ended | | | | |
| | 2022 | 2021 | \$ Change | % Change |
| Revenues | \$ 1,376,784 | \$ 1,053,959 | \$ 322,825 | 30.6% |
| Operating expenses: | | | | |
| Personnel costs | 277,270 | 265,105 | 12,165 | 4.6% |
| Other operating costs | 10,674,095 | 2,265,403 | 8,408,692 | 371.2% |
| Utilities | 208,984 | 149,566 | 59,418 | 39.7% |
| Repairs and maintenance | 16,875 | 363,193 | (346,318) | -95.4% |
| Depreciation and amortization | 915,993 | 913,955 | 2,038 | 0.2% |
| Total operating expenses | 12,093,217 | 3,957,222 | 8,135,995 | 205.6% |
| Operating loss | \$ (10,716,433) | \$ (2,903,263) | \$ (7,813,170) | 269.1% |

Revenues increased by approximately \$323,000 and expenses increased by approximately \$8,135,995.

As noted earlier, the overwhelming majority of the \$8,135,995 increase in operating expenses was due to repair and remediation of the existing buildings at Heritage Grove.

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 2022 and 2021.

| LCEFA Ocala Road, LLC | | | | |
|-----------------------------------|------------------------|--------------------------------|-----------------------|--------------------------------|
| Statement of Operations | | | | |
| for the Fiscal Years Ended | | | | |
| | 2022 | Percent of Revenues | 2021 | Percent of Revenues |
| Revenues | \$ 1,376,784 | 100.0% | \$ 1,053,959 | 100.0% |
| Operating expenses: | | | | |
| Personnel costs | 277,270 | 20.1% | 265,105 | 25.2% |
| Other operating costs | 10,674,095 | 780.3% | 2,265,403 | 214.9% |
| Utilities | 208,984 | 15.2% | 149,566 | 14.2% |
| Repairs and maintenance | 16,875 | 1.2% | 363,193 | 34.5% |
| Depreciation and amortization | 915,993 | 62.6% | 913,955 | 86.7% |
| Total operating expenses | 12,093,217 | 878.4% | 3,957,222 | 375.5% |
| Operating loss | \$ (10,716,433) | -778.4% | \$ (2,903,263) | -275.5% |

In fiscal year 2022, the LLC spent more than \$8.78 for every \$1 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.

In FY 2022 results reflect a modest increase in lease revenues as four of the eight apartment buildings were completed prior to the start of the Fall Semester 2022 and all four buildings were fully leased to start the school year. In addition, the monthly rental rates for the remediated buildings were increased.

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. In September 2022, the Receiver was discharged by the Court and the Authority entered into a Delegation Agreement with the Bondholder to manage the Heritage Grove remediation work and to oversee the Management Company.

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, 2022, and 2021, amounts to \$20,699,651 and \$17,428,505, 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 22 of this report.

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

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 \$17.4 million and had long-term debt of \$43 million at the end of current fiscal year. The bonds are secured by specified revenue sources.

These bonds, together with interest thereon, are not general obligations of the Authority and do not constitute obligations, either general or special, of the State of Florida, Leon County, Florida, or any political subdivision thereof, but are special limited obligations of the Authority payable solely and only from the pledged revenues, as specifically provided in all financing related agreements of the Authority.

Bond obligations are not payable out of any fund or properties other than those of the Authority, and then only as to the 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 23-28.

Other Information

Upon completion of the above noted foreclosure, management anticipates discontinuing the LLC operations. 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, 2022

(with summarized financial information at September 30, 2021)

| | 2022 | | | Total | 2021 |
|---|----------------------|----------------------------|---------------------|----------------------|----------------------|
| | Southgate Fund | LCEFA Ocala Road, LLC Fund | Administrative Fund | | Summarized Totals |
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 281,044 | \$ - | \$ 661,136 | \$ 942,180 | \$ 734,993 |
| Accounts receivable, net | 124,863 | 18,862 | - | 143,725 | 279,740 |
| Due from other funds | - | 3,313 | 106,927 | 110,240 | 85,240 |
| Prepaid expenses and other current assets | 183,074 | 15,364 | 8,268 | 206,706 | 187,613 |
| Restricted assets | | | | | |
| Restricted cash and cash equivalents | 1,013,201 | 946,613 | - | 1,959,814 | 3,429,179 |
| Total current assets | <u>1,602,182</u> | <u>984,152</u> | <u>776,331</u> | <u>3,362,665</u> | <u>4,716,765</u> |
| Noncurrent assets: | | | | | |
| Capital assets, not being depreciated | 2,400,000 | - | - | 2,400,000 | 2,400,000 |
| Capital assets, net of accumulated depreciation | 7,675,042 | 10,624,609 | - | 18,299,651 | 15,028,505 |
| Total noncurrent assets | <u>10,075,042</u> | <u>10,624,609</u> | <u>-</u> | <u>20,699,651</u> | <u>17,428,505</u> |
| Total assets | <u>\$ 11,677,224</u> | <u>\$ 11,608,761</u> | <u>\$ 776,331</u> | <u>\$ 24,062,316</u> | <u>\$ 22,145,270</u> |
| Liabilities and net position (deficit) | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued expenses | \$ 1,001,226 | \$ 289,757 | \$ - | \$ 1,290,983 | \$ 762,103 |
| Advance from bondholder | - | 11,387,135 | - | 11,387,135 | 1,240,498 |
| Unearned revenue | 1,357,100 | 5,638 | - | 1,362,738 | 1,158,900 |
| Deposits payable | 110,700 | 40,821 | - | 151,521 | 143,229 |
| Due to other funds | 3,313 | 106,927 | - | 110,240 | 85,240 |
| Accrued interest payable | - | - | - | - | 443,700 |
| Current portion of bonds payable | 2,485,000 | 14,915,000 | - | 17,400,000 | 14,915,000 |
| Total current liabilities | <u>4,957,339</u> | <u>26,745,278</u> | <u>-</u> | <u>31,702,617</u> | <u>18,748,670</u> |
| Noncurrent liabilities: | | | | | |
| Accrued interest payable | 21,310,306 | 1,407,769 | - | 22,718,075 | 23,197,181 |
| Mortgage payable | - | 2,355,723 | - | 2,355,723 | - |
| Bonds payable | 18,015,000 | - | - | 18,015,000 | 20,500,000 |
| Total noncurrent liabilities | <u>39,325,306</u> | <u>3,763,492</u> | <u>-</u> | <u>43,088,798</u> | <u>43,697,181</u> |
| Total liabilities | <u>44,282,645</u> | <u>30,508,770</u> | <u>-</u> | <u>74,791,415</u> | <u>62,445,851</u> |
| Net position (deficit): | | | | | |
| Net investment in capital assets | (31,735,264) | (8,053,883) | - | (39,789,147) | (41,627,376) |
| Restricted for: | | | | | |
| Debt service | 902,501 | (614,325) | - | 288,176 | 668,829 |
| Capital projects | - | 7 | - | 7 | 2,151,821 |
| Other purposes | - | - | - | - | 280,377 |
| Unrestricted | (1,772,658) | (10,231,808) | 776,331 | (11,228,135) | (1,774,232) |
| Total net position (deficit) | <u>(32,605,421)</u> | <u>(18,900,009)</u> | <u>776,331</u> | <u>(50,729,099)</u> | <u>(40,300,581)</u> |
| Total liabilities and net position (deficit) | <u>\$ 11,677,224</u> | <u>\$ 11,608,761</u> | <u>\$ 776,331</u> | <u>\$ 24,062,316</u> | <u>\$ 22,145,270</u> |

See accompanying notes.

Leon County Educational Facilities Authority

Statements of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2022

(with summarized financial information at September 30, 2021)

| | Years ended September 30, | | | | 2021 |
|---|---------------------------|----------------------------------|------------------------|-----------------|-----------------|
| | 2022 | | | | |
| | Southgate Fund | LCEFA Ocala Road, LLC Fund | Administrative Fund | Total | |
| Operating revenues | \$ 6,570,340 | \$ 1,376,784 | \$ 25,000 | \$ 7,972,124 | \$ 7,703,879 |
| Operating expenses | | | | | |
| Salaries and employee benefits | 575,253 | 277,270 | 60,000 | 912,523 | 907,273 |
| Food | 493,688 | - | - | 493,688 | 514,211 |
| Utilities | 449,047 | 208,984 | - | 658,031 | 599,043 |
| Depreciation and amortization expense | 727,043 | 915,993 | - | 1,643,036 | 1,593,161 |
| Other expenses | 2,632,414 | 10,690,970 | 19,575 | 13,342,959 | 5,622,377 |
| Total operating expenses | 4,877,445 | 12,093,217 | 79,575 | 17,050,237 | 9,236,065 |
| Operating income (loss) | 1,692,895 | (10,716,433) | (54,575) | (9,078,113) | (1,532,186) |
| Nonoperating revenues (expenses) | | | | | |
| Interest expense | (1,563,125) | (964,070) | - | (2,527,195) | (2,260,521) |
| Interest income | 4,967 | 4,178 | 966 | 10,111 | 1,926 |
| Gain on debt defeasance and restructuring | 1,250,000 | - | - | 1,250,000 | 1,250,000 |
| Bond insurance expense related to debt defeasance | - | - | - | - | (661,956) |
| Other income (expense) | - | (83,321) | - | (83,321) | 53,312 |
| Total nonoperating revenues (expenses) | (308,158) | (1,043,213) | 966 | (1,350,405) | (1,617,239) |
| Income (loss) before operating transfers | 1,384,737 | (11,759,646) | (53,609) | (10,428,518) | (3,149,425) |
| 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 | (148,287) | - | - | (148,287) | (148,287) |
| Total transfers | (148,287) | - | 148,287 | - | - |
| Change in net position | 1,236,450 | (11,759,646) | 94,678 | (10,428,518) | (3,149,425) |
| Net position (deficit) at beginning of year | (33,841,871) | (7,140,363) | 681,653 | (40,300,581) | (37,151,156) |
| Net position (deficit) at end of year | \$ (32,605,421) | \$ (18,900,009) | \$ 776,331 | \$ (50,729,099) | \$ (40,300,581) |

See accompanying notes.

Leon County Educational Facilities Authority

Statements of Cash Flows

Year ended September 30, 2022
(with summarized financial information at September 30, 2021)

| | Years ended September 30, | | | | Summarized Totals |
|--|---------------------------|----------------------------------|------------------------|---------------------|----------------------|
| | 2022 | | | 2021 | |
| | Southgate Fund | LCEFA Ocala Road, LLC Fund | Administrative Fund | Total | |
| Operating activities | | | | | |
| Cash received from tenants | \$ 6,695,659 | \$ 1,351,672 | \$ 25,000 | \$ 8,072,331 | \$ 7,520,533 |
| Cash payments to suppliers | (3,125,125) | (668,285) | (44,844) | (3,838,254) | (5,313,450) |
| Cash payments to personnel | (327,315) | (277,270) | (60,000) | (664,585) | (1,226,743) |
| Net cash provided by (used in) operating activities | <u>3,243,219</u> | <u>406,117</u> | <u>(79,844)</u> | <u>3,569,492</u> | <u>980,340</u> |
| Noncapital and related financing activities | | | | | |
| Transfers in | - | - | 148,287 | 148,287 | 148,287 |
| Transfers out | (148,287) | - | - | (148,287) | (148,287) |
| Other sources | 4,967 | (79,143) | 966 | (73,210) | 55,239 |
| Net cash provided by (used in) noncapital and related financing activities | <u>(143,320)</u> | <u>(79,143)</u> | <u>149,253</u> | <u>(73,210)</u> | <u>55,239</u> |
| Capital and related financing activities | | | | | |
| Principal payments on bonds | - | 2,355,723 | - | 2,355,723 | - |
| Interest paid | (2,200,000) | - | - | (2,200,000) | (2,162,106) |
| Net cash provided by (used in) capital and related financing activities | <u>(2,200,000)</u> | <u>2,355,723</u> | <u>-</u> | <u>155,723</u> | <u>(2,162,106)</u> |
| Investing activities | | | | | |
| Purchases of property and equipment | (740,891) | (4,173,292) | - | (4,914,183) | (52,742) |
| Interest received | - | - | - | - | - |
| Other revenues received | - | - | - | - | - |
| Net cash provided by (used in) investing activities | <u>(740,891)</u> | <u>(4,173,292)</u> | <u>-</u> | <u>(4,914,183)</u> | <u>(52,742)</u> |
| Net increase (decrease) in cash, cash equivalents, and restricted cash | 159,008 | (1,490,595) | 69,409 | (1,262,178) | (1,179,269) |
| Cash, cash equivalents, and restricted cash at beginning of year | 1,135,237 | 2,437,208 | 591,727 | 4,164,172 | 5,343,441 |
| Cash, cash equivalents, and restricted cash at end of year | <u>\$ 1,294,245</u> | <u>\$ 946,613</u> | <u>\$ 661,136</u> | <u>\$ 2,901,994</u> | <u>\$ 4,164,172</u> |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities | | | | | |
| Operating income (loss) | \$ 1,692,895 | \$ (10,716,433) | \$ (54,575) | \$ (9,078,113) | \$ (1,532,186) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization | 727,043 | 915,993 | - | 1,643,036 | 1,593,162 |
| Changes in operating assets and liabilities: | | | | | |
| Accounts payable and accrued expenses | 471,145 | 57,735 | - | 528,880 | 1,432,820 |
| Deposits payable | 21,607 | (13,315) | - | 8,292 | (6,030) |
| Unearned revenue | 226,331 | (22,493) | - | 203,838 | (309,601) |
| Inventory | - | - | - | - | - |
| Accounts receivable | 125,319 | 10,696 | - | 136,015 | (187,185) |
| Advance from bondholder | - | 10,146,637 | - | 10,146,637 | - |
| Due to other funds | - | 25,000 | - | 25,000 | - |
| Due from other funds | - | - | (25,000) | (25,000) | - |
| Prepaid expenses and other assets | (21,121) | 2,297 | (269) | (19,093) | (10,640) |
| Net cash provided by (used in) operating activities | <u>\$ 3,243,219</u> | <u>\$ 406,117</u> | <u>\$ (79,844)</u> | <u>\$ 3,569,492</u> | <u>\$ 980,340</u> |

See accompanying notes.

Leon County Educational Facilities Authority

Notes to Financial Statements

Years ended September 30, 2022
(with summarized financial information at September 30, 2021)

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.

The basic financial statements include certain prior year summarized comparative information in total, but not at the level of detail required for a presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended September 30, 2021, from which the summarized information was derived.

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 Heritage Grove Rental Development.

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 Ocala Road, LLC (the LLC), completed negotiations for the commencement of foreclosure as of October 31, 2024. 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, 2022 or 2021.

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, 2022 or 2021.

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 29, 2023, the date the financial statements were available to be issued. During the period from September 30, 2022 to March 29, 2023, the Authority did not have any material recognizable subsequent events, other than termination of the court ordered receivership associated with the Heritage Grove property which is more fully described in Note 6.

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.

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 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 \$902,501 and \$902,721 for the years ended September 30, 2022 and 2021, 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, 2022, 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, 2022, was 15 days.

Leon County Educational Facilities Authority

Notes to Financial Statements

3. Receivables

Receivables as of September 30, 2022, including the applicable allowances for uncollectible accounts, are as follows:

| | Southgate Fund | LCEFA Ocala Road, LLC Fund | Total |
|------------------------------------|---------------------------|---|--------------------------|
| Gross receivables | \$ 134,355 | \$ 140,269 | \$ 274,624 |
| Less: allowance for uncollectibles | <u>(9,492)</u> | <u>(121,407)</u> | <u>(130,899)</u> |
| Total receivables, net | <u><u>\$ 124,863</u></u> | <u><u>\$ 18,862</u></u> | <u><u>\$ 143,725</u></u> |

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><u>\$ 250,182</u></u> | <u><u>\$ 29,558</u></u> | <u><u>\$ 279,740</u></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 two leasehold interests that are part of this ground lease. The ground lease collects Common Area Maintenance (CAM) fees from two of the properties and is recognized in the Ocala Road LLC fund as CAM revenue of \$108,263. Additionally, CAM expenses paid by the Ocala Road LLC for the years ended September 30, 2022 and 2021 were approximately \$115,632 and \$202,000, 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, 2022, four buildings are in repair status and will be completed during the next fiscal year. The current carrying value of these buildings is approximately \$938,000 for each building. Subsequent renovation and restoration costs incurred of approximately \$10,741,000 have been expensed using the restoration cost approach permitted by Government Accounting Standards Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

The Authority reported depreciation expense of \$1,643,161 and \$1,593,162 for the years ending September 30, 2022 and 2021, respectively.

Following is a summary of the changes in capital assets for the year ending September 30, 2022:

| <u>Descriptions</u> | <u>Balance at September 30, 2021</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at September 30, 2022</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 | 45,796,982 | 3,864,903 | – | 49,661,885 |
| Equipment | 3,481,012 | 1,049,280 | – | 4,530,292 |
| Total capital assets being depreciated | <u>49,277,994</u> | <u>4,914,183</u> | <u>–</u> | <u>54,192,177</u> |
| Less accumulated depreciation | <u>(34,249,489)</u> | <u>(1,643,037)</u> | <u>–</u> | <u>(35,892,926)</u> |
| Total capital assets being depreciated, net | <u>15,028,505</u> | <u>3,271,146</u> | <u>–</u> | <u>18,299,651</u> |
| Capital assets, net | <u>\$ 17,428,505</u> | <u>\$ 3,271,146</u> | <u>\$ –</u> | <u>\$ 20,699,651</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, 2021:

| Descriptions | Balance at September 30, 2020 | Additions | Deletions | Balance at September 30, 2021 |
|---|-------------------------------------|---------------|-----------|-------------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,400,000 | \$ - | \$ - | \$ 2,400,000 |
| Construction in progress | - | - | - | - |
| Total capital assets not being depreciated | 2,400,000 | - | - | 2,400,000 |
| 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 | 49,225,252 | 52,742 | - | 49,277,994 |
| Less accumulated depreciation | (32,656,327) | (1,593,162) | - | (34,249,489) |
| Total capital assets being depreciated, net | 16,568,925 | (1,540,420) | - | 15,028,505 |
| Capital assets, net | \$ 18,968,925 | \$(1,540,420) | \$ - | \$ 17,428,505 |

6. Long-term Debt

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

| Descriptions | Balance at September 30, 2021 | Additions | Deletions | Balance at September 30, 2022 | Due Within One Year |
|------------------|-------------------------------------|-------------|-----------|-------------------------------------|---------------------------|
| 1998B Bonds | \$ 20,500,000 | \$ - | \$ - | \$ 20,500,000 | \$ - |
| Mortgage payable | - | 2,355,723 | - | 2,355,723 | - |
| 2003 Bonds | 14,915,000 | - | - | 14,915,000 | - |
| Total | \$ 35,415,000 | \$2,355,723 | \$ - | \$ 37,770,723 | \$ - |

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:

| Description | 2022 | 2021 |
|--|---------------|---------------|
| 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 | 20,500,000 | 20,500,000 |
| Less current portion (Series 1998B) | 2,485,000 | – |
| Total Revenue Refunding Bonds, noncurrent | \$ 18,015,000 | \$ 20,500,000 |

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 Emet Municipal Real Estate Strategy II LP (EMET) to effectively purchase the Series A Bonds and the Series B Bonds. Under the terms of the Agreement, EMET provided the Trustee funds to defease the Series A Bonds effective July 18, 2018. In addition, the Agreement provided for EMET 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 EMET 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.

Leon County Educational Facilities Authority

Notes to Financial Statements

6. Long-term Debt (continued)

As of September 30, 2022, the Series B bonds have accumulated unpaid interest of \$21,310,306. The Series 1998B Bond debt service to maturity, excluding interest accrued on past due interest, is as follows:

| | Principal | Interest |
|-----------|---------------------|---------------------|
| 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 | 3,350,000 | 534,131 |
| 2028-2031 | 5,995,000 | 278,694 |
| | \$20,500,000 | \$ 5,160,219 |

On August 2, 2022, the Authority entered into a settlement agreement and amended forbearance agreement (the Revised Agreement) whereby EMET agrees to provide financing of up to \$4 million for remediation and renovation projects associated with the Southgate property to which the Series B Bonds relate, within 18 months of the date of the Revised Agreement. The Revised Agreement also provides for the transfer of title and all interest in the Southgate property to occur upon the completion of the renovations or October 31, 2024, whichever occurs first.

At such time as title to the Southgate property is transferred from the Authority to EMET, all remaining debt obligations and accrued interest associated with the Series 1998B Bonds will be forgiven.

During the years ended September 30, 2022 and 2021, EMET forgave \$1,250,000 of debt service requirements consistent with the Agreement, which has been reported on the statement of revenues, expenses and changes in net position as a gain on debt defeasance and restructuring.

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) to 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 or the Bond owner. As a result of such transactions, ACA is no longer a creditor to the Heritage Grove dormitory project and has no further interest therein. The related prepaid bond insurance was extinguished as nonoperating expense for \$576,270. EMET maintained the same terms, payment schedule and covenants for Series 2003 Bonds.

On August 2, 2022, the Authority entered into an amended settlement agreement with the Trustee and Emres, the assignee of EMET, holder of 100% of the outstanding Series 2003 Bonds and Administrative Rights. The Amended Settlement Agreement establishes Emres as the Assignee to ACA's right and obligations under the original settlement agreement dated October 29, 2019, and the Board Documents. The Amended Settlement Agreement also provides for agreement and funding arrangement associated with the termination of the Housing Corporation sub-sublease agreement dated December 10, 2003, between the Authority and the Zeta Rho House Corporation, and the purchase of the foregoing leasehold interest and associated building and other facilities and improvements thereon. Finally, the agreement provides for Emres to use best efforts to provide funding of up to \$16,000,000 for remediation, renovation, and improvement of the Heritage Grove property within 18 months of the date of the Amended Settlement Agreement. As of September 30, 2022, Emres has advanced \$11,387,135 for such purposes. The Amended Settlement Agreement also establishes that the foreclosure action referenced in the original Settlement Agreement shall remain pending for an additional period of time but no later than October 31, 2024.

On October 7, 2022, subsequent to the Authority's fiscal year end, the court ordered receivership over LCEFA Ocala Road, LLC (the LLC) was terminated and the court appointed receiver was discharged from any and all continuing duties. The Authority executed a revocable delegation agreement that granted the Bondholder broad authority and indemnified the Authority.

As a result of decreasing net position and lower than expected occupancy, the LLC was unable to remain in compliance with the financial covenants arising under the revenue bond indenture. The trustee and Bond owner have not waived the financial covenant requirements. A total of \$14,915,000 revenue bonds at September 30, 2022 and 2021, is subject to accelerated maturity and, as such, the Bond owner may, at its 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.

Leon County Educational Facilities Authority

Notes to Financial Statements

6. Long-term Debt (continued)

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

| | Principal | Interest |
|-----------|------------------|-----------------|
| 2023 | \$ — | \$ 760,088 |
| 2024 | 3,445,000 | 731,379 |
| 2025 | — | 587,838 |
| 2026 | — | 587,838 |
| 2027 | — | 587,838 |
| 2028-2031 | — | 2,351,352 |
| 2032-2034 | 11,470,000 | 489,865 |
| | \$ 14,915,000 | \$ 6,856,281 |

The Series 2003 bonds maturing 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:

| | Principal |
|------|------------------|
| 2021 | \$ 800,000* |
| 2022 | 840,000** |
| 2023 | 880,000 |
| 2024 | 925,000 |
| | \$ 3,445,000 |

*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.

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 (operating 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.

Loan Agreement for Student Housing Facility

On July 1, 2022, the Authority entered into a loan agreement with EMRES II Heritage, LLC (Lender), a subsidiary of EMET, for the amount of \$2,355,722 to acquire a designated student housing facility located near Florida State University on a portion of the lands that are part of the Authority's lease land agreement with FSU. The agreement requires interest shall be accrued at annual rate of 10% per annum from the date of the advance of the funds. Interest is payable in installments on the first day of each month commencing on October 1, 2022. The outstanding balance of this agreement is due and payable in its entirety no later than October 31, 2024. Per the Amended Settlement Agreement, the Authority will transfer its interest in this property to the Lender on October 31, 2024, at which time any amount due and owing shall be forgiven. The agreement establishes the covenants for fixed charges coverage ratio of at least 1.20X beginning with the first full lease year.

Leon County Educational Facilities Authority

Notes to Financial Statements

7. Management Agreement

Southgate Fund

Effective March 1, 2020, the Authority 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. The Agreement renews annually until cancelled by one of the parties.

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 94.9% 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 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.

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 order to provide additional incentive to Agent to generate increased revenue at the property, the Authority agrees to pay incentive bonuses of \$45,000 if the property should reach 90% average occupancy for the academic year (September-May) and \$55,000 if the property should reach 95% average occupancy for the academic year.

Management fees paid by the Southgate Fund for the years ended September 30, 2022 and 2021 totaled \$155,044 and \$270,150, respectively.

Leon County Educational Facilities Authority

Notes to Financial Statements

7. Management Agreement (continued)

LCEFA Ocala Road, LLC

The court appointed 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 Management Agreement was modified on November 23, 2021. Fees paid by the Receiver prior to November 23, 2021, 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. Fees paid beginning November 23, 2021, shall be the greater of \$5,000 or 3.25% of gross monthly collections. Management fees, based on occupancy level, paid by the Ocala Road LLC Fund for the years ended September 30, 2022 and 2021 totaled \$87,112 and \$78,000, 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 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, and has established a foreclosure action to remediate the debt by October 2024, raising substantial doubt about the LLC's ability to continue as a going concern.

Additionally, the Authority's Southgate fund has outstanding debt and has established a foreclosure action to remediate the outstanding debt as of October 2024.

These conditions and events give rise to the assessment of a substantial doubt for the Authority's 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 and Southgate in the near future is expected.

Per settlement agreements dated August 2, 2022 for both the Southgate and LCEFA Ocala Road, LLC, the Authority has agreed to transfer the Authority's interest in the properties of both funds as of October 31, 2024 to the bondholders in relief of all outstanding debt and interest for these properties.

Leon County Educational Facilities Authority

Notes to Financial Statements

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, 2022, are as follows:

| Fund | Interfund Receivable | Interfund Payable |
|----------------------------|-------------------------|----------------------|
| Administrative fund | \$ 106,927 | \$ — |
| LCEFA Ocala Road, LLC fund | 3,313 | 106,927 |
| Southgate fund | — | 3,313 |
| | \$ 110,240 | \$ 110,240 |

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, 2022 consisted of the following.

| | Transfer Amount |
|--|--------------------|
| Transfer to the administrative fund from: | |
| Southgate fund | \$ 148,287 |

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.

Leon County Educational Facilities Authority

Notes to Financial Statements

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, 2022, the total cost of these buildings, improvements, and related furniture and equipment available for lease was \$27,096,956 with accumulated depreciation thereon of \$18,327,420. 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, 2023. 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 \$783,491 at September 30, 2022.

The Authority's Southgate Residence Hall was built in 1993 with several subsequent improvements. As of September 30, 2022, the total cost of these buildings, improvements, and related furniture and equipment available for lease was \$24,810,098 with accumulated depreciation thereon of \$15,487,126. 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, 2023. 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 \$2,541,623 at September 30, 2022.

12. Prior Period Adjustment

In the prior period, the previous Bondholder transferred all rights to a new Bondholder on July 14, 2021. At that time, the bond insurance policy was terminated and the unamortized balance should have been expensed. The financial statement as of September 30, 2021, have been adjusted to remove the unamortized balance and record the additional expense of \$661,956 as bond insurance expense related to debt defeasance.

Supplementary Information

Leon County Educational Facilities Authority

Schedule of Other Operating Expenses

Year ended September 30, 2022

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

| | Years ended September 30, | | | | |
|---------------------------------------|---------------------------|----------------------------------|------------------------|----------------------|---------------------|
| | 2022 | | | | 2021 |
| | Southgate Fund | LCEFA Ocala Road, LLC Fund | Administrative Fund | Total | Total |
| Other operating expenses | | | | | |
| Legal and professional | \$ 121,623 | \$ 1,168,816 | \$ 4,534 | \$ 1,294,973 | \$ 1,835,639 |
| Bad debt | 20,561 | 22,034 | - | 42,595 | 158,785 |
| Telephone and internet | 75,619 | 3,336 | - | 78,955 | 249,429 |
| Management fee | 155,044 | 87,112 | - | 242,156 | 348,150 |
| Taxes | 128,154 | 250 | - | 128,404 | 142,382 |
| Insurance | 262,815 | 186,171 | - | 448,986 | 402,293 |
| Other | 266,971 | 353,936 | 15,011 | 635,918 | 591,406 |
| Bank and credit card | 19,154 | 3,192 | 30 | 22,376 | 15,852 |
| Contract services | 1,380,183 | 16,592 | - | 1,396,775 | 1,362,391 |
| Construction and remediation | - | 8,832,656 | - | 8,832,656 | 329,266 |
| Repair and maintenance | 202,290 | 16,875 | - | 219,165 | 186,784 |
| Total other operating expenses | \$ 2,632,414 | \$ 10,690,970 | \$ 19,575 | \$ 13,342,959 | \$ 5,622,377 |

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, 2022, 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 29, 2023.

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 2022-001: 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 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, 2022 was calculated as follows:

| | |
|---|-----------------------|
| Revenue Available | 2022 |
| EBITDA | \$ (9,879,587) |
| Capital expenditures | 4,173,291 |
| Revenue available for fixed charges | <u>\$ (5,706,296)</u> |
| Fixed Charges | |
| Principal due and payable during the period | \$ – |
| Interest due and payable during the period | 1,407,769 |
| Fixed charges | <u>\$ 1,407,769</u> |
| Fixed charges coverage ratio | (4.05) |

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. Accordingly, bonds associated with the Heritage Grove Project have been reported as current obligations on the statements of net position.

Management Response:

On August 2, 2022, LCEFA Ocala Road, LLC entered into a settlement agreement with the bondholder. As such the Authority has agreed that no later than October 31, 2024 to transfer all rights and property to the bondholder and forgiveness of all outstanding debt and interest related to the property.

Page Three

Finding 2022-002: 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, 2022, the amount deposited in the debt service reserve fund was \$170, which was less than the debt service requirement.

Management Response:

On August 2, 2022, LCEFA Ocala Road, LLC entered into a settlement agreement with the bondholder. As such the Authority has agreed that no later than October 31, 2024 to transfer all rights and property to the bondholder and forgiveness of all outstanding debt and interest related to the property.

Authority’s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority’s response to the findings identified in our audit and described above. 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 29, 2023

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, 2022 and have issued our report thereon dated March 29, 2023.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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 29, 2023, 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 | | | |
|-----------------------------------|--|--------------------------|--------------------------|-------------------------|
| | 2021-2022 FY Finding# | 2020-2021 FY Finding# | 2019-2020 FY Finding# | 2018-19 FY Finding # |
| Fixed Charges Coverage Ratio | 2022-001 | 2021-001 | 2020-001 | 2019-001 |
| Operating Reserve Requirement | 2022-002 | 2021-002 | 2020-002 | 2019-002 |
| Deteriorating Financial Condition | 2022-003 | 2021-003 | 2020-003 | 2019-006 |

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The findings noted above are in relation to ongoing matters associated with managed property and the related debt. Management has entered into certain agreements with the current bond holder that should resolve the findings by October 31, 2024.

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 did not have such recommendations.

Sections 10.554(1)(i)5.a. and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and communicate 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 2022-003. 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 2022-003: 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, the mounting long term liabilities for the Southgate Fund 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 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.

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During the year ended September 30, 2022, the Authority negotiated settlement agreements with the Bondholder for LCEFA Ocala Road, LLC and Southgate Fund to complete foreclosure actions at the latest date of October 31, 2024. This settlement agreement will transfer the rights and property for both Funds to the Bondholder and the Bondholder will forgive all outstanding debt and interest related to these properties within these Funds.

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 2022-001 and 2022-002, related to compliance with debt covenants.

Special District - Specific Information

As required by Section 218.39(3)(c), Florida Statutes, and Section 10.554(1)(i)6, Rules of the Auditor General, the Leon County Educational Facilities Authority reported the following information:

- a) The total number of district employees compensated in the last pay period of the district's fiscal year as zero.
- b) The total number of independent contractors to whom nonemployee compensation was paid in the last month of the district's fiscal year as 46.
- c) All compensation earned by or awarded to employees, whether paid or accrued, regardless of contingency as zero.
- d) All compensation earned by or awarded to nonemployee independent contractors, whether paid or accrued, regardless of contingency as \$15,014,182.
- e) The following construction projects with a total cost of at least \$9,867,970 approved by the district that is scheduled to begin on or after October 1 of the fiscal year being reported, together with the total expenditures for such project.

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- 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. While the Authority prevailed in mediation for a settlement of the construction litigation related to LCEFA Ocala Road, LLC, 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. 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. The total expenditures incurred for this project as of September 30, 2022, are \$16,292,272.
- f) A budget variance report based on the budget adopted under Section 189.016(4), Florida Statutes, before the beginning of the fiscal year being reported if the district amends a final adopted budget under Section 189.016(6), Florida Statutes.
 - The district did not amend its final adopted budget which is located at the Leon County government website.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, the Authority Members, and the Leon County Board of County Commissioners, and is not intended to be and should not be used by anyone other than these specified parties.

Thomas Howell Ferguson P.A.

Tallahassee, Florida
March 29, 2023

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, 2022. 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.

We are required to be independent and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to the engagement.

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, 2022.

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 29, 2023

Leon County Educational Facilities Authority

P.O. Box 11154 Tallahassee, FL 32302

Email: lcefa9@gmail.com Phone: 850-841-9122

Ramsay Sims, Chair Frances M. Gilbert, CAE, Executive Director

To: Auditor General, State of Florida

Attention: Richard Voss

Date: July 21, 2023

Re: Requested Information

In response to the letter dated July 13, 2023 requesting additional required items regarding LCEFA's audit report for the fiscal year 2021-2022, the Management Response to Finding 2022-003 Deteriorating Financial Condition follows:

Per our settlement agreements dated on August 2, 2022 for both Southgate and LCEFA Ocala Road LLC, the Authority has agreed to transfer the Authority's interest in the properties of both funds as of October 31, 2024 to the bondholders in relief of all outstanding debt and interest for these properties. As a result, the outstanding debt will be remediated and will conclude with the discontinuance of the operations of these projects at that time.

Please let me know if you need any additional information or documentation.

Thank you.

Sincerely,



Frances M. Gilbert, CAE
Executive Director