AGH CPAs & ADVISORS

Board of Commissioners
Tax Increment Financing Commission
of Kansas City, Missouri

We are pleased to present this report related to our audit of the basic financial statements of the Tax Increment Financing Commission of Kansas City, Missouri, a component unit of the City of Kansas City, Missouri (Commission) as of and for the year ended April 30, 2023. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Commission's financial reporting process.

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.

Consistent with this requirement, the following summarizes our responsibilities regarding the basic financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial and related compliance reporting process.

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

Our Responsibilities with Regard to the Financial Statement and Compliance Audit
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 April 28, 2023. Our audit of the basic 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 5, 2023 regarding the planned scope and timing of our audit and identified significant risks. We made no significant changes to the scope or timing of our procedures.

Accounting Policies and Practices
Preferability of Accounting Policies and Practices - Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies - Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Commission. The Commission did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period

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

Significant or Unusual Transactions - We did not identify any significant or unusual transactions.

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. The following summarizes the significant accounting estimates reflected in the Commission's basic financial statements.

- *Accrual of tax increment financing revenues*: Due to the timing of cash receipts for TIF revenues, the Commission must estimate the amount that will be received from each taxing jurisdiction within 90 days of the end of the current fiscal year period. The Commission uses the prior year tax revenues adjusted for known changes in TIF districts (e.g., amendments, expirations, actual collections, etc.) to develop the estimate of current year revenues. As a basis for our conclusions, we re-performed the calculations done by management to develop the estimates and verified inputs by agreeing to confirmations or other supporting documentation.

- *Accrual of reimbursable developer project costs*: Developer reimbursements recorded as a long-term obligation of the Commission ($766.8 million at April 30, 2023) are recorded based on actual certified project costs. The current portion is estimated based on actual current year revenues, adjusted for estimated increases or decreases in TIF revenue and known changes in TIF districts (e.g., amendments, expirations, actual collections, etc.). As a basis for our conclusions, we re-performed the calculations done by management to develop the estimate and verified inputs by agreeing to supporting documentation.

Audit Adjustments and Uncorrected Misstatements
There were no audit adjustments made to the original trial balance presented to us to begin our audit.

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 Commission 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.

Observations About the Audit Process
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 significant issues arising from the audit were discussed or the subject of correspondence with management; we did not

encounter any difficulties in dealing with management relating to the performance of the audit; and we did not encounter any significant and difficult or contentious matters that required consultation outside the engagement team.

Shared Responsibilities for Independence
Independence is a **joint responsibility** and is managed most effectively when management, audit committees, and audit firms work together in considering compliance with AICPA and *Government Accountability Office* (GAO) independence rules. For Allen, Gibbs & Houlik, L.C. (AGH) to fulfill its professional responsibility to maintain and monitor independence, management, the audit committee, and AGH each play an important role.

Our Responsibilities

- AICPA and GAO rules require independence both of mind and in appearance when providing audit and other attestation services. AGH is to ensure that the AICPA and GAO's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.

- Maintain a system of quality control over compliance with independence rules and firm policies.

The Commission's Responsibilities

- Timely inform AGH, before the effective date of transactions or other business changes, of the following:

    − New affiliates, directors, officers, or persons in financial reporting and compliance oversight roles.

    − Changes in the reporting entity impacting affiliates such as partnerships, related entities, investments, joint ventures, component units, jointly governed organizations.

- Provide necessary affiliate information such as new or updated structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.

- Understand and conclude on the permissibility, prior to the Commission and its affiliates, officers, directors, or persons in a decision-making capacity, engaging in business relationships with AGH.

- Not entering into arrangements of nonaudit services resulting in AGH being involved in making management decisions on behalf of the Commission.

- Not entering into relationships resulting in AGH, AGH covered persons or their close family members, temporarily or permanently acting as an officer, director, or person in an accounting, financial reporting or compliance oversight role at the Commission.

Other Matters
<u>Future Accounting Topics</u> - The *Government Accounting Standards Board* (GASB) has issued several statement not yet implemented by the Commission. The Commission's management has not yet determined the effects these statements might have on the Commission's financial statements. However, the Commission 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. 99, *Omnibus 2022*, enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including: 1) classification and reporting of derivative instruments within the scope of Statement No. 53 that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument; 2) clarification of certain provisions in Statement No. 87, Statement No. 94 and Statement No. 96; 3) extension of the period during which the London Interbank offered Rate (LIBOR) is considered an appropriate benchmark interest rate of the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt; 4) accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program; 5) disclosures related to nonmonetary transactions; 6) pledges of future revenues when resources are not received by the pledging government; 7) clarification of provisions in Statement No 34 related to the focus of the government-wide financial statements; terminology updates related to certain provisions of Statement No. 63; and 8) terminology used in Statement No. 53 to refer to resource flows statements. The provisions of this statement for items 1 and 2 are effective for financial statements for the Commission's fiscal year ending April 30, 2025, and April 30, 2024, respectively. All other provisions of this statement are effective upon issuance.

- GASB statement No. 100, *Accounting Changes and Error Corrections*, enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. This statement defines accounting changes as changes in accounting principles, changes in accounting estimates and changes to or within the financial reporting entity. This statement also addresses corrections of errors in previously issued financial statements. This statement prescribes the accounting and financial reporting for each type of accounting change and error corrections. This statement requires that changes in accounting principles and error corrections be reported retroactively by restating prior periods, changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and changes in accounting estimates be reported prospectively by recognizing the change in the current period. This statement also requires disclosure in the notes to the financial statements of descriptive information about accounting changes and error corrections. Furthermore, this statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information and supplementary information. The provisions of this statement are effective for financial statements for the Commission's fiscal year ending April 30, 2025.

- GASB Statement No. 101, *Compensated Absences*, better meets the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The provisions of this statement are effective for financial statements for the Commission's fiscal year ending April 30, 2025.

Cybersecurity Risk - The Commission's IT environment operates under the controls of the City of Kansas City, Missouri. The below information represents general comments regarding safeguarding of the IT environment.

Effective cybersecurity risk management has never been more important than in today's environment. Boards of directors and executive management (the governance team) face an enormous challenge: to oversee how the organization manages cybersecurity risk.

An effective cybersecurity risk management program provides reasonable, but not absolute, assurance that material breaches are prevented or detected, and mitigated in a timely manner. The combined effects of an organization's dependency on IT, the complexity of IT networks and business applications, extensive reliance on third parties and human nature (i.e., susceptibility to social engineering) are only likely to increase the need for effective cybersecurity risk management programs. Elements of an effective cyber risk management program should include:

- A comprehensive and documented risk assessment. Such assessment should not fall solely on the IT team. It is a governance and management challenge that should involve executive management and others charged with governance.

- Control assessments should include, at a minimum, an information technology systems general controls review, social engineering testing and, potentially, internal and/or external penetration testing.

- A vulnerability assessment will identify potential network vulnerabilities that can leave a company open to significant risk. Using automated scanners, this will help the organization identify and resolve vulnerabilities before they are exploited by cybercriminals.

Both control assessments and vulnerability assessments should be completed on a periodic basis which is dependent on the annual risk assessment. At a minimum, we strongly believe these assessments should be done on an annual basis, IF NOT MORE OFTEN. Executive managers should be involved with the review and summary reports should also be shared with the governance team.

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 carryout 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

AGHUniversity Resources - As part of AGH's ongoing commitment to serve as a trusted advisor, we offer these resources as a key part of the additional value AGH provides beyond the engagement itself:

- AGHUniversity.com - a full schedule of complimentary CPE or current and relevant topics and other updates to clients throughout the year. Free registration and webinars are available for the

Company’s staff and board members at aghuniversity.com. A sample of recent topics include Lease accounting; Become a destination employer: 5 factors you must get right; 6 steps to improving employee soft skills - Along with productivity and profitability; Measuring what matters in your 401(k) plan for recruitment, retention and reward; Cybersecurity: Protect your organization from cybercriminals; and 10 steps to prepare your business for a sale.

- AGH alerts and newsletters - This includes periodic mailings or emails to alert clients to new accounting standards or regulatory changes.

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 Tax Increment Financing Commission of Kansas City, Missouri.

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

Overland Park, KS
October 20, 2023