

**Land Clearance for Redevelopment Authority**

A Component Unit of the City of Kansas City, Missouri

Independent Auditor's Reports and Financial Statements

April 30, 2018

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*12/11/18*

**Land Clearance for Redevelopment Authority**  
**A Component Unit of the City of Kansas City, Missouri**  
**April 30, 2018**

**Contents**

<b>Independent Auditor's Report.....</b>	<b>1</b>
<b>Management's Discussion and Analysis .....</b>	<b>3</b>
<b>Basic Financial Statements</b>	
Statement of Net Position .....	8
Statement of Activities .....	9
Balance Sheet – Governmental Fund .....	10
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund .....	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund to the Statement of Activities.....	12
Notes to Basic Financial Statements .....	13
<b>Report 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 – Independent Auditor's Report.....</b>	<b>25</b>
<b>Schedule of Findings and Responses .....</b>	<b>27</b>

## **Independent Auditor's Report**

Board of Commissioners  
Land Clearance for Redevelopment Authority  
Kansas City, Missouri

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Land Clearance for Redevelopment Authority (the Authority), a component unit of the City of Kansas City, Missouri, as of and for the year ended April 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Land Clearance for Redevelopment Authority as of April 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated \_\_\_\_\_, 2018, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Kansas City, Missouri  
\_\_\_\_\_, 2018

# Land Clearance for Redevelopment Authority

## A Component Unit of the City of Kansas City, Missouri

### Management's Discussion and Analysis

#### Year Ended April 30, 2018

As management of the Land Clearance for Redevelopment Authority (the "Authority"), we offer readers the Authority's financial statements with this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended April 30, 2018. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Authority's financial statements which follow this narrative.

#### ***Financial Highlights***

- **KC Hotel Convention Center** –Construction commenced for the Loews KC Convention Center Hotel in downtown Kansas City, Missouri. The privately funded project through the Land Clearance for Redevelopment Authority will occupy 3 acres of City land. The project was a mixture of private and public financing. To finance the project, LCRA issued 2 bonds. A 2018 Series A and 2018 Series B bonds valuing \$79 million dollars were issued through LCRA and TIF Commission.
- **ReBuild KC Program** – Continued redevelopment and sales of properties within the City of Kansas City's ReBuild KC Plan in the Beacon Hill area. Program income of approximately \$397,925 was earned through sale of properties during the fiscal year. The Authority maintains approximately \$138,208 in real estate held for redevelopment.

#### ***Overview of the Financial Statements***

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. The basic financial statements present two different views of the Authority through the use of government-wide statements and fund financial statements.

#### **Basic Financial Statements**

The first two statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both short- and long-term information about the Authority's financial status.

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Authority's government. These statements provide more detail than the government-wide statements.

The next section of the basic financial statements is the **Notes**. The notes to the financial statements explain in detail some of the data contained in those statements.

# **Land Clearance for Redevelopment Authority**

## **A Component Unit of the City of Kansas City, Missouri**

### **Management's Discussion and Analysis**

#### **Year Ended April 30, 2018**

#### ***Government-wide Financial Statements***

The government-wide financial statements are designed to provide the reader with a broad overview of the Authority's finances, similar in format to a financial statement of a private-sector business. The government-wide financial statements provide short- and long-term information about the Authority's financial status as a whole.

1. The statement of net position represents information on all the Authority's assets and liabilities, with the difference between the two reported as net position. Measuring net position is one way to gauge the Authority's financial condition.
2. The statement of activities presents information showing how the Authority's net position changed during the year. This statement includes all of the Authority's revenues and expenses, regardless of when the cash is received or paid.

#### ***Fund Financial Statements***

The fund financial statements provide a more detailed look at the Authority's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

#### ***Governmental Funds***

Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. All of the Authority's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting, which provides a short-term spending focus. As a result, the governmental fund financial statements provide a detailed short-term view that helps the reader determine if there are more or fewer financial resources available to finance the Authority's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

#### ***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

#### ***Analysis of the Basic Financial Statements***

Our analysis below focuses on the net position and changes in net position of the Authority for the year ended April 30, 2018.

# Land Clearance for Redevelopment Authority

A Component Unit of the City of Kansas City, Missouri

Management's Discussion and Analysis

Year Ended April 30, 2018

## Net Position Governmental Activities

	2018	2017
<b>Assets</b>		
Cash	\$ 347,529	\$ 198,903
Restricted cash and investments	52,649,830	-
Other current assets	43,079	211,280
Notes receivable	1,400,000	1,400,000
Real estate held for redevelopment	344,785	561,351
Capital assets, net of accumulated depreciation	3,749,816	3,852,523
Total assets	58,535,039	6,224,057
<b>Liabilities</b>		
Current liabilities	1,069,114	351,917
Due to the City of Kansas City, Missouri	1,472,366	1,571,867
Long-term liabilities	62,995,620	-
Total liabilities	65,537,100	1,923,784
<b>Net Position</b>		
Net investment in capital assets	3,749,816	3,852,523
Restricted - expendable	52,016,963	493,253
Unrestricted	(62,768,840)	(45,503)
Total net position	\$ (7,002,061)	\$ 4,300,273

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The liabilities of the Authority exceed assets by \$7,002,061 as of April 30, 2018. The Authority's net position decreased by \$11,302,334 for the fiscal year ended April 30, 2018.

The net investment in capital assets consists of the Wyandotte parking garage and other properties net of accumulated depreciation. The restricted net position is associated with the remaining proceeds of the 2018 Series B bonds issued for the KC Convention Center Hotel project and with land held for redevelopment. As the bond proceeds are utilized and the properties are sold, the restricted net position is reduced.

**Land Clearance for Redevelopment Authority**  
**A Component Unit of the City of Kansas City, Missouri**  
**Management's Discussion and Analysis**  
**Year Ended April 30, 2018**

**Changes in Net Position**  
**Governmental Activities**

	<u>2018</u>	<u>2017</u>
<b>Revenues</b>		
Program Revenues		
Charges for services	\$ 1,701,560	\$ 576,758
Operating grants and contributions	287,137	26,102
Capital grants and contributions	579,270	105,500
General Revenues		
Interest and other	<u>131,665</u>	<u>34,750</u>
Total revenues	<u>2,699,632</u>	<u>743,110</u>
Program Expenses		
Economic development	11,151,597	1,050,635
Interest and bond issuance costs	<u>2,850,369</u>	<u>-</u>
Total expenses	<u>14,001,966</u>	<u>1,050,635</u>
<b>Change in Net Position</b>	(11,302,334)	(307,525)
<b>Net Position, Beginning of Year</b>	<u>4,300,273</u>	<u>4,607,798</u>
<b>Net Position, End of Year</b>	<u><u>\$ (7,002,061)</u></u>	<u><u>\$ 4,300,273</u></u>

The revenues and expenses increased in 2018 compared to 2017. The charges for services were increased from the previous year due to higher than anticipated funding agreements with developers within urban renewal plans. The operating grants and contributions increased due to the increased activity in the Beacon Hill (ReBuildKC) redevelopment area.

The increase in program expenses was due to the 2018 Series B bonds costs associated with the construction of the KC Convention Center Hotel project and the increased activity within the redevelopment of the Beacon Hill (ReBuildKC) area in fiscal year 2018.

***Financial Analysis of the Authority's Funds***

The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unassigned fund balance serves as a measure of an entity's net resources available for use.



# Land Clearance for Redevelopment Authority

## A Component Unit of the City of Kansas City, Missouri

### Management's Discussion and Analysis

#### Year Ended April 30, 2018

As the Authority completed the year, its governmental funds reported a total fund balance of \$52,846,830, an increase of \$52,960,431 from the prior year. This was due primarily to the issuance of the Series 2018 B bonds from lower than anticipated revenue associated with tax abatement fee collection and reduced sales of parcels in the Beacon Hill area.

Intergovernmental revenues and reimbursements from developers were up \$840,696 when compared to the prior fiscal year. This is largely attributed to the fiscal year 2018 redevelopment of the Beacon Hill (ReBuildKC) redevelopment area and increased funding agreements with developers within urban renewal plans. As of April 30, 2018, the increased activity was still ongoing. Fees also increased \$546,536, primarily due to the issuance of the Series 2018 B bonds.

Expenditures were up significantly during fiscal year 2018, attributable to the increased activity and construction and redevelopment of the Beacon Hill (ReBuildKC) area and the expenses related to the bond issuance for and construction of the KC Convention Center Hotel project.

#### **Capital Assets and Debt Administration**

The table below describes the capital and real estate assets for the Authority. Additional information regarding capital assets and real estate can be found in *Notes 6* and *7*.

	2018	2017
Land	\$ 1,900,000	\$ 1,900,000
Other capital assets	1,849,816	1,952,523
	<u>\$ 3,749,816</u>	<u>\$ 3,852,523</u>
Real estate held for redevelopment	<u>\$ 344,785</u>	<u>\$ 561,351</u>

At April 30, 2018, the Authority had \$62,995,620 in debt outstanding, with all of that amount issued in fiscal year 2018. The Authority is only obligated for the amount of incremental taxes received attributable to the project. Additional information regarding the long-term debt can be found in *Note 9*.

#### **Requests for Information**

This report is designed to provide an overview of the Authority's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Controller of EDC, 1100 Walnut Street, Suite 1700, Kansas City, Missouri 64106. For additional information about our organization, the website address is [www.edckc.com](http://www.edckc.com).

# Land Clearance for Redevelopment Authority

A Component Unit of the City of Kansas City, Missouri

## Statement of Net Position

April 30, 2018

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash	\$ 347,529
Restricted cash and investments	52,649,830
Accounts receivable	37,710
Notes receivable	1,400,000
Prepaid expenses	5,369
Real estate held for redevelopment	344,785
Capital assets	
Land	1,900,000
Other capital assets, net of accumulated depreciation	<u>1,849,816</u>
Total assets	<u>58,535,039</u>
<b>Liabilities</b>	
Accounts payable	47,960
Unearned revenue	17,916
Accrued interest	947,872
Due to related parties	55,366
Due to the City of Kansas City, Missouri	1,472,366
Long-term liabilities due in more than one year	<u>62,995,620</u>
Total liabilities	<u>65,537,100</u>
<b>Net Position (Deficit)</b>	
Net investment in capital assets	3,749,816
Restricted - expendable	52,016,963
Unrestricted	<u>(62,768,840)</u>
Total net position (deficit)	<u><u>\$ (7,002,061)</u></u>

# Land Clearance for Redevelopment Authority

A Component Unit of the City of Kansas City, Missouri

## Statement of Activities

Year Ended April 30, 2018

Functions/Programs	Expenses	Charges for Services	Program Revenues		Net Revenues (Expense) and Changes in Net Position
			Operating Grants and Contributions	Capital Grants and Contributions	Primary Government
					Governmental Activities
<b>Primary Government</b>					
Government activities					
Economic development	\$ 11,151,597	\$ 1,701,560	\$ 287,137	\$ 579,270	\$ (8,583,630)
Interest and bond issue costs	2,850,369	-	-	-	(2,850,369)
Total primary government	<u>\$ 14,001,966</u>	<u>\$ 1,701,560</u>	<u>\$ 287,137</u>	<u>\$ 579,270</u>	<u>(11,433,999)</u>
<b>General Revenues</b>					
Interest					131,165
Other					500
Total general revenues					<u>131,665</u>
<b>Change in Net Position</b>					(11,302,334)
<b>Net Position, Beginning of Year</b>					<u>4,300,273</u>
<b>Net Position (Deficit), End of Year</b>					<u>\$ (7,002,061)</u>

**Land Clearance for Redevelopment Authority**  
**A Component Unit of the City of Kansas City, Missouri**  
**Balance Sheet – Governmental Fund**  
**April 30, 2018**

	General Fund	Capital Projects	Total Governmental Funds
<b>Assets</b>			
Cash	\$ 347,529	\$ -	\$ 347,529
Restricted cash and investments	-	52,649,830	52,649,830
Accounts receivable	37,710	-	37,710
Notes receivable	1,400,000	-	1,400,000
Prepaid items	5,369	-	5,369
Total assets	<u>\$ 1,790,608</u>	<u>\$ 52,649,830</u>	<u>\$ 54,440,438</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 47,960	\$ -	\$ 47,960
Unearned revenue	17,916	-	17,916
Due to related parties	55,366	-	55,366
Due to the City of Kansas City, Missouri	1,472,366	-	1,472,366
Total liabilities	<u>1,593,608</u>	<u>-</u>	<u>1,593,608</u>
<b>Fund Balances</b>			
Nonspendable	5,369	-	\$ 5,369
Restricted for economic development	-	52,649,830	52,649,830
Unassigned	191,631	-	191,631
Total fund balances	<u>197,000</u>	<u>52,649,830</u>	<u>52,846,830</u>
Total liabilities and fund balances	<u>\$ 1,790,608</u>	<u>\$ 52,649,830</u>	<u>\$ 54,440,438</u>

Amounts reported for governmental activities in the statement of net position (deficit) are different because:

Fund balances of governmental funds	\$ 52,846,830
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	
Capital assets - land	1,900,000
Other capital assets, net of accumulated depreciation	1,849,816
Real estate held for redevelopment	344,785
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds	
Accrued interest	(947,872)
Long-term debt	(63,400,000)
Unamortized discount on bond issuance	404,380
Net position of governmental activities	<u>\$ (7,002,061)</u>

# Land Clearance for Redevelopment Authority

## A Component Unit of the City of Kansas City, Missouri

### Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund

Year Ended April 30, 2018

	General Fund	Capital Projects	Total Governmental Funds
<b>Revenues</b>			
Intergovernmental revenue	\$ 268,994	\$ -	\$ 268,994
Reimbursements from developers	1,089,545	-	1,089,545
Sale of redevelopment property	222,741	-	222,741
ReBuild KC	356,529	-	356,529
Fees	612,015	-	612,015
Lease income - Block 74			
Authority	18,143	-	18,143
City	163,289	-	163,289
Interest	107	131,058	131,165
Other	500	-	500
Total revenues	<u>2,731,863</u>	<u>131,058</u>	<u>2,862,921</u>
Less			
Lease income returned to the City of Kansas City, Missouri	<u>(163,289)</u>	<u>-</u>	<u>(163,289)</u>
Total net revenues	<u>2,568,574</u>	<u>131,058</u>	<u>2,862,921</u>
<b>Expenditures</b>			
Current			
Professional services	154,009	-	154,009
Administrative fee paid to related party	895,788	-	895,788
Miscellaneous	26,042	-	26,042
Project costs	-	8,574,351	8,574,351
Capital outlay			
Project costs	1,147,020	-	1,147,020
Property maintenance costs	35,114	-	35,114
Debt service			
Interest and bond issuance costs	<u>-</u>	<u>1,898,627</u>	<u>1,898,627</u>
Total expenditures	<u>2,257,973</u>	<u>10,472,978</u>	<u>12,730,951</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds from bond issuance	-	63,400,000	63,400,000
Discount on bond issuance	<u>-</u>	<u>(408,250)</u>	<u>(408,250)</u>
Other financing sources, net	<u>-</u>	<u>62,991,750</u>	<u>62,991,750</u>
<b>Excess of Revenues Over Expenditures and Net Change in Fund Balance</b>	310,601	52,649,830	52,960,431
<b>Fund Balance, Beginning of Year</b>	<u>(113,601)</u>	<u>-</u>	<u>(113,601)</u>
<b>Fund Balance, End of Year</b>	<u>\$ 197,000</u>	<u>\$ 52,649,830</u>	<u>\$ 52,846,830</u>

**Land Clearance for Redevelopment Authority**  
**A Component Unit of the City of Kansas City, Missouri**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
**Fund Balances – Governmental Fund to the Statement of Activities**  
**Year Ended April 30, 2018**

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ 52,960,431
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. Capital and real estate assets related reconciling items include the following:

Disposition of real estate held for redevelopment	(216,566)
Depreciation expense	(102,707)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities. In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due. The following is the detail of the net effect of these differences in the treatment of long-term debt and related items:

Bond proceeds, including discount	(62,991,750)
Amortization of discount	(3,870)
Change in accrued interest	<u>(947,872)</u>

Change in net position of governmental activities	<u><u>\$ (11,302,334)</u></u>
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# **Land Clearance for Redevelopment Authority**

**A Component Unit of the City of Kansas City, Missouri**

**Notes to Basic Financial Statements**

**April 30, 2018**

## **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

### ***Nature of Operations and Reporting Entity***

The Land Clearance for Redevelopment Authority (the Authority), was established, pursuant to a 1951 State of Missouri law (the Land Clearance for Redevelopment law), as a public body, corporate and politic, and was approved by ordinance of the City Council of Kansas City, Missouri (the City) in 1952 to exercise its powers, functions and duties in the City. The Authority is governed by a five-member Board of Commissioners appointed by the Mayor of the City (the Mayor). The Authority has the responsibility for the elimination of blight within the city limits of the City, by acquiring and preparing land for redevelopment.

The Authority is a component unit of the City as defined by Statement No. 61 of the Governmental Accounting Standards Board, the Financial Reporting Entity. The City approves certain project budgets of the Authority, and the Mayor appoints Authority Commissioners. The Authority did not have any component units at April 30, 2018.

### ***Basis of Presentation***

#### **Government-wide Financial Statements**

The government-wide statement of net position and statement of activities report the overall financial activity of the Authority. These statements include the governmental activities of the Authority. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for the government-wide activities of the Authority and for each function of the Authority's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues included (a) charges paid by the recipients for goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

#### **Fund Financial Statements**

The fund statements provide information about the Authority's funds. The emphasis on fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Each fund of the Authority is considered a major fund and is presented in a separate column.

**Land Clearance for Redevelopment Authority**  
**A Component Unit of the City of Kansas City, Missouri**  
**Notes to Basic Financial Statements**  
**April 30, 2018**

General Fund

The general fund is the main operating fund of the Authority and accounts for all financial transactions not accounted for in other funds. The general operating expenditures, fixed charges and capital improvement costs are financed through revenues received by the general fund.

Capital Projects Fund

The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major assets that will be held for redevelopment and other expenditures associated with redevelopment projects.

***Basis of Accounting***

The government-wide 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 at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. On an accrual basis, revenue from grants and other contributions are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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. Actual results could differ from those estimates.

***Risk Management***

The Authority is exposed to various risks and losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As a result, the Authority purchased commercial insurance to address its exposure to these risks. Settlements have not exceeded insurance coverage in any of the past three fiscal years.



# Land Clearance for Redevelopment Authority

## A Component Unit of the City of Kansas City, Missouri

### Notes to Basic Financial Statements

April 30, 2018

#### **Net Position (Deficit)**

Net position (deficit) of the Authority is classified in three components: net investment in capital assets; restricted expendable net position; and unrestricted net position. Net investment in capital assets consists of capital assets net of accumulated depreciation. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Authority. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

#### **Fund Balance**

The fund balances for the Authority's funds are displayed in five components:

*Nonspendable* - Nonspendable fund balances are not in a spendable form or are required to be maintained intact.

*Restricted* - Restricted fund balances may be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

*Committed* - Committed fund balances may be used only for the specific purposes determined by resolution of the Board of Commissioners. Commitments may be changed or lifted only by issuance of a resolution by the Board of Commissioners.

*Assigned* - Assigned fund balances are intended to be used by the Authority for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

*Unassigned* - Unassigned fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications.

The Authority considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The Authority applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

#### **Government Grants**

Support funded by grants is recognized as the Authority performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

**Land Clearance for Redevelopment Authority**  
**A Component Unit of the City of Kansas City, Missouri**  
**Notes to Basic Financial Statements**  
**April 30, 2018**

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The Authority capitalizes all items with a cost exceeding \$1,000 and a useful life of greater than one year.

The following estimated useful lives are being used by the Authority:

Buildings and improvements	40 years
----------------------------	----------

***Budgetary Accounting***

The Authority is not required to legally adopt a budget. Internal controls over spending in specific funds, not subject to legal budgets, are maintained by the use of internal spending limits set by management.

**Note 2: Convention Center Hotel Financing**

During the year ended April 30, 2018, the Authority entered into a series of transactions designed to assist KC Hotel Property Owner, LLC (Developer) in the financing of the convention center hotel to be constructed in downtown Kansas City, Missouri. Two series of bonds were issued, Series 2018A and 2018B, in amounts of \$60,405,000 and \$63,400,000, respectively. The Authority also entered into a separate building loan agreement that allows for borrowings up to a maximum of \$110,000,000. A community improvement district (CID) and tax increment financing (TIF) district were both established surrounding the area to be developed.

The proceeds of the Series 2018A bonds were immediately loaned to the Developer. The CID is to levy a special assessment on the property within the district. The special assessment will be in an amount sufficient to pay the debt service on the 2018A bonds. The Authority, as the legal owner of the convention center hotel, is technically responsible for making the special assessment payments. Under the terms of the loan agreement, the Developer is to make loan payments to the Authority in an amount sufficient to fund the special assessments due to the CID. A separate assignment agreement was executed, resulting in the Developer making the special assessment payments directly to the trustee of the 2018A bonds. The Authority has no obligation beyond the initial lease or loan. As a result, the Series 2018A bonds are conduit debt of the Authority and not reflected within the financial records of the Authority. At April 30, 2018, the outstanding balance of the Series 2018A bonds was \$60,405,000.

The Series 2018B bonds are secured by future economic activity taxes to be generated within the TIF district. As the economic activity taxes are generated within the TIF district, these amounts will be collected and remitted to the trustee of the Series 2018B bonds for debt service. There is no guarantee that the future economic activity taxes will be sufficient to fund the debt service. There

# Land Clearance for Redevelopment Authority

## A Component Unit of the City of Kansas City, Missouri

### Notes to Basic Financial Statements

April 30, 2018

is no other formal security related to the future debt service of the Series 2018B issuance. Due to the lack of any external repayment guarantee, the Authority has recorded the Series 2018B bonds as its liability, as well as all of the activity subsequent to issuance. See *Note 9* for further disclosure related to the Series 2018B bonds.

The Authority's building loan agreement provides for borrowings up to a maximum of \$110,000,000 for the construction of the convention center hotel. The Authority then entered into a lease agreement with the Developer related to the property to be constructed. The lease payments are to be an amount sufficient to pay the principal and interest and all other amounts due and payable under the construction loan agreement. An assignment agreement was executed that redirected the lease payments directly to the creditor. The Authority has no obligation beyond the initial lease or loan. As a result, the building loan is conduit debt of the Authority and not reflected within the financial records of the Authority.

#### **Note 3: Deposits and Investments**

Restricted cash and investments consist of amounts held in trust.

##### ***Deposits***

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Collateral is required by state law for demand deposits. The fair value of the collateral must equal 100 percent of deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are governed by state law and include U.S. government and government agency bonds and securities; general obligation bonds of any of the 50 states; general obligation bonds of any Missouri county, certain cities and special districts; and revenue bonds of certain Missouri agencies.

At April 30, 2018, none of the Authority's bank balances were exposed to custodial credit risk.

##### ***Investments***

The Authority's investment policy allows investments in accordance with the State of Missouri guidelines.

# Land Clearance for Redevelopment Authority

## A Component Unit of the City of Kansas City, Missouri

### Notes to Basic Financial Statements

April 30, 2018

#### Recurring Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at April 30, 2018:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. treasury obligations	\$ 30,610,070	\$ -	\$ 30,610,070	\$ -

**Interest Rate Risk** - Interest rate risk is the risk that the fair value of the Authority's investments will decrease as a result of an increase in interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Commission's investment policy limits the final maturity on any security owned to a maximum of five years. As of April 30, 2018, the Authority had the following investments and maturities:

Type	Fair Value	Maturities in Years			
		Less than 1	1 - 5	6 - 10	More than 10
Money market mutual funds	\$ 22,039,760	\$ 22,039,760	\$ -	\$ -	\$ -
U.S. Treasury note	30,610,070	15,876,820	14,733,250	-	-
	<u>\$ 52,649,830</u>	<u>\$ 37,916,580</u>	<u>\$ 14,733,250</u>	<u>\$ -</u>	<u>\$ -</u>

# Land Clearance for Redevelopment Authority

## A Component Unit of the City of Kansas City, Missouri

### Notes to Basic Financial Statements

April 30, 2018

**Credit Risk** - Credit risk is the risk that the Authority will not recover its investments due to the ability of the counterparty to fulfill its obligation. The Authority's formal investment policy does not address credit risk. At April 30, 2018, the Authority's investments in repurchase agreements and money market mutual funds were not rated. At April 30, 2018, the Authority's investments in money market funds not directly guaranteed by the U.S. government were rated AAA by Standard & Poor's.

**Custodial Credit Risk** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party (*i.e.*, the Authority's safekeeping institution).

The Authority's investment policy requires that all funds on deposit with any financial institution be secured with collateral securities in an amount equal to at least 102 percent of the deposit less any amount insured by the Federal Deposit Insurance Corporation (FDIC), or any other governmental agency performing a similar function. As of April 30, 2018, all deposits were adequately and fully collateralized.

The Authority's investment policy requires that all investment securities be held in the Authority's name in the Authority's safekeeping account at its safekeeping institution, thereby mitigating custodial credit risk. As of April 30, 2018, all investment securities were in the Authority's name in the Authority's safekeeping accounts at its safekeeping institution.

**Concentration of Credit Risk** - As of April 30, 2018, the Authority had invested 58 percent of its holdings in US Treasury obligations.

# Land Clearance for Redevelopment Authority

A Component Unit of the City of Kansas City, Missouri

## Notes to Basic Financial Statements

April 30, 2018

### Summary of Carrying Values

The carrying values of deposits and investments shown below are included in the statement of net position (deficit) as follows:

Carrying value	
Deposits	\$ 347,529
Investments	<u>52,649,830</u>
	<u>\$52,997,359</u>
Included in the following statement of net position captions	
Cash	\$ 347,529
Restricted cash and investments	<u>52,649,830</u>
	<u>\$52,997,359</u>

### Note 4: Related Party Transactions

The Authority pays the Economic Development Corporation of Kansas City, Missouri (the EDC) for office space and certain other administrative services when excess funds are available. For the year ended April 30, 2018, the Authority incurred expenses of \$895,788 for these services. At April 30, 2018, the Authority owed \$55,366 to the EDC for administrative services.

At April 30, 2018, the Authority owed the City \$21,641 related to the leased property described in Note 8 and an additional \$50,725 related to construction costs for a redevelopment project.

**Land Clearance for Redevelopment Authority**  
**A Component Unit of the City of Kansas City, Missouri**  
**Notes to Basic Financial Statements**  
**April 30, 2018**

**Note 5: Notes Receivable**

In accordance with a loan agreement dated February 21, 1991, the Authority loaned Longfellow Heights Apartments, L.P. (Longfellow) \$1,400,000. The loan matures January 31, 2031, along with all unpaid interest. If, during the year, Longfellow has available net cash flow above a certain level defined in the loan agreement, they will be required to pay interest on the loan for that year at 9 percent. If Longfellow does not meet the available net cash flow criteria, the loan bears no interest. As the loan is repaid to the Authority, such funds will be remitted to the City. During the fiscal year ended April 30, 2018, no amounts were received and remitted to the City. Accordingly, the financial statements reflect a note receivable and an amount due to the City of \$1,400,000.

**Note 6: Capital Assets**

A summary of changes in capital assets is as follows:

	Governmental Activities				Balance April 30, 2018
	Balance April 30, 2017	Additions	Deductions	Transfer	
Nondepreciable capital assets					
Land	\$ 1,900,000	\$ -	\$ -	\$ -	\$ 1,900,000
Depreciable capital assets					
Buildings and improvements	4,108,316	-	-	-	4,108,316
Less accumulated depreciation	(2,155,793)	(102,707)	-	-	(2,258,500)
Total depreciable capital assets, net	1,952,523	(102,707)	-	-	1,849,816
Total governmental activities capital assets, net	\$ 3,852,523	\$ (102,707)	\$ -	\$ -	\$ 3,749,816

**Note 7: Real Estate Held for Redevelopment**

All real estate held for redevelopment is held at the lower of cost or net realizable value.

The Authority has entered into an agreement with a developer to redevelop the Columbus Park/Guinotte Manor area (Redevelopment Project) into a commercial and residential area that may include mixed use commercial development and mixed income residential housing. Under the agreement, the Authority will acquire certain properties within the Redevelopment Project through purchases and transfers and then sell those properties to the developer.

# Land Clearance for Redevelopment Authority

## A Component Unit of the City of Kansas City, Missouri

### Notes to Basic Financial Statements

April 30, 2018

In connection with the Redevelopment Project, the Authority had previously acquired real estate with a total original cost of \$4,176,034. Based on amounts specified in the redevelopment plan, management estimates that the real estate within the Redevelopment Project will ultimately be sold at a minimum price of \$2.00 per square foot. Prior to the year ended April 30, 2018, in accordance with generally accepted accounting principles, the government-wide financial statements reflected a \$3,827,725 write down of the carrying value of this real estate to arrive at its estimated net realizable value of \$348,309. During the year ended April 30, 2018, the Authority did not acquire any additional Redevelopment Project properties. The Authority did sell Redevelopment Project properties with a carrying value of \$177,512. No additional rehabilitation expenses were incurred within the Redevelopment Project during the year ended April 30, 2018. During the year ended April 30, 2018, the Authority recognized no impairment loss related to the Redevelopment Project. At April 30, 2018, the properties within the Redevelopment Project had a carrying value of \$170,797.

During the year ended April 30, 2012, the Authority began to receive the properties of the Housing and Economic Development Financial Corporation. The properties were initially contributed to the EDC Charitable Fund, a related party of the Authority, and then transferred to the Authority. The Authority is responsible for redevelopment and disposal of the properties under the City's ReBuild KC Plan. The carrying value of the ReBuild KC properties at April 30, 2017 was \$177,262. During the year ended April 30, 2018, the Authority disposed of properties with a carrying value of \$39,054. The Authority did not receive any contributions and no impairment losses were recognized during the year. The carrying value of the ReBuild KC properties at April 30, 2018 was \$138,208.

In addition to the Redevelopment Project and the ReBuild KC project, the Authority held other real estate for redevelopment with a carrying value of \$35,780 at April 30, 2017. During the year ended April 30, 2018, the Authority did not acquire or dispose of any of these properties. No impairment losses were recognized during the year ended April 30, 2018 for the other redevelopment properties. At April 30, 2018, the carrying value of the other redevelopment properties was \$35,780.

A summary of changes in real estate held for redevelopment is as follows:

	Balance April 30, 2017	Additions	Contributions	Deductions	Transfers	Impairment Loss	Balance April 30, 2018
Real estate held for redevelopment	\$ 561,351	\$ -	\$ -	\$ (216,566)	\$ -	\$ -	\$ 344,785



# Land Clearance for Redevelopment Authority

A Component Unit of the City of Kansas City, Missouri

## Notes to Basic Financial Statements

April 30, 2018

### Note 8: Operating Leases

The Authority leases Block 74 property to the Wyandotte Garage Corporation in accordance with a 99-year operating lease, which commenced on December 1, 1985 and terminates on November 30, 2084. Lease payments are equal to 15 percent of gross receipts as defined in the lease agreement. The Authority received \$181,432 of lease payments during the fiscal year ended April 30, 2018 and remitted \$163,289 to the City. The remaining 10 percent of the rent collected was retained by the Authority for use in its operations. The cost and accumulated depreciation of the leased assets at April 30, 2018 was \$5,838,283 and \$2,215,285, respectively.

### Note 9: Long-term Debt

The following is a summary of the changes in long-term obligations for the year ended April 30, 2018:

	Balance April 30, 2017	Additions	Retirements	Balance April 30, 2018	Amount Due in One Year
Convention Center Hotel Project Series 2018B, interest ranging from 4.75% to 5.00%, payable through February 2050	\$ -	\$ 63,400,000	\$ -	\$ 63,400,000	\$ -
Less discount	-	408,250	3,870	404,380	-
Total long-term obligations	\$ -	\$ 62,991,750	\$ (3,870)	\$ 62,995,620	\$ -

On January 9, 2018, the Authority issued \$63,400,000 of revenue bonds related to the convention center hotel project. The bonds are special, limited obligations of the Authority payable solely from and secured as to the payments of principal and interest by a pledge of economic activity taxes. The bonds mature through February 1, 2050 in amounts ranging from \$8,500,000 to \$32,900,000 at interest rates ranging from 4.75 percent to 5 percent.

**Land Clearance for Redevelopment Authority**  
**A Component Unit of the City of Kansas City, Missouri**  
**Notes to Basic Financial Statements**  
**April 30, 2018**

Aggregate annual maturities of long-term debt at April 30, 2018 are:

Fiscal Year	Principal	Interest
2019	\$ -	\$ 3,271,690
2020	-	3,149,034
2021	-	3,149,034
2022	-	3,149,034
2023	-	3,149,034
2024 - 2028	-	15,745,171
2029 - 2033	8,500,000	14,994,609
2034 - 2038	-	13,868,766
2039 - 2043	22,000,000	10,534,199
2044 - 2048	-	8,311,155
2049 - 2050	32,900,000	3,324,462
	<u>\$63,400,000</u>	<u>\$82,646,188</u>

**Note 10: Conduit Debt**

In December 2005, the Authority issued \$33,130,000 of Lease Revenue Bonds (Refunding Lease Revenue Bonds Series 2005E). As of April 30, 2018, the outstanding balance of the 2005E bonds is \$2,320,000, which is comprised of series bonds that mature annually from December 1, 2007 to December 1, 2018 in amounts ranging from \$1,975,000 to \$3,160,000 with interest rates ranging from 3.50 percent to 5.00 percent. The 2005E bonds were issued for the benefit of the City and are payable solely from rental payments from the City. The Authority has no obligation beyond the initial lease, which has been assigned to the City.

The Authority also issues industrial revenue bonds to provide tax-exempt financing for qualified projects or serves as a conduit agent for redevelopment financing arrangements. However, all principal and interest on such bonds or financing arrangements are payable by the developers or property owners. The Authority has no obligation beyond the initial lease or loan, which has been assigned to various financial or banking entities. Conduit debt outstanding under these arrangements at April 30, 2018 is as follows:

720 Oak	\$ 884,461
Series 2018A Convention Center Hotel	<u>60,405,000</u>
	<u>\$ 61,289,461</u>

**Report 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**

**Independent Auditor's Report**

Board of Commissioners  
Land Clearance for Redevelopment Authority  
Kansas City, Missouri

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 the governmental activities and each major fund of Land Clearance for Redevelopment Authority (the Authority), as of and for the year ended April 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated \_\_\_\_\_, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

## **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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kansas City, Missouri  
\_\_\_\_\_, 2018

**Land Clearance for Redevelopment Authority**  
**Schedule of Findings and Responses**  
**April 30, 2018**

<b>Reference Number</b>	<b>Finding</b>
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No matters are reportable.

***DRAFT***  
***12/11/18***