



Thomas A. Schweich
Missouri State Auditor

Harrisonville Towne Center Transportation Development District

September 2012
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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Harrisonville Towne Center Transportation Development District

Financial Reporting	The Harrisonville Towne Center Transportation Development District (TDD) monies have not been accounted for in a separate fund, so the TDD's annual financial statements have not accurately reported cash balances and bond payments. State law requires TDD sales tax revenues be deposited in a special trust fund to be used solely for such designated purpose.
Outstanding Debt	The TDD does not monitor how much is still owed on the debt associated with the TDD construction. The principal amount of this debt should be tracked to ensure the TDD sales taxes are used only to pay the debt service costs related to the TDD projects, and the sales tax should be repealed when the TDD's portion has been repaid.

In the areas audited, the overall performance of this entity was **Fair**.*

American Recovery and Reinvestment Act (Federal Stimulus)	The Harrisonville Towne Center Transportation Development District did not receive any federal stimulus monies during the audited time period.
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*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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THOMAS A. SCHWEICH

Missouri State Auditor

Paul McKnight, Chairman
and
Board of Directors
Harrisonville Towne Center Transportation Development District
Harrisonville, Missouri

We have audited certain operations of the Harrisonville Towne Center Transportation Development District in fulfillment of our duties under Section 238.272, RSMo. The scope of our audit included, but was not necessarily limited to, the 2 years ended December 31, 2011. The objectives of our audit were to:

1. Evaluate the district's internal controls over significant management and financial functions.
2. Evaluate the district's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the district, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the district's management and was not subjected to the procedures applied in our audit of the district.

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the Harrisonville Towne Center Transportation Development District.



Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	Harry J. Otto, CPA
Director of Audits:	Regina Pruitt, CPA
Audit Manager:	Randall Gordon, M.Acct., CPA, CGAP
In-Charge Auditor:	Gayle Garrison
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Harrisonville Towne Center

Transportation Development District

Management Advisory Report - State Auditor's Findings

1. Financial Reporting

Transportation Development District (TDD) monies have not been accounted for in a separate fund and, as a result, cash balances and bond payments have not been accurately reported by the TDD in annual financial statements.

The City of Harrisonville provides accounting services for the TDD. Some transactions related to the TDD are not identified as TDD transactions in the Tax Increment Financing (TIF) Towne Center Fund. The city includes TDD receipts and disbursements in the TIF Towne Center Fund which also accounts for TIF receipts and disbursements. As a result, the cash balance for the TDD and the TDD's portion of the debt service payments is not maintained. Cash balances were not reported accurately in the TDD financial statements during the 5 years ended December 31, 2011, and debt service payments reported during the 5 years ended December 31, 2011, were overstated by approximately \$5,600.

Also, state law requires 50 percent of TDD sales tax collections be forwarded to the TIF. However, 50 percent of TDD sales tax receipts transferable to the TIF are not identified in the TIF Towne Center Fund. Although the city did not identify these amounts, the amounts were properly disclosed in the TDD financial statements for the 5 years ended December 31, 2011.

Section 238.235.1(6), RSMo, specifies TDD sales tax revenues shall be deposited in a special trust fund and shall be used solely for such designated purpose. Separate fund accounting and accurate financial statements are necessary to demonstrate compliance with state law, and to provide for accurate reporting of the financial position and activities of the TDD.

Recommendation

The TDD Board work with City of Harrisonville officials to establish a fund to separately account for TDD receipts, disbursements, and cash balances. Cash balances as of each fiscal year end and debt service payment totals should be accurately reported in the TDD's financial statements.

Auditee's Response

The TDD Board provided the following written response:

The TDD Board, through its General Counsel, will work with the City of Harrisonville pursuant to the Cooperative Agreement between the District and the City to ensure that TDD revenues are properly accounted for and that such funds are and have been properly applied to TDD-eligible costs. Additionally, prior to the end of the Fiscal Year, the TDD will provide revised financial statements for years 2007-2011 to resolve the issue noted in the last sentence of the second paragraph of this section.



2. Outstanding Debt

Based on discussions with the City of Harrisonville Finance Director, no procedures have been established to ensure TDD receipts are used only to pay the TDD's share of bond financing costs.

The TDD does not monitor debt balances associated with the TDD construction. The City of Harrisonville issued \$8.63 million in TIF/TDD revenue bonds, a portion of which were used to reimburse the developer for costs incurred and to fund additional transportation project costs. Information obtained from city officials indicated the developer incurred TDD project costs totaling approximately \$1.2 million.

As of December 31, 2011, the TDD financial statements indicate the TDD has made debt service payments totaling approximately \$233,800 although our analysis of the city fund ledger indicates the TDD has only made payments totaling approximately \$224,800. This \$9,000 overstatement was caused by incorrectly reporting debt service payments in the financial statements totaling approximately \$5,600 (see MAR finding number 1), and by incorrectly including end-of-year adjusting journal entries in the 2008 financial statements totaling approximately \$3,400.

To ensure TDD sales taxes are used only to pay debt service costs related to the TDD projects, procedures should be established to track the principal owed by the TDD on the debt, and the sales tax should be repealed when the TDD's portion of the principal has been repaid.

Section 238.235.1(6), RSMo, requires all district sales tax revenues designated for transportation development be used solely for the purposes established pursuant to the Missouri Development Transportation Development District Act (Sections 238.200 to 238.275, RSMo).

Recommendation

The TDD Board establish procedures to track the remaining debt obligations and take necessary actions to repeal the sales tax when the TDD debt obligations have been repaid.

Auditee's Response

The TDD Board provided the following written response:

The TDD Board, through its General Counsel, will work with the City of Harrisonville pursuant to the Cooperative Agreement between the District and the City to establish procedures to track the remaining debt obligations of the District so that the Board may monitor payments and be prepared at the appropriate time to repeal the District sales tax and wind-down the District. The TDD Board wishes to note that the District has produced enough revenue to retire only 19% of the debt since inception, so this is expected to be many years before any action to repeal the District sales tax becomes necessary. Additionally, prior to the end of the Fiscal Year, the TDD will provide revised financial statements for years 2007-2011 to



Harrisonville Towne Center
Transportation Development District
Management Advisory Report - State Auditor's Findings

resolve the issue noted in the preceding section and the third paragraph of this section.

Harrisonville Towne Center Transportation Development District Organization and Statistical Information

The Harrisonville Towne Center Transportation Development District (TDD) is located in the City of Harrisonville. The TDD was organized in December 2005 by petition of the owners/developer of property within the proposed district. The TDD Board of Directors and officers include three property owners and two representatives from the City of Harrisonville. The retail establishments within the TDD collect and remit the TDD sales tax monies to the Missouri Department of Revenue (DOR). In turn, the DOR remits the monies to the TDD.

The district was formed for the purpose of improving and widening Commercial Street to accommodate a center turn lane north of U.S. Highway 71, adding a full access intersection to Harrisonville Towne Center, and constructing three right-hand turn lanes into Harrisonville Towne Center with an initial estimated cost of \$1.1 million. Actual project costs totaled approximately \$1.2 million at completion in August 2007. The Board of Directors passed a 1-cent (1 percent) sales tax for 25 years. The City of Harrisonville and the Missouri Department of Transportation are the public entities with jurisdiction over these projects and have accepted dedication of the completed projects.

The TDD is located in a Tax Increment Financing (TIF) redevelopment district. The City of Harrisonville issued TIF bonds of \$8.6 million, to be funded by TIF revenues from payments in lieu of tax, TDD sales tax revenues, and city appropriations. The TDD is responsible for only a portion of the TIF bonds because TDD projects were limited to TIF roadway improvements.

The TDD has a fiscal year end of December 31 and did not have independent audits performed during the 2 years ended December 31, 2011.

District Board

An elected board acts as the policy-making body for the district's operations. The board's five members serve 3-year terms without compensation. Members of the board at December 31, 2011, were:

Ivan Stull, Executive Director
Paul McKnight, Chairman
David Dickerson, Vice-Chairman
Angela Ellsworth, Secretary
Brad Gebhard, Treasurer

American Recovery and Reinvestment Act 2009 (Federal Stimulus)

The Harrisonville Towne Center Transportation Development District did not receive any federal stimulus monies during the 2 years ended December 31, 2011.



Harrisonville Towne Center
Transportation Development District
Organization and Statistical Information

Financial Activity

A summary of the district's financial activity for the 2 years ended December 31, 2011, as reported by the TDD to the State Auditor's office follows:

	Year Ended December 31,	
	2011	2010
Receipts:		
Sales taxes	\$ 121,157	98,204
Interest	97	61
Total Receipts	<u>121,254</u>	<u>98,265</u>
Disbursements:		
Operating	1,574	1,691
Debt service (1)	53,990	33,845
Administrative	1,212	982
Tax increment financing	60,578	49,102
Legal fees	3,900	12,645
Total Disbursements	<u>121,254</u>	<u>98,265</u>
Receipts Over (Under) Disbursements	0	0
Beginning Cash Balance	0	0
Ending Cash Balance (2)	<u>\$ 0</u>	<u>0</u>

(1) Reported debt service payments should total approximately \$50,000 for the year ended December 31, 2011, and \$31,000 for the year ended December 31, 2010. See MAR finding number 1.

(2) Reported cash balances should total approximately \$5,600 at December 31, 2011, and \$1,400 at December 31, 2010. See MAR finding number 1.