

**JOINT ECONOMIC DEVELOPMENT ORGANIZATION
SHAWNEE COUNTY, KANSAS**

Basic Financial Statements
Together With
Independent Auditor's Report

December 31, 2018

JOINT ECONOMIC DEVELOPMENT ORGANIZATION

Financial Statements

December 31, 2018

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Independent Auditor's Report

To the Board of Directors
Joint Economic Development Organization
Shawnee County, Kansas

We have audited the accompanying financial statements of the governmental activities and major fund of the Joint Economic Development Organization as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as 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 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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 major fund of the Joint Economic Development Organization, as of December 31, 2018, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

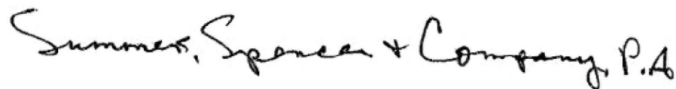
Other Matters

Required Supplementary Information

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 a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 July 31, 2019 on our consideration of the Joint Economic Development 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 on internal control over financial reporting and compliance and the results 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 Joint Economic Development Organization's internal control over financial reporting and compliance.



Summers, Spencer & Company, P.A.
Topeka, Kansas

July 31, 2019

JOINT ECONOMIC DEVELOPMENT ORGANIZATION
Governmental Fund Balance Sheet and Statement of Net Position

December 31, 2018

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 618,311	\$ -	\$ 618,311
Receivables			
City of Topeka	2,331,609	-	2,331,609
Shawnee County	1,375,309	-	1,375,309
<i>Total assets</i>	<u>\$ 4,325,229</u>	<u>-</u>	<u>4,325,229</u>
Liabilities and Fund Balance/Net Position			
Liabilities			
Accounts payable			
City of Topeka	\$ 1,475,887	-	1,475,887
Shawnee County	1,598,878	-	1,598,878
<i>Total liabilities</i>	3,074,765	-	3,074,765
Fund balance			
Restricted	1,250,464	-	-
<i>Total fund balance</i>	1,250,464	-	-
<i>Total liabilities and fund balance</i>	<u>\$ 4,325,229</u>		
Net position			
Restricted		-	1,250,464
<i>Total net position</i>		<u>\$ -</u>	<u>\$ 1,250,464</u>

The accompanying notes are an integral part of the financial statements.

JOINT ECONOMIC DEVELOPMENT ORGANIZATION
Governmental Fund Revenues, Expenditures and Changes in Fund Balance and
Statement of Activities

For the Year Ended December 31, 2018

	General Fund	Adjustments	Statement of Activities
Revenue			
Sales tax			
City of Topeka	\$ 9,188,267	\$ -	\$ 9,188,267
Shawnee County	7,844,889	-	7,844,889
Return of funds	4,543,500	-	4,543,500
Interest income	20,795	-	20,795
<i>Total revenue</i>	21,597,451	-	21,597,451
Expenses			
Economic development			
Go Topeka	5,000,000	-	5,000,000
City of Topeka	5,773,554	-	5,773,554
Shawnee County	6,254,683	-	6,254,683
East Topeka Learning Center	4,543,500	-	4,543,500
Professional services and other	25,952	-	25,952
Transfer of property held for development	-	423,509	423,509
<i>Total expenses</i>	21,597,688	423,509	22,021,197
Change in net position	(237)	(423,509)	(423,746)
Net position, beginning of year	1,250,701	423,509	1,674,210
Net position, end of year	\$ 1,250,464	\$ -	\$ 1,250,464
Reconciliation of the Governmental Fund Revenues			
Expenditures and changes in fund balance to the			
statement of activities:			
Change in fund balance - governmental fund			\$ (237)
Expenditures that do not provide current financial			
resources are not reported in the governmental funds			
Transferred property held for development			(423,509)
Change in net position - statement of activities			\$ (423,746)

**JOINT ECONOMIC DEVELOPMENT ORGANIZATION
Notes To The Basic Financial Statements**

December 31, 2018

Note 1- Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The Joint Economic Development Organization (JEDO) is a separate legal entity created by an interlocal agreement, as amended and revised (the agreement) between the City of Topeka, Kansas (the City) and Shawnee County, Kansas (the County). JEDO Board of Directors consists of thirteen (13) members. Voting members include the three (3) County Commissioners, the City Mayor, Deputy Mayor and two City Council members. Nonvoting members include the remaining six (6) City Council members.

On August 3, 2004, County voters passed a countywide one-half percent sales tax to finance economic development and countywide infrastructure development. The State of Kansas collects the sales tax and remits the respective taxes to the City and County who in turn remit the sales tax to JEDO.

On November 4, 2014, County voters renewed the countywide one-half percent sales tax for an additional 15 years commencing January 1, 2017 and expiring December 31, 2031.

On April 19, 2016, the City and County entered into a new interlocal agreement that rescinds the previous agreements and amendments upon the full distribution of the sales tax receipts and commitments from the sales tax expiring December 31, 2016.

Beginning January 1, 2017 and continuing each year through December 31, 2031, JEDO shall dedicate \$5,000,000 annually for the purpose of supporting economic development priorities established by the JEDO Board. JEDO shall ensure that not less than 10% of the \$5,000,000 will be targeted to support economic development for socially and economically disadvantaged individuals and/or business enterprises. The remaining funds shall then be distributed to the City (48%) and to the County (52%) for purposes of completing the infrastructure improvements and quality of life projects as set forth in the November 4, 2014 ballot language. In the event the sales tax proceeds are not sufficient to fund all of the improvements and projects, JEDO may alter the distribution formula, or reduce the amount of funds allocated for any particular improvement or project.

Under the agreement, upon the later of the expiration or termination of the sales tax and the completion of and payment for the economic development priorities and the infrastructure improvements and quality of life projects, JEDO shall inform the City and County of any excess funds remaining. Any excess funds will be distributed to the City and County in the proportional rates as provided by KSA 12-192(a).

JEDO is a stand-alone government and is not legally required to adopt a budget for the General Fund. There are no component units related to JEDO that should be accounted for in JEDO's basic financial statements in accordance with Governmental Accounting Standards Board Statements.

Note 2 - Significant Accounting Policies

The accounting policies of JEDO conform to accounting principles generally accepted in the United States of America as applicable to governmental entities.

Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the governmental activities of JEDO.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Due to the nature of the funding sources, there are no program revenues and grants and contributions.

**JOINT ECONOMIC DEVELOPMENT ORGANIZATION
Notes To The Basic Financial Statements**

December 31, 2018

Sales taxes contributed and unrestricted investment earnings not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

JEDO has one fund for financial statement presentation purposes, the General Fund.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide Financial Statements

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 when a liability is incurred, regardless of the timing of related cash flows.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement 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. JEDO considers retail sales taxes available and susceptible to accrual if they are received within 90 days after year-end.

Countywide Sales Taxes

The one-half percent county-wide sales tax took effect January 1, 2005, and was set to expire on December 31, 2016. The sales tax was extended an additional 15 years commencing January 1, 2017 and is set to expire on December 31, 2031.

Assets, Liabilities and Net Position or Fund Balance

Cash and Cash Equivalents – cash in demand accounts at financial institutions and short-term, highly liquid investments that are readily convertible in known amounts of cash. Interest bearing deposit accounts are reported at cost plus accrued interest.

Accounts Receivable - Retail sales tax collected by the City and County to be remitted to JEDO that have been received within 90 days after year-end.

Net Position/Fund Balance Classifications

Net Position – In the government-wide financial statements, equity is classified as restricted – net position that consists of assets restricted for the sole use of JEDO in accordance with the November 4, 2014 ballot language.

Fund Balance – As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which JEDO is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of December 31, 2018, the fund balance of the general fund is restricted.

**JOINT ECONOMIC DEVELOPMENT ORGANIZATION
Notes To The Basic Financial Statements**

December 31, 2018

Note 2 - Deposits and Cash Equivalents

Cash and cash equivalents consisted of the following at December 31, 2018:

Demand deposits	\$ 1,000
Repurchase agreements	<u>617,311</u>
Total cash and cash equivalents	<u>\$ 618,311</u>

K.S.A. 9-1401 establishes the depositories which may be used by JEDO. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. JEDO has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits JEDO's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool (KMIP). JEDO has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount JEDO may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, JEDO's deposits may not be returned to it. State statutes require JEDO's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2018.

Note 3 - Economic Development Program

JEDO has entered into an agreement with the Growth Organization of Topeka/Shawnee County, Inc., (GO Topeka), a non-profit Kansas Corporation to provide services in support of JEDO economic development program (the program) designed to expand employment, strengthen the tax base and diversify and strengthen the City and County economy. Under the agreement, JEDO will annually provide Go Topeka \$5,000,000 to carry out the program. Upon written notification, either party may terminate the agreement. Should the agreement be terminated, any cash or real property under the program shall revert back to JEDO. On May 10, 2017, the agreement was again amended to extend the terms through December 31, 2020.

Note 4 – Joint Education Agreement

In February 2017, JEDO acquired the Menninger Army Reserve property through assignment from GO Topeka. The acquisition of the property is part of an initiative to expand the educational services and programs within the Topeka area by establishing the East Topeka Learning Center (ETLC). In July 2017, JEDO entered into a Joint Education Agreement with GO Topeka and the Washburn Institute of Technology through Washburn University (Washburn) to provide education services and other programs at the ETLC. The ETLC proposed budget also includes environmental remediation, demolition costs, rehabilitation costs, and partnership funds for a total of \$6.5 million. This property was transferred to ETLC in June 2018 and the agreement was terminated.

**JOINT ECONOMIC DEVELOPMENT ORGANIZATION
Notes To The Basic Financial Statements**

December 31, 2018

Note 5 – New Markets Tax Credits

In June 2018, JEDO participated in a New Markets Tax Credits (NMTC) financing for the benefit of ETLC. JEDO conveyed the Menninger Army Reserve property to ETLC, which is a non-profit affiliate of GO Topeka specifically created to own and cause the operation of the facility in support of GO Topeka's mission for the property. JEDO also agreed to serve as leverage lender for the NMTC financing.

The NMTC program permits investors in qualified projects in certain low-income communities to claim federal tax credits for making Qualified Equity Investments (QEI) in a designated Community Development Entity (CDE). The CDE must use substantially all of the proceeds to make Qualified Low-Income Community Investments (QLICs). The tax credits are claimed over a seven-year period and equate to 39% of the QEI.

GO Topeka created the GO Topeka ETLC Support Corporation, a Kansas nonprofit corporation, (the Corporation), as a supporting organization to own and operate ETLC. JEDO, along with GO Topeka and Washburn, terminated the Joint Educational Agreement discussed in Note 4. The Corporation then entered into a ten-year contract for services with Washburn to provide educational programming at ETLC in exchange for \$1.5 million in operating subsidy payments to be paid over the first two years of ETLC's operations.

As described in Note 3, JEDO has contracted with GO Topeka to provide services in support of JEDO's economic development program. GO Topeka agreed to return approximately \$4.5 million to JEDO to provide financing of the ETLC project, and is classified as a return of funds in the financial statements. Using these funds, JEDO made the leverage loan to ETLC Investment Fund, a Delaware limited liability company, (the Fund) in the approximate amount of \$4.5 million with interest at 1% annually and scheduled to mature in 2053. The leverage loan is classified as an expense for economic development on the financial statements and the loan proceeds will be collected and accounted for by the Partnerships of Hope XXI, LLC, as noted below.

PNC New Markets Investment Partners, LLC, a Delaware limited liability company (PNC), made a capital contribution in the Fund in exchange for one hundred percent (100%) of Fund's membership equity interests.

Using PNC's capital contribution and JEDO's leverage loan, the Fund made the QEI, in accordance with the Internal Revenue Code of 1986 (the Code), in an amount equal to \$6.5 million to Partnerships of Hope XXI, LLC, a Missouri limited liability company (Partnerships) an affiliated Community Development Entity (CDE) of Raza Development Fund, Inc., a District of Columbia nonprofit corporation, which is eligible for NMTC in accordance with the Code.

Partnerships made certain loans to the Corporation in the aggregate original principal amount of \$6.5 million (collectively, the "QLICI Loans"), each of which is intended to constitute a Qualified Low Income Community Investment, as such term is used in Section 450 of the Code. Proceeds of the QLICI Loans will be used to fund ETLC and the payment to Washburn.

Note 6 - Subsequent Events

JEDO has evaluated subsequent events through July 31, 2019, the date the financial statements were available to be issued. None were identified that required adjustment to or disclosure in the financial statements.

INDEPENDENT AUDITOR'S 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

To the Board of Directors
Joint Economic Development Organization
Shawnee County, Kansas

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 major fund of the Joint Economic Development Organization (JEDO), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise JEDO's basic financial statements, and have issued our report thereon dated July 31, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered JEDO'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 JEDO's internal control. Accordingly, we do not express an opinion on the effectiveness of JEDO'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.

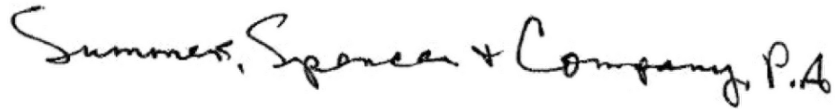
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 JEDO'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Summers, Spencer & Company, P.A." The signature is written in a cursive, flowing style.

Summers, Spencer & Company, P.A.

Topeka, Kansas

July 31, 2019