

AFFORDABLE HOUSING OF KANSAS CITY, INC.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

**AFFORDABLE HOUSING OF KANSAS CITY, INC.
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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Affordable Housing of Kansas City, Inc.
Kansas City, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of Affordable Housing of Kansas City, Inc. (the Organization), a blended component unit of the Housing Authority of Kansas City, Missouri, which comprise the statement of net position as of December 31, 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2015, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Management has omitted Management’s Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2016 on our consideration of the Organization’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on 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 Organization’s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
August 9, 2016

**AFFORDABLE HOUSING OF KANSAS CITY, INC.
STATEMENT OF NET POSITION
DECEMBER 31, 2015**

ASSETS		
CURRENT ASSETS		
Cash - Unrestricted	\$	85,980
Accounts Receivable - Development Advances		5,745
Current Portion of Development Fee Receivable		6,179
Due from Housing Services of Kansas City, Inc.		76
Total Current Assets		97,980
NONCURRENT ASSETS		
Development Fee Receivable, Net of Current Portion		55,611
Investment in Joint Venture		100
Total Noncurrent Assets		55,711
Total Assets	\$	153,691
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$	2,542
Total Liabilities		2,542
NET POSITION		
Unrestricted		151,149
Total Net Position		151,149
Total Liabilities and Net Position	\$	153,691

See accompanying Notes to Financial Statements.

AFFORDABLE HOUSING OF KANSAS CITY, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2015

OPERATING REVENUES	
Other Revenue	\$ 161,890
OPERATING EXPENSES	
General Administrative	<u>2,841</u>
OPERATING INCOME	159,049
Net Position - Beginning of Year	<u>(7,900)</u>
NET POSITION - END OF YEAR	<u><u>\$ 151,149</u></u>

See accompanying Notes to Financial Statements.

**AFFORDABLE HOUSING OF KANSAS CITY, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Receipts from Sales of Goods or Services	\$ 283,536
Cash Payments to Vendors	(197,456)
	86,080
Net Cash Flows Provided by Operating Activities	86,080

CASH FLOWS FROM INVESTING ACTIVITIES

Investment in Joint Venture	(100)
	(100)

NET INCREASE IN CASH

85,980

Cash and Cash Equivalents - Beginning of year

-

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 85,980

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Income	\$ 159,049
Effects of Changes in Operating Assets and Liabilities:	
Accounts Receivable - Development Advances	183,436
Development Fee	(61,790)
Accounts Payable	(790)
Due from/to Housing Services of Kansas City, Inc., Net	(193,825)
Net Cash Provided by Operating Activities	\$ 86,080

See accompanying Notes to Financial Statements.

AFFORDABLE HOUSING OF KANSAS CITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Affordable Housing of Kansas City, Inc. (the Organization), a non-profit 501(c)(4) organization and an affiliate of the Housing Authority of Kansas City (HAKC), was organized under the laws of the State of Missouri to improve the social welfare of moderate, low and very low income families through the creation, rehabilitation and preservation of affordable housing and other means. The Organization is governed by the Board of Commissioners which is comprised of the Board of Directors of the HAKC, the Executive Director of HAKC, and an additional resident representative. The Board of Commissioners must approve all actions, including issuance of bonded debt, operational and capital budgets, through resolution.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) accounting statements, the Organization's financial statements include those of the Organization and any component units. Component units are legally separate organizations that meet certain criteria related to the composition of the component unit's voting board and the financial benefit/burden relationship with the primary government unit.

Based upon the application of these criteria, this report includes all programs and activities operated by the Organization. There were no additional entities required to be included in the reporting entity under these criteria in the current fiscal year. However, the Organization is considered a blended component unit of the Authority and as such is included in its financial statements.

1101 Admiral GP, LLC is wholly owned by the Organization and was created for the sole purpose to act as the General Partner in 1101 Admiral LP. Effective August 25, 2015, 1101 Admiral LP amended its Certificate of Limited Partnership to document the withdrawal of certain members and the addition of certain members. USA Rose Hill Townhomes LLC was admitted as the Investment Partner with a 98.99% interest. The Richman Group Capital Corporation was admitted as the Special Limited Partner with no interest. Missouri Fund 2015 III LLC was admitted as the State Tax Credit Limited Partner with a 1.00% interest. The interest of 1101 Admiral GP, the General Partner, was reduced to 0.01%.

1101 Admiral GP, LLC has no financial activity other than its \$100 capital contribution in 1101 Admiral LP which is included in the financial statements of the Organization.

Basis of Presentation

Although the Organization is a non-profit corporation it is considered to be a governmental entity for the purpose of applying accounting and financial reporting standards, that is, the Governmental Accounting Standards Board (GASB) has jurisdiction over the Organization's accounting standards.

The Organization's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The GASB is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

AFFORDABLE HOUSING OF KANSAS CITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

All transactions are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, and losses from assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The Organization's primary source of non-exchange revenue relates to grants and development fees.

Cash and Cash Equivalents

For the statement of cash flows, cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less at time of purchase. It is the Organization's policy to maintain collateralization in accordance with HUD requirements.

Accounts Receivable

Accounts receivable represents amounts due for services provided, program grants and reimbursement of program costs. An allowance for doubtful accounts is established to provide for all accounts, which may not be collected in the future for any reason. Collection losses on accounts receivable are charged against the allowance for doubtful accounts.

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 certain 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. Significant estimates include the allowance for doubtful accounts, accrued expenses and other liabilities, depreciable lives of properties and equipment and contingencies. Actual results could differ significantly from these estimates.

Income Taxes

The Organization is exempt under Section 501(c)(4) of the Internal Revenue Code and is, therefore, not subject to income taxes on activities related to its exempt function.

Net Position Classifications

Net position is displayed in three components:

Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, constriction or improvement of those assets.

Restricted net position - Consists of resources with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

AFFORDABLE HOUSING OF KANSAS CITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position Classifications (Continued)

Unrestricted net position (deficit) - All other resources that do not meet the definition of "restricted" or "net investment in capital assets."

When both restricted and unrestricted resources are available for use, it is the Organization's policy to use restricted resources first and unrestricted resources as needed.

Operating Revenues and Expenses

The Organization defines its operating revenues as income derived from charges for services provided, as well as government subsidies and grants used for operating purposes. Operating expenses are costs incurred in the operation of its program activities to provide services to program participants and others. Fees earned for the development of projects are recorded as other operating revenue as earned, in accordance with the development agreement. The Organization classifies all other revenues as non-operating.

NOTE 2 CASH AND CASH EQUIVALENTS

Deposits

At December 31, 2015, the Organization had funds on deposit in one checking account. As of December 31, 2015, the carrying amount of the Organization's cash was \$85,980, and the bank balance was \$91,725.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the entity's deposits may not be returned to it. At December 31, 2015, there was no amount in excess of the FDIC limit.

NOTE 3 DEVELOPMENT ADVANCES

The Authority is participating in a tax credit development to receive an allocation of tax credits from the Missouri Housing Development Commission related to Rose Hill Townhomes. The owner entity is 1101 Admiral, LP and AHKC is the developer of the property. This deal is comprised of 33 tax credit units located at 1101 Admiral Boulevard. The project is funded by a \$100,000 HOME loan from Kansas City, a \$250,000 loan from restart, Inc. and equity from the low income housing tax credit investors of approximately \$7,010,026. During FY 2015, AHKC incurred \$53,830 of reimbursable expenses and was reimbursed \$237,266 for current and prior year development advances. At year end, \$5,745 of reimbursable expenses were outstanding.

NOTE 4 DEVELOPMENT FEE

The development fee earned by AHKC during FY 2015 for the Rose Hill project totaled \$161,790. At year end, \$61,790 of the fee earned was outstanding. Based on the payment terms of the developer agreement management expects that \$6,179 of this amount will be received in the next fiscal year. The remaining \$55,611 has been classified as a noncurrent asset.

AFFORDABLE HOUSING OF KANSAS CITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 5 RELATED PARTY

The Organization is an affiliate of the Authority and the Housing Services of Kansas City, Inc. and as such, certain costs are shared and periodically reimbursed to the common paymaster. The Authority provides maintenance and support staff to the Organization. The Authority charges for payroll and fringe benefits as incurred. Such advances are interest free and due from available cash flow. As of December 31, 2015, the Organization was owed \$76 from Housing Services of Kansas City, Inc.

NOTE 6 RISK MANAGEMENT

The Authority maintains commercial insurance coverage for property, liability and surety bonds on behalf of the Organization. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage except for deductibles for the year ended December 31, 2015.

NOTE 7 CONTINGENCIES

From time to time, the Organization may receive financial assistance from State and Local Agencies or Foundations in the form of grants. Entitlement to the funds is generally conditional upon compliance with terms and conditions of the grant agreements and applicable regulations, including the expenditure of the funds for eligible purposes. Substantially all grants, entitlements and cost reimbursements are subject to financial and compliance audits by the grantor agency. As a result of these audits, costs previously reimbursed could be disallowed and require payments. As of December 31, 2015, the Organization estimates that no material liabilities will result from such audits.

NOTE 8 PENDING GASB PRONOUNCEMENTS

The Organization will be required to implement GASB Statement No. 72, *Fair Value Measurement and Application* for the period ending December 31, 2016. The objective of this Statement is to improve financial reporting by clarifying the definition of fair value, establishing principles for measuring fair value, providing additional fair value application guidance and enhancing disclosures about fair value measurements. The Organization is currently evaluating the effect of the implementation of this Statement.

The Organization will be required to implement GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, for the period ending December 31, 2016. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement will not affect the Organization as it does not have a pension plan.

AFFORDABLE HOUSING OF KANSAS CITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 8 PENDING GASB PRONOUNCEMENTS (CONTINUED)

The Organization will be required to implement GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, for the period ending December 31, 2017. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement will not affect the Organization as it does not have any OPEB plans.

The Organization will be required to implement GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, for the period ending December 31, 2016. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The Organization is currently evaluating the effect of the implementation of this Statement.

The Organization will be required to implement GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Pension Plans*, for the period ending December 31, 2016. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The Organization is currently evaluating the effect of the implementation of this Statement. This Statement will not affect the Organization as it does not have a pension plan.

The Organization will be required to implement GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* for the period ending December 31, 2016. The objective of this Statement is to enhance comparability of financial statements by providing qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. The Organization is currently evaluating the effect of the implementation of this Statement.

The Organization will be required to implement GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, for the period ending December 31, 2017. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The Organization is currently evaluating the effect of the implementation of this Statement.

The Organization will be required to implement GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, for the period ending December 31, 2017. The objective of this Statement is to improve accounting and financial reporting by clarifying the recognition and measurement guidance when a government or government entity is the beneficiary of an irrevocable split-interest agreement. The Organization is currently evaluating the effect of the implementation of this Statement.

AFFORDABLE HOUSING OF KANSAS CITY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 8 PENDING GASB PRONOUNCEMENTS (CONTINUED)

The Organization will be required to implement GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, for the period ending December 31, 2017. The objective of this Statement is to address issues related to the presentation of payroll-related measures in required supplementary information, the selection of assumptions for financial reporting purposes and the classification of payments made by employers to satisfy employee contribution requirements. This Statement will not affect the Organization as it does not have a pension plan.



**INDEPENDENT AUDITORS' REPORT 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**

Board of Commissioners
Affordable Housing of Kansas City, Inc.
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 Affordable Housing of Kansas City, Inc. (the Organization), which comprise the statement of net position as of December 31, 2015, 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 August 9, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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 result of that testing, and not to provide an opinion on the effectiveness of the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Baltimore, Maryland
August 9, 2016