

Members of the Board of Commissioners
Land Clearance for Redevelopment Authority
of Kansas City, Missouri
300 Wyandotte St., Ste. 400
Kansas City, Missouri 64015

This letter is to inform the Board of Commissioners of the Land Clearance for Redevelopment Authority (Authority) about significant matters related to the conduct of our audit as of and for the year ended April 30, 2019, so that it can appropriately discharge its oversight responsibility and we comply with our professional responsibilities.

This report is intended solely for the information and use of the Board of Commissioners and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

This letter includes other comments and suggestions with respect to matters that came to our attention in connection with our audit of the Authority's financial statements. These items are offered as constructive suggestions to be considered part of the ongoing process of modifying and improving the Authority's practices and procedures.

The following summarizes various matters that must be communicated to you under auditing standards generally accepted in the United States of America.

The Responsibilities of the Auditor and Management

Our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States have been described to you in our arrangement letter dated August 5, 2019. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication dated July 24, 2019 regarding the planned scope and timing of our audit and have discussed with you our identification of, and planned audit response to, significant risks of material misstatement. We made no significant changes to the scope or timing of our procedures.

Significant Accounting Practices, Including Policies, Estimates and Disclosures

Our views about the qualitative aspects of the Authority's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures are indicated herein, which you may wish to monitor for your oversight responsibilities of the financial reporting process:

Adoption of, or Change in, Accounting Policies - Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Authority, and management may select among alternative accounting practices in certain circumstances. The Authority did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current year.

Significant or Unusual Transactions - We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Management's Judgments and Accounting Estimates - Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates.

Audit Adjustments

Certain audit adjustments were made to the original trial balance presented to us to begin our audit. These included the following:

- increase accounts payable for services received before year-end by \$9,123
- adjust 2018B trust activity to properly reflect transfer activity between trust accounts which resulted in a decrease to beginning fund balance and net position and an increase to change in fund balance and net position by \$6,498,302 and no net impact to ending fund balance and net position
- decrease related party payable for amounts no longer due to related party by \$21,641
- decrease accrued interest expense for amounts owed at year-end by \$168,653

Uncorrected Misstatements

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

Management Representations

In connection with our audit procedures, we have obtained a written management representation letter. This representation letter constitutes written acknowledgments by management that it has the primary responsibility for the fair presentation of the financial statements in conformity with generally accepted accounting principles and also includes the more significant and specific oral representations made by officers and employees during the course of the audit. The letter is intended to reduce the possibility of misunderstandings between us and the Authority and reminds the signing officers to consider seriously whether all material liabilities, commitments and contingencies or other important financial information have been brought to our attention.

Other Disclosures

We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit year; we encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements; we are not aware of any consultations management had with other accountants about accounting or auditing matters; no major issues were discussed with management prior to our appointment; and we did not encounter any difficulties in dealing with management relating to the performance of the audit.

Other Matters

The Government Accounting Standards Board (GASB) has issued several statements not yet implemented by the Authority. The Authority's management has not yet determined the effect these statements will have on the Authority's financial statements. However, the Authority plans to implement all standards by the required dates. Listed below are the issued GASB statements that have not yet been adopted:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability and a corresponding deferred outflow of resources for AROs when the liability is incurred and reasonably estimable. This statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for estimating the liability and the estimated remaining useful life of the associated tangible capital asset. The provisions of this statement are effective for financial statements for the Authority's fiscal year ending April 30, 2020.
- GASB Statement No. 84, *Fiduciary Activities*, improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when demands for resources has been made or when no further action, approval or condition is required to be taken or met by the beneficiary to release the assets. The provisions of this statement are effective for financial statements for the Authority's fiscal year ending April 30, 2020.
- GASB Statement No. 87, *Leases*, improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resource based on the payment provisions of the contract. It establishes a single model for lease accounting based on foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Provisions of this statement are effective for financial statements for the Authority's fiscal year ending April 30, 2021.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, improves information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. Provisions of this statement are effective for financial statements for the Authority's fiscal year ending April 30, 2020.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. It also simplifies the accounting for interest cost incurred before the end of a construction period. Provisions of this statement are effective for financial statements for the Authority's fiscal year ending April 30, 2021.
- GASB Statement No. 90, *Major Equity Interests*, improves consistency and comparability of reporting a government's majority equity interest in a legally separate organization, and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. Provisions of this statement are effective for financial statements for the Authority's year ending April 30, 2020.

Information Security Governance

Executive managers and those charged with governance must be confident that the entity is protecting your information and the systems that process it. The potential impacts of a failure in the availability, confidentiality or integrity of your critical information assets is monumental in today's environment of cybersecurity breaches.

Many organizations believe their information security practices are adequately mitigating their risks. Unfortunately, they are often surprised to discover those practices are failing to perform as expected and the consequences are usually severe.

Information security is more than a technology issue. It is a governance and management challenge that involves risk management, accountability and reporting. And it requires executive stewardship to ensure the timely assessment of emerging threats and your organization's effective response to them.

Additional information on "Information Risk is Business Risk" can be accessed through our AGH University website located at <http://www.aghuniversity.com/webinars/archived/archived-webinars.aspx> (from the "select a topic" drop-down box, select Information Technology). Additionally, we encourage your management team to take advantage of peer networking groups, trade associations or other resources relating to IT and information risk and the most recent best practices as the constant risk evolves.

Additionally, a structured assessment can help you develop stronger, better and more systematic approaches to your information security. It will help you clearly and objectively understand the strengths and weaknesses in your current information security processes and the extent to which those processes are meeting your needs. Most important, it will guide you with recommendations to help you protect your information, facilities, people and technology.

We believe a review or assessment must be completed on a periodic basis; this assessment can be completed internally or by using an outsourced service provider. Executive managers should be involved with the review and summary reports should also be shared with those charged with governance.

Vulnerability Assessment

In addition to a periodic information system governance review, the entity should also conduct periodic (at least annually or semi-annually) vulnerability assessments. There are more than 71,000 known network vulnerabilities that can leave organizations open to significant risk. High-profile security breaches have become commonplace and many companies are susceptible to the same failures. Network vulnerability assessments can help you identify and resolve your vulnerabilities before they are exploited by cybercriminals. AGH's experienced security professionals use network vulnerability assessments to discover and analyze known flaws and weaknesses.

Using automated scanners - along with their experience and judgment - our security professionals will identify existing vulnerabilities, evaluate their severity and recommend steps for fixing the underlying problems.

Comprehensive Policy and Procedure Review

Given the broad and deep scope of your operations, you should consider completing a comprehensive evaluation of the adequacy and effectiveness of the entity's internal financial policies, processes and procedures, including a comparison to best practices among organizations the same size.

For entities that have experienced budget cuts in the finance area or those that have experienced turnover, a periodic review of controls is imperative. Even if your finance team has been stable over the years, we remind you that even the best design of controls is only as good as the people who carry out and execute such controls.

Financial policies, procedures and processes are a key element of sound fiscal administration. When policies are effective, they can preserve or enhance the fiscal health and wealth of the organization and create efficiencies for staff members.

This comprehensive evaluation could include:

1. Evaluation of existing controls
2. Identification of financial policies that could lead to vulnerability to fraud and/or abuse
3. For those identified weaknesses and risks, recommendations for improvements

AGH Employer Solutions

Many employers' largest expenditures and biggest challenges are related to employees. Based on client demand for assistance with recruiting, screening, hiring, compensating, training, retaining and engaging employees, we can assist with many of these needs, including:

- Consulting to optimize employee engagement and increase employee productivity and performance, including assessments and training
- Executive coaching
- Organizational analysis and development
Management succession
- Review of retirement plan benchmarking / investment performance
- Audits of human resource policies, processes and procedures; review of position descriptions; review of personnel files and other items for compliance with regulations

Closing

We will be pleased to respond to any questions you have about this report or set up an introductory meeting to discuss the other recommendations at no charge. We appreciate the opportunity to continue to be of service to the Land Clearance for Redevelopment Authority of Kansas City, Missouri.

Allen, Gibbs & Houlik, L.C.
CERTIFIED PUBLIC ACCOUNTANTS

September 11, 2019
Wichita, KS

Mr. Greg Flisram
Land Clearance for Redevelopment Authority
of Kansas City, Missouri
300 Wyandotte St., Ste. 400
Kansas City, Missouri 64015

Internal Control Deficiencies

In planning and performing our audit of the financial statements of the Land Clearance for Redevelopment Authority (Authority) as of and for the year ended April 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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 Authority's financial statements will not be prevented, or detected and corrected, on a timely basis.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged with governance.

Following are descriptions of identified deficiencies in internal control that we determined did not constitute significant deficiencies or material weaknesses:

Bond Trust account activity

During fiscal year 2018, the Authority issued two bond issuances (2018A and 2018B) related to the Loews KC Convention Center Hotel project. The 2018A bond issuance was determined to be conduit debt of the authority and therefore not reported in the Authority's financial statements, but only disclosed. The 2018B bond issuance was determined to be a liability of the Authority and reported in the financial statements along with the related trust investment account activity. During 2019, the trust

account activity for the 2018B bond issuance was recorded; however when transfers were made between the different bond trust accounts, the transfers were recorded in a fund balance account instead of being appropriately recorded within income statement accounts. This resulted in an adjustment to the financial statements to properly present fund balance and net position as of the beginning of fiscal year 2019 and properly present expenses out of the trust accounts for fiscal year 2019. We recommend that the Authority update the trust account activity spreadsheets to account for transfers between trust accounts as internal transfers and eliminate that activity within the expense accounts which will prevent misstatements of beginning fund balance and net position and the duplication of expenses.

Closing

This communication is intended solely for the information and use of the Commission Members and management, and is not intended to be, and should not, be used by anyone other than these specified parties.

Allen, Gibbs & Houlik, L.C.
CERTIFIED PUBLIC ACCOUNTANTS

September 11, 2019
Wichita, KS

***LAND CLEARANCE FOR REDEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE CITY OF KANSAS CITY, MISSOURI)***

FINANCIAL STATEMENTS

FOR THE YEAR ENDED APRIL 30, 2019

WITH

INDEPENDENT AUDITOR'S REPORTS



LAND CLEARANCE FOR REDEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE CITY OF KANSAS CITY, MISSOURI)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED APRIL 30, 2019

WITH

INDEPENDENT AUDITOR'S REPORTS

LAND CLEARANCE FOR REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Kansas City, Missouri)

FINANCIAL STATEMENTS

For the Year Ended April 30, 2019

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Land Clearance for Redevelopment Authority (Authority), a component unit of the City of Kansas City, Missouri, as of and for the year ended April 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority'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 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 Authority, as of April 30, 2019, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2019 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Allen, Gibbs & Houlik, L.C.
CERTIFIED PUBLIC ACCOUNTANTS

September 11, 2019
Wichita, KS

**LAND CLEARANCE FOR REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Kansas City, Missouri)**

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Land Clearance for Redevelopment Authority (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, 2019. 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 continued 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 the City of Kansas City, Missouri land. The project was a mixture of private and public financing issued in 2018. A 2018 Series A and 2018 Series B bonds valuing \$79 million were issued through the Authority and TIF Commission.
- ReBuild KC Program - Continued redevelopment and sales of properties within the City of Kansas City, Missouri's ReBuild KC Plan in the Beacon Hill area. Program income of approximately \$110,328 was earned through sale of properties during the fiscal year. The Authority maintains approximately \$22,409 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-term 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.

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-term and long-term information about the Authority's financial status as a whole.

**LAND CLEARANCE FOR REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Kansas City, Missouri)**

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2019.

LAND CLEARANCE FOR REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Kansas City, Missouri)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Position
Governmental Activities

	<u>2019</u>	<u>2018</u>
Assets		
Cash	\$ 233,423	\$ 347,529
Restricted cash and investment	34,873,586	52,649,830
Other current assets	45,190	43,079
Notes receivable	1,400,000	1,400,000
Real estate held for redevelopment	228,986	344,785
Capital assets, net of accumulated depreciation	<u>3,647,109</u>	<u>3,749,816</u>
 Total assets	 <u>40,428,924</u>	 <u>58,535,039</u>
Liabilities		
Current liabilities	934,832	1,069,114
Due to the City of Kansas City, Missouri	1,471,092	1,472,366
Long-term liabilities	<u>63,014,177</u>	<u>62,995,620</u>
 Total liabilities	 <u>65,420,101</u>	 <u>65,537,100</u>
Net position		
Net investment in capital assets	3,647,109	3,749,816
Restricted - expandable	34,323,353	52,016,963
Unrestricted	<u>(62,962,269)</u>	<u>(62,768,840)</u>
 Total net position	 <u>\$ (24,991,807)</u>	 <u>\$ (7,002,061)</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Authority exceeded liabilities by \$24,991,807 as of April 30, 2019. The Authority's net position decreased by \$17,989,746 for the fiscal year ended April 30, 2019.

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 bonds 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

**Changes in Net Position
Governmental Activities**

	<u>2019</u>	<u>2018</u>
Revenues		
Program revenues		
Charges for services	\$ 331,566	\$ 1,701,560
Operating grants and contributions	2,315	287,137
Capital grants and contributions	110,328	579,270
General revenues		
Interest and other	917,371	131,665
 Total revenues	 <u>1,361,580</u>	 <u>2,699,632</u>
 Program expenses		
Economic development	16,290,550	11,151,597
Interest and bonds issuance costs	3,060,776	2,850,369
 Total expenses	 <u>19,351,326</u>	 <u>14,001,966</u>
 Change in Net Position	 (17,989,746)	 (11,302,334)
 Net Position, Beginning of Year	 <u>(7,002,061)</u>	 <u>4,300,273</u>
 Net Position, End of Year	 <u><u>\$ (24,991,807)</u></u>	 <u><u>\$ (7,002,061)</u></u>

The revenues decreased and expenses increased in 2019 compared to 2018. The charges for services were decreased from previous year due to the prior year having higher than anticipated funding agreements with developers within urban renewal plans. In 2019, this activity decreased back down to normal levels. The operating grants and contributions decreased due to the decreased activity in the Beacon Hill (ReBuildKC) redevelopment area.

The increase in program expenses was due to the 2018 Series B bonds costs increasing for a full year of activity in 2019 associated with the construction of the KC Convention Center Hotel project offset by a decreased activity within the redevelopment of the Beacon Hill (ReBuildKC) area in fiscal year 2019.

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.

As the Authority completed the year, its governmental funds reported a total fund balance of \$34,925,494, a decrease of \$17,921,336 from the prior year. This was due primarily to the increase of construction costs on the KC Convention Center Hotel project and from lower than anticipated revenue associated with tax abatement fee collection and reduced sales of parcel in the Beacon Hill area as discussed below.

LAND CLEARANCE FOR REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Kansas City, Missouri)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Authority's ending general fund balance decreased \$145,092. General fund intergovernmental revenues and reimbursements from developers decreased \$1,226,562 and related expenditures decreased \$1,005,537 compared to the prior fiscal year. This is largely attributed to decreased activity in the redevelopment of the Beacon Hill (ReBuildKC) redevelopment project and decreased funding agreements with developers within urban renewal plans. Fee revenue and related fees paid to related party also decreased \$412,426 and \$696,199, respectively, primarily due to fees received in 2018 related to the issuance of the 2018 Series B bonds.

The Authority's ending capital projects fund balance decreased \$17,776,244. In 2019, the fund incurred construction cost and interest expenditures related to the KC Convention Center Hotel project of \$18,690,500 as this was the first full year of this project. This was offset by interest earned on restricted investments of \$914,256.

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*.

	<u>2019</u>	<u>2018</u>
Land	\$ 1,900,000	\$ 1,900,000
Other capital assets	<u>1,747,109</u>	<u>1,849,816</u>
	<u>\$ 3,647,109</u>	<u>\$ 3,749,816</u>
Real estate held for redevelopment	<u>\$ 228,986</u>	<u>\$ 344,785</u>

At April 30, 2019, the Authority had \$63,400,000 in debt outstanding related to the Series 2018 B bond issued in the prior year. No principal payments are due on the debt until fiscal year 2021. 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, 300 Wyandotte Street, Suite 400, Kansas City, Missouri 64105. For additional information about our organization, the website address is www.edckc.com.

LAND CLEARANCE FOR REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Kansas City, Missouri)

STATEMENT OF NET POSITION

April 30, 2019

	Governmental Activities
Assets	
Cash	\$ 233,423
Restricted cash and investments	34,873,586
Accounts receivable	40,605
Notes receivable	1,400,000
Prepaid items	4,585
Real estate held for redevelopment	228,986
Capital assets	
Land	1,900,000
Other capital assets, net of accumulated depreciation	<u>1,747,109</u>
Total assets	<u><u>\$ 40,428,294</u></u>
Liabilities	
Accounts payable	\$ 54,625
Unearned revenue	5,924
Accrued interest	779,219
Due to related parties	95,064
Due to the City of Kansas City, Missouri	1,471,092
Long-term liabilities due in more than one year	<u>63,014,177</u>
Total liabilities	<u>65,420,101</u>
Net position (deficit)	
Net investment in capital assets	3,647,109
Restricted	34,323,353
Unrestricted	<u>(62,962,269)</u>
Total net position (deficit)	<u><u>\$ (24,991,807)</u></u>

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

LAND CLEARANCE FOR REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Kansas City, Missouri)

STATEMENT OF ACTIVITIES

Year Ended April 30, 2019

ns	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenue and
ivities:		Services	Grants and	Grants and	Changes in Net
			Contributions	Contributions	Position
					Total
					Governmental
					Activities
ment	\$ 16,290,550	\$ 331,566	\$ 2,315	\$ 110,328	\$ (15,846,341)
on long-term debt	3,060,776	--	--	--	(3,060,776)
activities	<u>\$ 19,351,326</u>	<u>\$ 331,566</u>	<u>\$ 2,315</u>	<u>\$ 110,328</u>	<u>(18,907,117)</u>
General revenues:					
Interest					917,371
Total general revenues					<u>917,371</u>
Change in net position					(17,989,746)
Net position, beginning of year					<u>(7,002,061)</u>
Net position, end of year					<u>\$ (24,991,807)</u>

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

LAND CLEARANCE FOR REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Kansas City, Missouri)

BALANCE SHEET - GOVERNMENTAL FUND

April 30, 2019

	General Fund	Capital Projects	Total Governmental Funds
Assets			
Cash	\$ 233,423	\$ --	\$ 233,423
Restricted cash and investments	--	34,873,586	34,873,586
Accounts receivable	40,605	--	40,605
Notes receivable	1,400,000	--	1,400,000
Prepaid items	4,585	--	4,585
Total assets	\$ 1,678,613	\$ 34,873,586	\$ 36,552,199
Liabilities			
Accounts payable	\$ 54,625	\$ --	\$ 54,625
Unearned revenue	5,924	--	5,924
Due to related parties	95,064	--	95,064
Due to the City of Kansas City, Missouri	1,471,092	--	1,471,092
Total liabilities	1,626,705	--	1,626,705
Fund balances			
Nonspendable	4,585	--	4,585
Restricted for economic development	--	34,873,586	34,873,586
Unassigned	47,323	--	47,323
Total fund balances	51,908	34,873,586	34,925,494
Total liabilities and fund balances	\$ 1,678,613	\$ 34,873,586	\$ 36,552,199

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

Fund balances of governmental funds	\$ 34,925,494
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	1,747,109
Real estate held for development	228,986
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	(779,219)
Long-term debt	(63,400,000)
Unamortized discount on bond issuance	385,823
Net position of governmental activities	\$ (24,991,807)

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

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, 2019

	General Fund	Capital Projects	Total Governmental Funds
Revenues			
Reimbursements from developers	\$ 131,977	\$ --	\$ 131,977
Rebuild KC	110,328	--	110,328
Fees	199,589	--	199,589
Lease income - Block 74			
Authority	2,315	--	2,315
City	197,137	--	197,137
Interest	3,115	914,256	917,371
	<hr/>	<hr/>	<hr/>
Total revenues	644,461	914,256	1,558,717
	<hr/>	<hr/>	<hr/>
Less:			
Lease income returned to the City of Kansas City, Missouri	(197,137)	--	(197,137)
	<hr/>	<hr/>	<hr/>
Total net revenues	447,324	914,256	1,361,580
	<hr/>	<hr/>	<hr/>
Expenditures			
Current			
Professional services	190,703	--	190,703
Administrative fees paid to related party	199,589	--	199,589
Miscellaneous	59,742	--	59,742
Project costs	--	15,461,071	15,461,071
Capital outlay			
Project costs	141,483	--	141,483
Property maintenance costs	899	--	899
Debt service			
Interest and bond issuance costs	--	3,229,429	3,229,429
	<hr/>	<hr/>	<hr/>
Total expenditures	592,416	18,690,500	19,282,916
	<hr/>	<hr/>	<hr/>
Excess of revenues over expenditures and net change in fund balance	(145,092)	(17,776,244)	(17,921,336)
	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year	197,000	52,649,830	52,846,830
	<hr/>	<hr/>	<hr/>
Fund balance, end of year	<u>\$ 51,908</u>	<u>\$ 34,873,586</u>	<u>\$ 34,925,494</u>

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

**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, 2019

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

Net change in fund balance - total governmental funds	\$ (17,921,336)
---	-----------------

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	(115,799)
Depreciation	(102,707)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	168,653
--	---------

The amortization of bond discounts affects long-term liabilities on the statement of net position, but does not provide or use current financial resources to government funds.	<u>(18,557)</u>
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Change in net position of governmental activities	<u><u>\$ (17,989,746)</u></u>
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The accompanying notes are an
integral part of these financial statements.

**LAND CLEARANCE FOR REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Kansas City, Missouri)**

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Reporting Entity

The Land Clearance for Redevelopment Authority (Authority), was established, pursuant to a 1951 State of Missouri law (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 (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 (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, 2019.

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 include (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 financial 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.

General Fund - The general fund is the main operating fund of the Authority and accounts for all financial transactions. 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.

LAND CLEARANCE FOR REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Kansas City, Missouri)

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Net Position (Deficit)

Net position (deficit) of the Authority is classified in three components: net investment in capital assets; restricted net position; and unrestricted net position. Net investment in capital assets consists of capital assets net of accumulated depreciation. Restricted 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. 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.

LAND CLEARANCE FOR REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Kansas City, Missouri)

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balances

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.

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
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**LAND CLEARANCE FOR REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Kansas City, Missouri)**

NOTES TO THE FINANCIAL STATEMENTS

**1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

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.

2. CONVENTION CENTER HOTEL FINANCING

In fiscal year 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, 2019, 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 is no other formal security related to the future debt service for 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 borrowing up to a maximum of \$110,000,000 for the construction of the convention center hotel. Concurrently, the Authority 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.

LAND CLEARANCE FOR REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Kansas City, Missouri)

NOTES TO THE FINANCIAL STATEMENTS

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% 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, 2019, 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.

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 measurement 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, 2019:

	Fair Value	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
U.S. treasury notes	\$ 14,947,700	\$ --	\$ 14,947,700	\$ --

LAND CLEARANCE FOR REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Kansas City, Missouri)

NOTES TO THE FINANCIAL STATEMENTS

3. DEPOSITS AND INVESTMENTS (CONTINUED)

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 Authority's investment policy limits the final maturity on any security owned to a maximum of five years. As of April 30, 2019, the Authority had the following investments and maturities:

Type	Fair Value	Maturities in Years		
		Less than 1	1 - 5	6 - 10
Money market mutual funds	\$ 19,925,886	\$ 19,925,886	\$ --	\$ --
U.S. treasury notes	14,947,700	14,947,700	--	--
	<u>\$ 34,873,586</u>	<u>\$ 34,873,586</u>	<u>\$ --</u>	<u>\$ --</u>

Credit Risk - Credit risk is the risk that the Authority will not recover its investment 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, 2019, the Authority's investments were only in U.S. treasury notes which are directly guaranteed by the U.S. Government and money market mutual funds.

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% 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, 2019, all deposits were adequately and fully collateralized.

The Authority's investment policy requires that all investments 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, 2019, all investments 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, 2019, the Authority only has investments in U.S. treasury notes and money market mutual funds.

4. RELATED PARTY TRANSACTIONS

The Authority pays the Economic Development Corporation of Kansas City, Missouri (EDC) for office space and certain other administrative services when excess funds are available. For the year ended April 30, 2019, the Authority incurred expenses of \$199,589 for these services. At April 30, 2019, the Authority owed \$95,064 to the EDC for administrative services.

LAND CLEARANCE FOR REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Kansas City, Missouri)

NOTES TO THE FINANCIAL STATEMENTS

4. RELATED PARTY TRANSACTIONS (CONTINUED)

At April 30, 2019, the Authority owed the City \$20,367 related to the leased property described in Note 8 and an additional \$50,725 related to construction costs for a redevelopment project.

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 7%. 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, 2019, 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.

6. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Governmental Activities				April 30, 2019
	April 30, 2018	Additions	Deductions	Transfer	
Nondepreciable capital assets					
Land	\$ 1,900,000	\$ --	\$ --	\$ --	\$ 1,900,000
Depreciable capital assets					
Building and improvements	4,108,316	--	--	--	4,108,316
Less accumulated depreciation	(2,258,500)	(102,707)	--	--	(2,361,316)
Total depreciable capital assets, net	1,849,816	(102,707)	--	--	1,747,109
Total governmental activities capital assets, net	\$ 3,749,816	\$ (102,707)	\$ --	\$ --	\$ 3,647,109

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 THE FINANCIAL STATEMENTS

7. REAL ESTATE HELD FOR REDEVELOPMENT (CONTINUED)

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, 2019, 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, 2019, the Authority did not acquire or dispose of any Redevelopment Project properties, no additional rehabilitation expenses were incurred within the Redevelopment, and the Authority recognized no impairment loss related to the Redevelopment Project. At April 30, 2019, 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 Strategic Initiative 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, 2018 was \$138,208. During the year ended April 30, 2019, the Authority disposed of properties with a carrying value of \$115,799. 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, 2019 was \$22,409.

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, 2018. During the year ended April 30, 2019, the Authority did not acquire or dispose of any of these properties. No impairment losses were recognized during the year ended April 30, 2019 for the other redevelopment properties. At April 30, 2019, the carrying value of the other redevelopment properties was \$35,780.

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

April 30, 2018	\$	344,785
Additions		--
Contributions		--
Deductions		(115,799)
Transfer		--
Impairment Loss		--
April 30, 2019	\$	<u>228,986</u>

LAND CLEARANCE FOR REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Kansas City, Missouri)

NOTES TO THE FINANCIAL STATEMENTS

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% of gross receipts as defined in the lease agreement. The Authority received \$197,137 of lease payments during the fiscal year ended April 30, 2019 and remitted \$197,137 to the City. The cost and accumulated depreciation of the leased assets at April 30, 2019 was \$5,838,283 and \$2,313,742, respectively.

9. LONG-TERM DEBT

The following is a summary of the changes in long-term obligations for the year ended April, 30, 2019:

	<u>April 30, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>April 30, 2019</u>	<u>Amount Due in One Year</u>
Convention Center Hotel Project Series 2018B, interest ranging from 4.75% to 5%, payable through February 2050	\$ 63,400,000	\$ --	\$ --	\$ 63,400,000	\$ --
Less discount	<u>404,380</u>	<u>--</u>	<u>(18,557)</u>	<u>385,823</u>	<u>--</u>
Total long-term obligations	<u>\$ 62,995,620</u>	<u>\$ --</u>	<u>\$ (18,557)</u>	<u>\$ 63,014,177</u>	<u>\$ --</u>

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 the amounts ranging from \$8,500,000 to 32,900,000 at interest rates ranging from 4.75% to 5%.

Aggregate annual maturities of long-term debt at April 30, 2019 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ --	\$ 3,116,875
2021	--	3,116,875
2022	--	3,116,875
2023	--	3,116,875
2024	--	3,116,875
2025 - 2029	--	15,584,375
2030 - 2034	8,500,000	14,468,750
2035 - 2039	--	13,725,000
2040 - 2044	22,000,000	9,325,000
2045 - 2049	--	8,225,000
2050	<u>32,900,000</u>	<u>1,645,000</u>
	<u>\$ 63,400,000</u>	<u>\$ 78,557,500</u>

LAND CLEARANCE FOR REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Kansas City, Missouri)

NOTES TO THE FINANCIAL STATEMENTS

10. CONDUIT DEBT

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, 2019 is as follows:

720 Oak	\$ 788,248
6410 Paseo BLVD	14,500,000
Series 2018A Convention Center Hotel	<u>60,405,000</u>
	<u>\$ 75,693,248</u>

11. SUBSEQUENT EVENTS

In August 2019, the Authority issued \$43 million of industrial revenue bonds to provide tax-exempt financing for qualified projects that qualifies as conduit debt for the Authority.

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

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 the Land Clearance for Redevelopment Authority (Authority), a component unit of the City of Kansas City, Missouri, as of and for the year ended April 30, 2019, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements, and have issued our report thereon dated September 11, 2019.

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 basic 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 basic 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 basic 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 Authority'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.

Allen, Gibbs & Houlik, L.C.
CERTIFIED PUBLIC ACCOUNTANTS

September 11, 2019
Wichita, KS