

**TAX INCREMENT FINANCING COMMISSION
OF KANSAS CITY, MISSOURI**

(A Component Unit of the City of Kansas City, Missouri)

**REQUIRED COMMUNICATIONS TO
MANAGEMENT**

For the Year Ended April 30, 2010

**TAX INCREMENT FINANCING COMMISSION
OF KANSAS CITY, MISSOURI**

**Required Communications to Management
For the Year Ended April 30, 2010**

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

We have audited the financial statements of the governmental activities and each major fund of the Tax Increment Financing Commission of Kansas City, Missouri (a component unit of the City of Kansas City, Missouri) (the Commission) for the year ended April 30, 2010, and have issued our report thereon dated November 3, 2010. Professional standards require that we provide you with the following information about our responsibilities under generally accepted auditing standards and *Government Audit Standards*, as well as certain information stated in our letter to you dated November 13, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Commission are described in Note 1 to the financial statements. The methodology for computing assets held for redevelopment was changed during the fiscal year 2010. Capital assets including infrastructure that are created as a result of development projects are no longer recorded as an asset because they ultimately, upon completion, are recorded as an asset of the developer or the City of Kansas City, Missouri. The application of other existing policies was not changed during the fiscal year 2010. We noted no transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Significant accounting estimates used by the Commission's management include management's estimate of certain outstanding developer obligations. Estimates of incremental activity tax amounts due from other taxing authorities are provided to the commission by the City of Kansas City, Missouri.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The following adjustments detected as a result of audit procedures were corrected by management:

Adjustment reducing beginning fund balance by activity recorded in previous year:

Project Inter-Fund Transfer Clearing	72,415	
Accounts Payable	202,208	
Fund Balance	4,690,428	
Due to taxing districts		4,638,619
Accounts Receivable		326,432

Adjustment reclassifying certain bond trust account activity:

Interest and Fiscal Charges	7,500	
Debt Service Payments on Behalf of Kansas City	84,382	
Debt Service Principal	633,201	
Debt Service Payments-Clearing Account		84,382
Debt Service Interest		52,158
Project Costs		588,543

Prior period adjustment related to certain long-term obligations:

Fund Statements		
Restricted cash and investments	22,446,353	
Fund Balance		22,446,353
Government-wide Statements		
Net assets	5,725,012	
Long-term liabilities		5,725,012

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 3, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In planning and performing our audit of the financial statements of the Commission as of and for the year ended April 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 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. We consider the deficiencies described below under Financial Reporting and Recording and Reconciliation of Tax Increment Financing Activity to be significant deficiencies in internal control over financial reporting.

As part of our annual audit, we try to identify opportunities for improving the management of financial resources and for improving the internal controls over financial reporting. We are submitting, for your consideration, our observations and recommendations with regard to these matters.

Current Year Comments

Financial Reporting

Management is responsible for establishing, maintaining and monitoring internal controls over financial reporting, and for the fair presentation of the financial statements and related notes in conformity with U.S. generally accepted accounting principles.

We are required to assess the Commission's controls over preparing the financial statements including assessing the skills and competencies necessary to prevent, detect, and correct a material misstatement. A system of internal control over financial reporting includes controls over financial statement preparation, including footnote disclosures. Deficiencies in internal control exist when the Commission's accounting staff does not have controls over preparation of the financial statements which would prevent or detect a misstatement in the financial statements.

While performing our audit procedures, we noted an adjustment was required to correct the beginning fund balance for amounts due to taxing districts recorded as a payable in the prior year. We also noted an adjustment was required to reclassify certain bond trust activity transactions to the proper accounts as well as a prior period adjustments related to certain long-term liabilities. Accordingly, we consider these deficiencies in financial reporting to be significant deficiencies.

We recommend that on an on-going basis beginning fund balance be reconciled and agreed to the prior year's ending fund balance. We also recommend that control procedures over the recording of bond trust activity be reviewed and modified if necessary.

Management Response

Management recognizes the importance of reconciling all balance sheet accounts. In fact, a process was put in place during the fiscal year whereby all balance sheet accounts are reconciled on a monthly basis. Unfortunately, that process did not include verifying that all prior year audit entries had been posted so that the beginning fund balance was correct. The reconciliation process has been modified to include verification of the beginning fund balance to prevent a recurrence of this error. In addition, a matrix has been created to track the nuances that exist in various TIF bond trust agreements to ensure that the financial reporting of the trust activity transactions will be appropriate.

Economic Activity Tax (EATS) Information Gathering

Base Year Amounts

To arrive at the increment in real estate taxes (Pilots), tax revenues, and the EATs revenue eligible for deposit into the Special Allocation Fund associated with a project, the City must determine to its satisfaction the base year tax amounts, which by State Statute include the calendar year taxes prior to the City ordinance approving the TIF project.

Among other things, the TIF Commission Policy and Procedures Handbook indicates that prior to the designation of a redevelopment project by the City Council, the TIF Commission shall exert its best faith efforts to provide the City Finance Department with specific information needed to calculate the base year tax amount.

If the City does not receive timely base year information the increment in the EATS cannot be calculated accurately. Even if the base year information is received with the initial submission package; delaying the gathering of the information until a project begins to have economic activity, makes the base year EATS information more difficult to assemble, and as a result the risk of incomplete or inaccurate information is increased.

The City has informed us that typically, upon receiving an initial submission package for a new project, the TIF Commission staff does not provide the base year tax information. The City then requests the TIF Commission staff to obtain this information from the developer and forward it to them.

We recommend that the EATS base year information be obtained by the TIF Commission staff within the time frame described in paragraph two (2) above, and that it be provided to the City as soon as reasonably possible.

Economic Activity Tax (EATS) Summary Form

To enable the City and counties to process EATS which are to be redirected to the "Special Allocation Fund", businesses within a TIF area must provide confidential tax information.

To assist in gathering this information, the TIF Commission provides each business in a TIF Plan a one page "**Economic Activity Tax (EATS) Summary Form**" (summary form). The Commission/City rely on the various businesses in a plan, based on the businesses interpretation of what needs to be reported, to report the total employees working in Kansas City, Missouri, the total number of employees working in the TIF Plan area and then to calculate the percentage of employees in the TIF Plan area using the above employee counts. The City then uses the percentage calculated above multiplied by the City Earnings tax withheld to arrive at the total EATS Earnings tax applicable to the TIF plan. This method in effect bases TIF Earnings tax amounts not on where the services are performed and the wages earned but rather on the location of the businesses office where the employees are based (have a desk). Earnings taxes derived from temporary workers and work outsourced is not included in the calculation of EATS to be redirected.

Since this method is based on head counts and not actual amounts earned by individual employees while working in the TIF plan area, inaccurate results may be obtained. A similar calculation is made for the Profits Tax.

In addition, one of the problems with redirecting earnings taxes in this manner is that while the City may require employers whose offices are located in the City to withhold on all wages paid to its employees regardless of where the services are performed, the employees who live and perform some of their work outside the City have the right to, and many presumably do, file tax returns obtaining Earnings tax refunds based on amounts not earned in the City. Because the City does not reduce the Earnings tax EATS to be redirected by the amount of Earnings tax withholdings subsequently refunded to employees working for businesses located in a TIF plan, the amount of EATS paid into the Special Allocation Fund may be overstated.

We recommend that the TIF Commission/City review their EATS Earnings tax and profits policy/policies to attempt to arrive at a more uniform and accurate way of obtaining and measuring the Earnings and Profits taxes applicable to the various TIF plans.

We also recommend that the TIF Commission/City clarify their policy/policies regarding the calculation of the EATS Earnings and Profits taxes, that the policy be included in directions that accompany the Economic Activity Tax (EATS) Summary Form (used by the businesses in TIF plans to report their economic activity information) and that the Summary Form be revised so that accurate information that is in accordance with their policies is obtained.

Risk of Debt Service Payment Defaults

We were informed by an EDC financial employee that because of delays in the payment of redirected amounts to the TIF Commission by the City, that both a developer and the TIF Commission were exposed to the possibility of defaults on debt obligations. We recommend the TIF Commission provide the City with a complete listing of all future debt service payment requirements so that the City can be aware of payment deadlines. This would help ensure that redirection payments necessary to meet debt requirements can be made in a timely fashion. In addition we recommend that redirection monies needed for debt payments be transferred by the City to the TIF Commission no later than 30 days prior to the due dates of debt service payments.

Developer Obligations

During our audit procedures we noted that the Commission's approval of certain cost certification amounts is delayed until the developer has satisfied all compliance requirements.

In connection with these delayed approvals, we recommend that management review its policies and procedures for recording and estimating the amount of developer obligations arising from cost certification amounts awaiting Board approval.

We also recommend that management consider including in the TIF obligation to developers an estimated amount not only for cost certifications submitted to the commission, by the cost certifier, awaiting Board approval but also an estimate of the dollar amount of project costs eligible for certification, but not yet reported to the commission.

We believe that inclusion of these amounts will help ensure that obligations are recorded as they are incurred.

Future Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has recently issued GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* which the Commission will be required to implement in the fiscal year beginning May 1, 2011. However, GASB is encouraging the early implementation of this standard. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, as well as clarifying the definitions of the various governmental fund types. In addition, policies will need to be developed and disclosed related to balance classifications, and Board approvals may be required to properly commit fund balances as desired by the Commission's Board of Commissioner's. We recommend that management review this standard and take steps necessary for its implementation.

Additionally, the GASB has recently issued the following statements which may impact the Commission's financial reporting requirements in the future:

- GASB Statement 51 – *Accounting and Financial Reporting for Intangible Assets*, effective for the fiscal year beginning May 1, 2010.
- GASB Statement 53 – *Accounting and Financial Reporting for Derivative Instruments*, effective for the fiscal year beginning May 1, 2010.
- GASB Statement 57 – *OPEB Measurements by Agent Employers and Agent-Multiple Employer Plans*, effective for the fiscal year beginning May 1, 2012.
- GASB Statement 58 – *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, effective for the fiscal year beginning May 1, 2010.

We recommend management review these standards to determine the impact they may have on the Commission's financial reporting.

Prior Year Comments Repeated

Recording and Reconciliation of Tax Increment Financing Activity

The City of Kansas City, Missouri has established redevelopment project areas in certain locations throughout the City. These project areas are commonly referred to as Tax Increment Financing (TIF) districts. In accordance with State statutes, the incremental real estate and personal property taxes (PILOTS) and certain portions of the incremental economic activity taxes (EATS), such as sales, earnings and franchise taxes, generated in the redevelopment project area may be used to service tax increment debt bonds or to reimburse the developer or others for costs incurred on the project.

The incremental PILOTS and EATS (TIF revenue) are remitted to the various appropriate taxing authorities by each business located within the TIF district. The taxing authorities are then supposed to remit the incremental PILOTS and EATS to the Commission. However, without the TIF revenue information that is currently provided to the City of Kansas City, Missouri and other taxing jurisdictions, the Commission has a difficult time in determining the amount of TIF financing revenues and receivables from the various taxing authorities.

We believe that the lines of communication and information sharing have in general improved over the last several years. We believe continued ongoing communication with external parties, including appropriate taxing authorities, local businesses and TIF project developers, is necessary to properly account for the TIF revenues and receivables.

The Commission has previously experienced delays in receiving the proper supporting documentation from the taxing authorities in order to accurately determine the TIF revenues and receivables. We continue to recommend that the Commission continue its efforts to obtain a greater level of cooperation with all involved parties to obtain more current information with which to record and reconcile the amount of TIF revenue and receivable. Current, timely, financial information needs to be received by the Commission to enable it to accurately account for the TIF activity and the related revenue and receivable.

During the current and prior years, we encountered difficulties in auditing the Commission's financial statements which related to the methodology used to record TIF revenues received from other governments and the proper accounting treatment for a TIF related liability for which there was significant multi-party involvement. While these difficulties were satisfactorily resolved, their resolution required additional investment of time and resources on behalf of the Commission and our firm beyond what we believe should have been required.

Management Response

The TIF Commission does not have access to the information required to calculate TIF revenues received from other governments. It is the position of the City of Kansas City Missouri that this information may not be made available to the TIF Commission due to taxpayer confidentiality. Without access to the information it is impossible for the Commission to provide supporting documentation for the TIF revenues and receivables. Management will continue to work with the City in an effort to improve communications and provide sufficient information to the auditors.

Prior Year Comments

<u>Prior Year Comment Description</u>	<u>Significance</u>	<u>Current Year Status</u>
Management override of Policies and Procedures	Recommended that the Commission's management follow the prescribed policies and procedures as a matter of corporate governance and sound financial reporting.	No Management override of controls noted.
Bond trust Accounts	Bond refunding proceeds and contributions from developers and the City were not properly classified as such. We recommended that the Commission and management institute review procedures over the bond trust accounts and the related activity.	There were no bond refundings during the year, however we repeated this recommendation in the current year under the caption "Financial reporting"
Assets Held for Redevelopment	Recommended that the Commission and management regularly review capital outlay and repair and maintenance accounts to ensure the completeness of the assets recorded in the financial statements.	Recommendation implemented
Recording and Reconciliation of Tax Increment Financing Activity	Recommended that the Commission work with all parties involved in the collection and redirection of PILOTS and EATS revenues to obtain more current information with which to record and reconcile the amount of TIF revenue and receivable.	Comment repeated in the current year.
Monitoring of Developer Compliance with TIF Policies	Recommended that the Commission and management review the process whereby timely certifications are requested by the developer. This will provide the commission with information to determine, on a timely basis, compliance with the terms of the TIF projects.	Developers are now required to submit cost certifications on at least a semi-annual basis.
Intergovernmental Cooperative Agreements	Recommended that the Commission work with various relevant taxing jurisdictions to create and execute cooperative agreements that will result in an optimal information sharing arrangement.	Recommendation was implemented
Internal Control Review	Recommended that the Commission continuously review and evaluate the internal control policies and procedures used in the approval, recording and reporting of financial transactions. This will help ensure the safeguarding of assets and reliability of financial reporting.	Comment not repeated

Conclusion

We hope the above comments are beneficial. We would welcome the opportunity to provide additional information or assistance regarding internal controls or enhancement of operational efficiency or to assist in the implementation of suggestions or recommendations made during our audit.

Our audit procedures required us to obtain an understanding of controls over primary systems affecting the financial statement amounts. The Commission may be able to benefit from an additional, in-depth review of internal controls in other areas. We look forward to discussing opportunities to continue to assist the Commission.

The Commission's responses to the significant deficiencies identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

November 3, 2010

Carleen Head Nicholas



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COCHRAN HEAD VICK & CO., P.C.

Certified Public Accountants

**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**

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

We have audited the financial statements of the governmental activities and each major fund of the Tax Increment Financing Commission of Kansas City, Missouri (a component unit of the City of Kansas City, Missouri) (the Commission), as of and for the year ended April 30, 2010, and have issued our report thereon dated November 3, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures 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 Commission's internal control over financial reporting (internal control). Accordingly, we do not express an opinion on the effectiveness of the Commission'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 misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the Commission in a separate letter dated November 3, 2010.

This report is intended solely for the information of the Board of Directors and management of the Commission, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

November 3, 2010

Schedule of Findings and Responses

Financial Reporting

Management is responsible for establishing, maintaining and monitoring internal controls over financial reporting, and for the fair presentation of the financial statements and related notes in conformity with U.S. generally accepted accounting principles.

We are required to assess the Commission's controls over preparing the financial statements including assessing the skills and competencies necessary to prevent, detect, and correct a material misstatement. A system of internal control over financial reporting includes controls over financial statement preparation, including footnote disclosures. Deficiencies in internal control exist when the Commission's accounting staff does not have controls over preparation of the financial statements which would prevent or detect a misstatement in the financial statements.

While performing our audit procedures, we noted an adjustment was required to correct the beginning fund balance for amounts due to taxing districts recorded as a payable in the prior year. We also noted an adjustment was required to reclassify certain bond trust activity transactions to the proper accounts as well as a prior period adjustment related to certain long-term liabilities. Accordingly, we consider these deficiencies in financial reporting to be significant deficiencies.

We recommend that on an on-going basis beginning fund balance be reconciled and agreed to the prior year's ending fund balance. We also recommend that control procedures over the recording of bond trust activity be reviewed and modified if necessary.

Management Response

Management recognizes the importance of reconciling all balance sheet accounts. In fact, a process was put in place during the fiscal year whereby all balance sheet accounts are reconciled on a monthly basis. Unfortunately, that process did not include verifying that all prior year audit entries had been posted so that the beginning fund balance was correct. The reconciliation process has been modified to include verification of the beginning fund balance to prevent a recurrence of this error.

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We believe that the lines of communication and information sharing have in general improved over the last several years. We believe continued ongoing communication with external parties, including appropriate taxing authorities, local businesses and TIF project developers, is necessary to properly account for the TIF revenues and receivables.

The Commission has previously experienced delays in receiving the proper supporting documentation from the taxing authorities in order to accurately determine the TIF revenues and receivables. We continue to recommend that the Commission continue its efforts to obtain a greater level of cooperation with all involved parties to obtain more current information with which to record and reconcile the amount of TIF revenue and receivable. Current, timely, financial information needs to be received by the Commission to enable it to accurately account for the TIF activity and the related revenue and receivable.

During the current and prior years, we encountered difficulties in auditing the Commission's financial statements which related to the methodology used to record TIF revenues received from other governments and the proper accounting treatment for a TIF related liability for which there was significant multi-party involvement. While these difficulties were satisfactorily resolved, their resolution required additional investment of time and resources on behalf of the Commission and our firm beyond what we believe should have been required.

Management Response

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