
CRACKERNECK CREEK
TAX INCREMENT FINANCING DISTRICT
INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

Draft - For Discussion
Purposes Only

Independent Accountants' Report On Applying Agreed-Upon Procedures

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We have performed the procedures enumerated below on the Crackerneck Creek Tax Increment Financing District (Crackerneck Creek TIF), (TIF) for the periods January 1, 2013 through December 31, 2014 and January 1, 2017 through December 31, 2018. Management of the City of Independence, Missouri (City) is responsible for the information provided, supporting documents, and accounting over the Crackerneck Creek Tax Increment Financing District.

Management of the City of Independence, Missouri has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of assisting management in their evaluation of the performance of the Crackerneck Creek Tax Increment Financing District according to the criteria specified in the procedures below. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all uses of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

Unless otherwise noted, the sample time periods used for the procedures below was January 1, 2013 to December 31, 2014 and January 1, 2017 to December 31, 2018.

The procedures and the associated findings are as follows:

1. Procedure: For Payments in lieu of taxes (PILOT), obtain a copy of the Crackerneck Creek TIF agreement and any amendments.
 - a. Inspect the Crackerneck Creek TIF agreement and amendments and compare expected PILOT revenue sources into the Crackerneck Creek TIF with what the City identifies as sources during the sample periods.
 - b. Document the formula for calculating the amounts due to the TIF from PILOTs during the sample periods based on the Crackerneck Creek TIF agreement and any amendments.
 - c. Recalculate the amounts to be recorded from PILOTs by the Crackerneck Creek TIF for the sample periods.
 - d. Compare the recalculated amounts in step c above to the amounts recorded in the general ledger for the sample periods.
 - e. Compare the amounts recorded in the general ledger in step d above to the amounts recorded in the Tax Summary for the sample periods.

Findings: We found no exceptions as a result of the procedures.

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2. Procedure: For Economic Activity Taxes (EATS), obtain a copy of the Crackerneck Creek TIF agreement and any amendments.
 - a. Inspect the Crackerneck Creek TIF agreement and amendments and compare expected EATS revenue sources into the Crackerneck Creek TIF with what the City identifies as sources during the sample periods.
 - b. Document the formula for the amounts due to the TIF from EATS during the sample periods based on the Crackerneck Creek TIF agreement and any amendments.
 - c. Recalculate the amounts to be recorded from EATS by the Crackerneck Creek TIF for the sample periods.
 - d. Compare the recalculated amounts in step c above to the amounts recorded in the general ledger for the sample periods.
 - e. Compare the amounts recorded in the general ledger in step d above to the amounts recorded in the Tax Summary for the sample periods.

Findings:

We found no exceptions as a result of procedures 2a, 2b, 2d and 2e.

We note the following related to procedure 2c:

2c-1. From April 2015 (when the only hotel in the Crackerneck Creek TIF started remitting sales tax upon opening) until June 2017, the City's Finance Department did not exclude the hotel room sales tax revenue for transient guests when calculating the amount due to the Crackerneck Creek TIF for EATS. This approach was consistent with legal guidance given by an attorney in 2005 based upon analysis of the verbiage in the TIF agreement. The City obtained a second legal opinion in 2016, which contained advice the City should exclude taxes on rooms for transient guests from the TIF EATS revenues. Thereafter, the City began excluding such taxes from July 2017 to the present, and due to the change in legal advice, the City performed a retroactive adjustment to exclude hotel room sales tax revenue from 2015 to 2017, which corrected the differences that had resulted from the original legal advice.

2c-2. In 2016, the City improperly double-recorded booked an adjustment for EATS revenue (County-Zoo portion), resulting in a \$2,070 understatement to the Crackerneck Creek TIF revenues. ~~This understatement remained uncorrected through the date of this report.~~

We made this change to be consistent with the rest of the findings where we don't comment on whether the City decided to correct it or not. The Finance Director will comment on how management responded to our findings in a City Council Meeting.

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2 sentences added to better clarify to the reader why the hotel adjustment takes place.

2c-3. Each quarter, the City records an adjustment to the Crackerneck Creek TIF revenues to subtract revenue from hotel room stays. This adjustment is necessary because the TIF revenue from ancillary hotel services such as food and beverage should remain in the TIF, while the revenue from hotel rooms should be adjusted out of the TIF and back to their respective sales tax funds (City, County, etc.).

When calculating the hotel room sales tax adjustment to TIF revenues, the City uses unadjusted gross receipts reported by the hotel on line 1 of the "Monthly Transient Guest Tax Return". The City should use the gross receipts figure that has been adjusted for 30+ day stays (line 3). Hotel stays greater than 30 days do not meet the Revised Statutes of Missouri (67.1003) definition of a transient guests, so they should ~~be added back to be included~~ remain in EATS revenue to the TIF. This resulted in \$1,177 being under-remitted to the Crackerneck Creek TIF during the sample period in 2017-2018. If this under-remittance is extracted out using a monthly average, the total financial impact is an estimated \$3,138 under-remittance to the Crackerneck Creek TIF from April 2015 to July 2020.

3. Procedure: For State TIF of Approval for the Crackerneck Creek TIF
- a. Document the formula of Approval for the Crackerneck Creek TIF from the State of Approval for the Crackerneck Creek TIF.
- b. Recalculate the amounts to be recorded from the State by the Crackerneck Creek TIF for the sample periods.
- c. Compare the recalculated amounts in step b above to the amounts recorded in the general ledger for the sample periods.
- d. Compare the amounts recorded in the general ledger in step c above to the amounts recorded in the Tax Summary for the sample periods.

If the city wants to make a retroactive adjustment, they would need to add back \$3138 to TIF revenues.

Going forward, if they use line 3, the 30+ day stays will properly remain in TIF revenues.

Findings: We found no exceptions as a result of the procedures.

4. Procedure: For the Crackerneck Creek Transportation Development District (TDD), obtain the Cooperative Agreement and any amendments for the District.
- a. Document the formula for calculating the amounts due to the Crackerneck Creek TIF from the Crackerneck Creek TDD during the sample periods based on the Cooperative Agreement and any amendments for the District.
- b. Recalculate the amounts to be recorded by the Crackerneck Creek TIF from the Crackerneck Creek TDD for the sample periods.
- c. Compare the recalculated amounts in step b above to the amounts recorded in the general ledger for the sample periods.
- d. Compare the amounts recorded in the general ledger in step c above to the amounts recorded in the Tax Summary for the sample periods.

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Findings:

We found no exceptions as a result of procedures 4a, 4c and 4d.

We note the following related to procedure 4b:

4b. We were unable to obtain from the City a list of businesses that remit tax to the Crackerneck Creek TDD to ensure the list of businesses is accurate and complete. The City is working on getting authorization to view detailed tax records from the Missouri Department of Revenue related to the Crackerneck Creek TDD. During the sample periods, we recalculated the allocation of the contribution amount using the total amount deposited from Deposit Notices sent by the Missouri Department of Revenue without exception.

5. Procedure: For the I-70/Little Blue Parkway TIF, obtain a copy of the executed TIF agreement.
 - a. Document the formula for calculating the portion of sales tax revenue that should be deposited into the Crackerneck Creek TIF that is included in the I-70/Little Blue TIF agreement during the sample periods based on the executed TIF agreements.
 - b. Recalculate the amounts to be recorded by the Crackerneck Creek TIF from the I-70/Little Blue TIF for all transfers made from 2016 to 2020.
 - c. Compare the recalculated amounts in step b above to the amounts recorded in the general ledger for the sample periods.
 - d. Document the frequency of deposits in relation to the stated requirements in the TIF agreement.

Findings:

We found no exceptions as a result of procedures 5a, 5b and 5c.

We note the following related to procedure 5d:

5d. The I-70/Little Blue Parkway TIF agreement describes the order of disbursements from the TIF, which ends with excess funds being transferred to the Crackerneck Creek TIF after the other obligations have been paid. The Agreements do not specify the frequency at which transfers should be made between TIFs. The City made one transfer in 2016 and another transfer was made in 2017. The City did not make any transfers of excess funds that were available in the I-70/Little Blue Parkway TIF during 2018 and 2019. The City made a transfer during 2020.

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6. Procedure: For the ~~39th~~ 39th Street TDD, obtain the executed TDD agreement.
 - a. Document the formula for calculating the portion of sales tax revenue that should be deposited into the Crackerneck Creek TIF that is included in the TDD agreement during the sample periods based on the executed TDD agreement.
 - b. Recalculate the amounts to be recorded by the Crackerneck Creek TIF from the ~~39th~~ 39th Street TDD for the sample periods.
 - c. Compare the recalculated amounts in step b above to the amounts recorded in the general ledger for the sample periods.
 - d. Compare the amounts recorded in the general ledger in step c above to the amounts recorded in the Tax Summary for the sample periods.

Findings:

We found no exceptions as a result of procedures 6a and 6d.

We note the following related to procedure 6b and 6c:

6b. We identified two businesses that were improperly excluded from the list of businesses in the 39th Street Transportation Development District that should have had a portion of their tax revenues allocated to the Crackerneck Creek TIF via the 39th Street TDD. Exclusion of these two businesses resulted in an estimated \$36,736 being under-remitted from the 39th Street TDD to the Crackerneck Creek TIF from February 2010 through July 2020.

6c. The City's Finance Department incorrectly adjusted out hotel guest tax revenue from the hotel in the Crackerneck Creek TIF District when calculating the amount due from the 39th St TDD to the Crackerneck Creek TIF. According to the 39th Street TDD Agreement, transient hotel guest tax is not an excluded revenue category. This improper adjustment took place from the date the hotel began remitting sales tax in April 2015 until it was corrected for the 2nd calendar quarter of 2017. This resulted in an estimated \$4,000 being under-remitted from the 39th Street TDD to the Crackerneck Creek TIF. According to documentation at the City, the City decided to make the change going forward and not make a retroactive adjustment.

7. Procedure: For the Bass Pro Lease (Lease), obtain a copy of the executed Lease and any amendments and sales data for the sample periods
 - a. Document the formula for calculating the amounts due to the Crackerneck Creek TIF from the Lease.

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- b. Recalculate the amounts to be recorded from the Lease by the Crackerneck Creek TIF for the sample periods.
- c. Compare the recalculated amounts in step b above to the amounts recorded in the general ledger for the sample periods.

Findings: We found no exceptions as a result of the procedures.

- 8. Procedure: For the Crackerneck Creek TIF Revenue calculations, which are documented by the City in the Tax Summary, obtain the Tax Summary for the Crackerneck Creek TIF for the sample periods.
 - a. Recalculate revenues provided from management for mathematical accuracy during the sample periods.
 - b. Recalculate interest income into the TIF for one month, and compare the recalculated amount to the general ledger and Tax Summary.

Findings:

We found no exceptions as a result of procedure 8b.

We note the following related to procedure 8a:

8a. Unless otherwise noted, we recalculated TIF revenues and agreed our calculations to the general ledger without exception for revenue from EATS, PILOT, and State contributions. In addition to the general ledger, the City also records TIF revenue on a working document referred to as the "Tax Summary" spreadsheet. We found the Tax Summary was not consistently updated to account for subsequent adjustments or accruals recorded in the general ledger, and that the Tax Summary included some clerical errors in the information. Management stated the general ledger is the source of record for TIF revenues and expenditures, and that the Tax Summary is used for analysis only.

- 9. Procedure: For disbursements from the Crackerneck Creek TIF, obtain the TIF agreement and any amendments.
 - a. Select 14 disbursements (or 10% of the total population of disbursements between 2005 and 2012) from a list of disbursements categorized by Bond Series, provided by the City. Trace the payments selected to the general ledger.
 - b. Compare total disbursements recorded in the City's listing to amounts listed in the TIF agreement.

Findings: We found no exceptions as a result of the procedures.

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10. Procedure: For sales of parcels within the Crackerneck Creek TIF area, obtain a copy of the Crackerneck Creek TIF agreement and any amendments and documentation of sales of parcels of land during the sample periods.
- Document how the sale of the parcels are recorded in the City's TIF records.
 - Trace any reimbursements from the developer for the sale of the parcels to the general ledger.

Findings: We found no evidence in the City records provided to us that resulted in a sale of property with the Crackerneck Creek TIF area that resulted in payments to the City. We reviewed the TIF agreement and noted that section 12.04 of the agreement is titled "Sale of Property in the Redevelopment Area" which includes a provision that states "...no sale, transfer or other conveyance of any property in the Redevelopment Area may be made except to any entities, or the parent corporations of such entities, included on the Pre-Approved Tenant List or without the prior written approval of the City..." We did not identify a provision whereby the City would receive payment for a sale of property in the redevelopment area.

We were engaged by the City of Independence, Missouri to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the AICPA. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the information, supporting documents, and accounting provided to us related to the Crackerneck Creek Tax Increment Financing District for the time periods indicated above. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the City of Independence, Missouri and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the Honorable Mayor of the City of Independence, Missouri, members of the City Council, and Management, and is not intended to be, and should not be, used by anyone other than these specified parties.

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