

**ANNUAL
FINANCIAL
REPORT**

Knoxville / Knox County

Metropolitan Planning Commission

June 30, 2013 and 2012

**KNOXVILLE/KNOX COUNTY METROPOLITAN PLANNING COMMISSION
ANNUAL FINANCIAL REPORT**

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INTRODUCTORY
SECTION

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Listing of Commission Members

June 30, 2013

Nominated by the Mayor of Knoxville

Expiration of Term

Mr. Bart Carey, Vice Chair	2015
Mr. George A. Ewart	2013
Mr. Michael A. Kane	2015
Rev. Charles F. Lomax, Jr.	2016
Mr. Nate Kelly	2013
Mr. Jack C. Sharp	2015
Ms. Janice L. Tocher	2016

Nominated by the Knox County Mayor

Mr. Herb Anders	2016
Mr. Art Clancy, III	2013
Ms. Laura Cole	2014
Mr. Len Johnson	2016
Ms. Rebecca Longmire, Chairman	2014
Mr. Brian Pierce	2014
Mr. Jeffrey W. Roth	2015
Mr. Wes Stowers, Jr.	2013

GENERAL PURPOSE
FINANCIAL STATEMENTS

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OAK RIDGE, TENNESSEE 37830
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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners of the
Knoxville – Knox County Metropolitan Planning Commission
Knoxville, Tennessee

Report on the Financial Statements

We have audited the accompanying statements of the governmental activities and the major governmental fund of the Knoxville – Knox County Metropolitan Planning Commission (“MPC”), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the MPC’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 an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major governmental fund of the Knoxville – Knox County Metropolitan Planning Commission as of June 30, 2013 and 2012, and the respective changes in financial position and the budgetary comparison of the general fund for the years 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 4-8 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 audits 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise MPC's basic financial statements. The schedule of general fund expenditures, schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133), schedule of expenditures of state awards and introductory section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The information presented in the schedule of general fund expenditures and schedules of expenditures of federal and state awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information presented in the schedule of general fund expenditures and schedules of expenditures of federal and state awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The information included in the introductory section as listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2014 on our consideration of MPC'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 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 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 Knoxville – Knox County Metropolitan Planning Commission's internal control over financial reporting and compliance.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
February 21, 2014



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City – County Building
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Management's Discussion and Analysis

As management of the Knoxville-Knox County Metropolitan Planning Commission (the MPC), we offer the readers of the MPC's financial statements this narrative overview and analysis of the financial activities of the MPC for the fiscal year ended June 30, 2013 and June 30, 2012. We encourage readers to consider the information presented here in conjunction with the information provided in the financial statements, notes to financial statements and supplementary information when reviewing the MPC's financial activities and condition.

Fiscal 2013 Financial Highlights

- The assets of the MPC exceeded its liabilities at the close of the most recent fiscal year by \$847,444 (net position). Of this amount, \$825,856 (unrestricted net position) may be used to meet the MPC's ongoing obligations to citizens and creditors.
- The MPC's total net position increased by \$186,591. This increase is primarily the result of a combination of higher charges for services and lower contracted services costs.
- The MPC's total capital assets changed by \$9,459 for the amount of current year depreciation only since there were no capital assets purchased during the year.
- The MPC's total liabilities decreased by \$230,749 due to lower grants related accounts payable .

Fiscal 2012 Financial Highlights

- The assets of the MPC exceeded its liabilities at the close of the most recent fiscal year by \$660,853 (net position). Of this amount, \$629,806 (unrestricted net position) may be used to meet the MPC's ongoing obligations to citizens and creditors.
- The MPC's total net position increased by \$163,490. This increase is primarily the result of a combination of higher amount of grants receivables and related accounts payables.
- The MPC's total capital assets changed by \$937 for the difference between the \$10,673 capital assets purchased during the fiscal year and the current year depreciation.
- The MPC's total liabilities increased by \$476,081 due to higher grants related accounts payable .

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the MPC's basic financial statements which consist of two components: 1) financial statements comprised of the comparative Statements of Net Position; the comparative Statements of Activities, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Financial Statements. The comparative Statements of Net Position presents information on all of the MPC's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the MPC is improving or deteriorating.

The comparative Statement of Activities presents information showing how the MPC's net position changed during the last two fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs (full accrual accounting), regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected grant and contract reimbursements, and earned but unused vacation leave).

The financial statements can be found on pages 9 - 15 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 16-22 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the MPC's budgetary compliance and variances from the final amended budget. This supplementary information can be found on page 23 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the MPC's financial position. As of June 30, 2013 and 2012 the MPC's assets exceeded its liabilities by \$847,444 and \$660,853 (net position), respectively. At June 30, 2013, the majority of MPC's net position reflect its current assets (e.g. cash and cash equivalents, grants receivable, and prepaid items). These current assets (less current liabilities) equal 106 percent of total net position; however, all net position is not available for future operational spending as \$21,588, or three percent, is invested in capital assets. The remaining balance of unrestricted net position \$825,856 may be used to meet the MPC's ongoing obligations to citizens and creditors.

As the following table shows, the MPC reported an increase in net position of \$186,591 and \$163,490 increase during the years ended June 30, 2013 and 2012, respectively. At June 30, 2013, the MPC's increase in net position is primarily due to higher charges for services and lower operating costs. The MPC reported an increase in net position of \$163,490 during the year ended June 30, 2012. This increase was primarily due to a combination of higher amounts of grants receivables and related accounts payable.

Knoxville-Knox County Metropolitan Planning Commission

Net Position

	<u>FYE June 30, 2013</u>	<u>FYE June 30, 2012</u>	<u>FYE June 30, 2011</u>
Current and Other Assets	\$ 1,565,046	\$ 1,599,745	\$ 961,111
Capital Assets	<u>21,588</u>	<u>31,047</u>	<u>30,110</u>
Total Assets	<u>1,586,634</u>	<u>1,630,792</u>	<u>991,221</u>
Long Term Liabilities Outstanding	74,464	68,486	68,283
Other Liabilities	<u>664,726</u>	<u>901,453</u>	<u>425,575</u>
Total Liabilities	<u>739,190</u>	<u>969,939</u>	<u>493,858</u>
Net Position:			
Net Investment in Capital Assets	21,588	31,047	30,110
Unrestricted	<u>825,856</u>	<u>629,806</u>	<u>467,253</u>
Total Net Position	\$ <u>847,444</u>	\$ <u>660,853</u>	\$ <u>497,363</u>

The next table shows the key elements from ongoing operations that contributed to the \$186,591 increase in net position during fiscal year 2013. This increase is primarily due to a combination of 11 percent higher charges for services and 15 percent lower contracted services costs. Key elements from ongoing operations contributed to a \$163,490 increase in net position during fiscal year 2012. This increase is explained primarily due to a 36 percent increase in grant receivables net of related accounts payable over the prior fiscal year.

Revenues for fiscal year 2013 were \$4,695,206 compared to \$4,932,962 for fiscal year 2012 or a decrease of \$237,756. The source of this decrease is from a combination of \$47,228 higher fee receipts, \$94,000 lower funding from the county, and \$190,984 lower revenues from grants. Expenses for fiscal year 2013 were \$4,508,615 compared to \$4,769,472 for fiscal year 2012 or a decrease of \$260,857 due primarily to lower contracted services for grant subcontractors. The change in net position for fiscal year 2013 was an increase of \$186,591, compared to an increase of \$163,490 for fiscal year 2012.

Fee revenues totaled \$486,695 for fiscal year 2013 compared to \$439,467 for fiscal year 2012, an 11 percent increase due to improving economic conditions. Grant reimbursements totaled \$2,757,511 for fiscal year 2013 compared to \$2,948,495 for fiscal year 2012, a seven percent decrease of \$190,984. Local funding (not restricted for specific programs) from the City of Knoxville and Knox County totaled \$1,451,000 and \$1,545,000 in 2013 and 2012, respectively. MPC made no capital purchase in 2013 and a \$10,673 capital purchase in 2012. Total assets equaled \$1,586,634 in fiscal year 2013, compared to \$1,630,792 for fiscal year 2012, a decrease of \$44,158. Total liabilities equaled \$739,190 in fiscal year 2013, compared to \$969,939 for fiscal year 2012, a decrease of \$230,749. The net effect is an increase to net position of \$186,591.

Revenues for fiscal year 2012 were \$4,932,962 compared to \$3,923,255 for fiscal year 2011 or an increase of \$1,009,707. The source of this increase is from a combination of \$47,299 lower fee receipts, \$219,164 lower funding from the county, and \$1,276,170 higher revenues from grants. Expenses for fiscal year 2012 were \$4,769,472 compared to \$3,734,725 for fiscal year 2011 or an increase of \$1,034,747 due to \$957,721 higher contracted services for grant subcontractors and \$63,088 higher Other Expenses for county central services charged for the first time. The change in net position for fiscal year 2012 was an increase of \$163,490, compared to an increase of \$188,530 for fiscal year 2011.

Fee revenues totaled \$439,467 for fiscal year 2012 compared to \$486,766 for fiscal year 2011, a 10 percent decrease due to slowing economic conditions. Grant and contract reimbursements totaled \$2,948,495 for fiscal year 2012 compared to \$1,672,325 for fiscal year 2011, a 76 percent increase of \$1,276,170. Local funding (not restricted for specific programs) from the City of Knoxville and Knox County totaled \$1,545,000 and \$1,645,000 in 2012 and 2011, respectively. The county charged in-kind space cost of \$119,200 to the Commission but did not provide the equivalent 'in kind revenue contribution' for the first time in 2012. MPC made a \$10,673 capital purchase in 2012 and no capital purchases in fiscal year 2011. Total assets equaled \$1,630,792 in fiscal year 2012, compared to \$991,221 for fiscal year 2011, an increase of \$639,571. Total liabilities equaled \$969,939 in fiscal year 2012, compared to \$493,858 for fiscal year 2011, an increase of \$476,081. The net effect is an increase to net position of \$163,490.

Knoxville-Knox County Metropolitan Planning Commission

Changes in Net Position

	FYE June 30, 2013	FYE June 30, 2012	FYE June 30, 2011
Revenues:			
Fees and Charges	\$ 486,695	\$ 439,467	\$ 486,766
Grants	2,757,511	2,948,495	1,672,325
City & County Funding	1,451,000	1,545,000	1,645,000
In-kind	—	—	119,164
Total Revenues	<u>4,695,206</u>	<u>4,932,962</u>	<u>3,923,255</u>
Expenses:			
Salaries and Employee Benefits	2,650,824	2,603,407	2,619,294
Contracted Services	1,587,205	1,875,668	917,947
Supplies and Material	63,286	84,810	54,985
Depreciation	9,459	9,736	9,736
Other Expenses	197,841	195,851	132,763
Total Expenditures	<u>4,508,615</u>	<u>4,769,472</u>	<u>3,734,725</u>
Increase/(decrease) in Net Position	186,591	163,490	188,530
Net Position July 1	<u>660,853</u>	<u>497,363</u>	<u>308,833</u>
Net Position June 30	<u>\$ 847,444</u>	<u>\$ 660,853</u>	<u>\$ 497,363</u>

Budgetary Highlights

The Schedule of Revenues / Expenditures and Changes in Fund Balance – Budget and Actual – General Fund which is found on page 15 of this report, details the original and final budget, actual revenues and expenses, as well as variances from the final budget. The MPC's actual revenues were \$649,085 less than the final budget due primarily from delays in grant and contract related projects. The MPC's actual expenses were \$840,183 less than the final budget due to salary savings and delays in grant related projects. The net result is a \$191,098 favorable budget variance.

Capital Assets and Debt Administration

Capital Assets. The MPC's net investment in capital assets as of June 30, 2013 and 2012 was \$21,588 and \$31,047. There was no capital purchase in 2013 and a \$10,673 capital purchase in 2012. Depreciation expense for fiscal year 2013 was \$9,459 and \$9,736 in 2012. Additional information is provided as part of Note 4 to the financial statements.

Long Term Liabilities. At the end of the current fiscal year, the MPC's long term liabilities consisted of compensated absences payable of \$74,464, compared to \$68,486 at the end of the fiscal year 2012, an increase of \$5,978,

Requests for Information

This financial report is designed to provide a general overview of the Knoxville-Knox County Metropolitan Planning Commission's finances for all of those with an interest in the MPC's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the office of the Executive Director, Knoxville-Knox County Metropolitan Planning Commission, 400 Main Street, Suite 403, City-County Building, Knoxville, Tennessee 37902.

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Statements of Net Position

As of June 30, 2013 and June 30, 2012

<u>Assets</u>	<u>2013</u>	<u>2012</u>
Cash and Cash Equivalents	\$ 589,983	\$ 390,701
Accounts Receivable:		
Grants Receivable (net of doubtful accts)	970,334	1,201,035
Other	—	1,775
Prepaid Items	4,729	6,234
Capital assets, net of accumulated depreciation	21,588	31,047
Total Assets	1,586,634	1,630,792
<u>Liabilities</u>		
Accounts Payable	372,912	615,060
Accrued Payroll	103,360	99,886
Deferred Revenue	5,847	10,000
Due to Others	300	400
Compensated Absences:		
Expected to be paid within one year	182,307	176,107
Expected to be paid after one year	74,464	68,486
Total Liabilities	739,190	969,939
<u>Net Position</u>		
Net investment in capital assets	21,588	31,047
Unrestricted	825,856	629,806
Total Net Position	\$ 847,444	\$ 660,853

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

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Statements of Activities

For the Fiscal Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>Program revenues:</u>		
Charges for services	\$ 486,695	\$ 439,467
Operating grants and contributions:		
Federal government grants	2,519,347	2,694,509
State of Tennessee grants	234,011	242,544
Local grant match (other than MPC)	4,153	11,442
Total program revenues	<u>3,244,206</u>	<u>3,387,962</u>
<u>Program Expenses:</u>		
General government - planning:		
Personal services	2,650,824	2,603,407
Contracted services	1,587,205	1,875,668
Materials and supplies	63,286	84,810
Depreciation	9,459	9,736
Other charges	197,841	195,851
Total program expenses	<u>4,508,615</u>	<u>4,769,472</u>
Net program deficiency of revenues under expenses	<u>(1,264,409)</u>	<u>(1,381,510)</u>
<u>General revenues:</u>		
Grants and contributions not restricted to specific programs:		
City of Knoxville	905,000	905,000
Knox County	546,000	640,000
Total general revenues	<u>1,451,000</u>	<u>1,545,000</u>
Change in net position	186,591	163,490
<u>Net position:</u>		
Beginning of year	<u>660,853</u>	<u>497,363</u>
End of year	\$ <u><u>847,444</u></u>	\$ <u><u>660,853</u></u>

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

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

**Balance Sheets - General Fund
As of June 30, 2013 and June 30, 2012**

<u>Assets</u>	<u>2013</u>	<u>2012</u>
Cash and Cash Equivalents	\$ 589,983	\$ 390,701
Accounts Receivable:		
Grants Receivable (net of doubtful accts)	970,334	1,201,035
Other	—	1,775
Prepaid Items	4,729	6,234
Total Assets	\$ <u>1,565,046</u>	\$ <u>1,599,745</u>
<u>Liabilities and Fund Balances</u>		
Liabilities:		
Accounts Payable	\$ 372,912	\$ 615,060
Accrued Payroll	103,360	99,886
Compensated Absences Payable - current year	182,307	176,107
Deferred Revenue	5,847	10,000
Due to Others	300	400
Total Liabilities	<u>664,726</u>	<u>901,453</u>
Fund Balances:		
Nonspendable	4,729	6,234
Unassigned	895,591	692,058
Total Fund Balances	<u>900,320</u>	<u>698,292</u>
 Total Liabilities and Fund Balances	 \$ <u>1,565,046</u>	 \$ <u>1,599,745</u>

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

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION
Reconciliation of the Balance Sheets - General Fund to the Statements of Net Position
As of June 30, 2013 and June 30, 2012

	2013	2012
Amounts reported for governmental activities in the statement of net position are different because:		
Ending Fund Balance - General Fund	\$ 900,320	\$ 698,292
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds	21,588	31,047
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences	(74,464)	(68,486)
Net Position of Governmental Activities	\$ 847,444	\$ 660,853

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

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION
Statements of Revenues/Expenditures and Changes in Fund Balance - General Fund
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
<u>Revenues:</u>		
Fees and Charges	\$ 486,695	\$ 439,467
Federal Government Grants	2,519,347	2,694,509
State of Tennessee Grants	234,011	242,544
Local Grant Match (other than MPC)	4,153	11,442
City of Knoxville	905,000	905,000
Knox County	546,000	640,000
Total revenues	4,695,206	4,932,962
<u>Expenditures:</u>		
Salaries and Employee Benefits	2,644,846	2,603,204
Contracted Services	1,587,205	1,875,668
Supplies and Materials	63,286	84,810
Other Charges	197,841	195,851
Capital outlay	—	10,673
Total expenditures	4,493,178	4,770,206
Revenues over (under) expenditures	202,028	162,756
Fund Balance, July 1	698,292	535,536
Fund Balance, June 30	\$ 900,320	\$ 698,292

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

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION
Reconciliation of the Statements of Revenues / Expenditures and
Changes in Fund Balance - General Fund to the Statements of Activities
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - General Fund	\$ 202,028	\$ 162,756
Governmental funds report capital outlays as expenditures. However, in the statements of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Depreciation expense amounted to \$9,459 in 2013 and \$9,736 in 2012. Capital outlay amounted to \$0 in 2013 and \$10,673 in 2012.	(9,459)	937
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the General Fund.	(5,978)	(203)
Change in net position per statement of activities	\$ 186,591	\$ 163,490

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

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION
Statement of Revenues/Expenditures and Changes in Fund Balance -
Budget and Actual - General Fund
For the Fiscal Year Ended June 30, 2013
(With Comparative Totals for the Fiscal Year Ended June 30, 2012)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>2013 Actual</u>	<u>Variance with Final Budget</u>	<u>2012 Actual</u>
<u>Revenues:</u>					
Fees and Charges	\$ 399,000	\$ 399,000	\$ 459,664	\$ 60,664	\$ 389,160
Federal Government Grants	3,172,000	3,231,100	2,519,347	(711,753)	2,694,509
State of Tennessee Grants	241,000	243,000	234,011	(8,989)	242,544
Local Grant Match - (other than MPC)	—	—	4,153	4,153	11,442
City of Knoxville	905,000	905,000	905,000	—	905,000
Knox County	546,000	546,000	546,000	—	640,000
Other miscellaneous contracts	20,191	20,191	27,031	6,840	50,307
Total revenues	<u>5,283,191</u>	<u>5,344,291</u>	<u>4,695,206</u>	<u>(649,085)</u>	<u>4,932,962</u>
<u>Expenditures:</u>					
Salaries and Employee Benefits	2,738,561	2,738,561	2,644,846	93,715	2,603,204
Contracted Services	2,193,000	2,251,800	1,587,205	664,595	1,875,668
Supplies and Materials	122,000	124,300	63,286	61,014	84,810
Other Charges	205,700	205,700	197,841	7,859	195,851
Capital Outlay	13,000	13,000	—	13,000	10,673
Total expenditures	<u>5,272,261</u>	<u>5,333,361</u>	<u>4,493,178</u>	<u>840,183</u>	<u>4,770,206</u>
Revenues over (under) expenditures	10,930	10,930	202,028	191,098	162,756
Fund Balance, July 1	<u>698,292</u>	<u>698,292</u>	<u>698,292</u>	<u>—</u>	<u>535,536</u>
Fund Balance, June 30	<u>\$ 709,222</u>	<u>\$ 709,222</u>	<u>\$ 900,320</u>	<u>\$ 191,098</u>	<u>\$ 698,292</u>

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

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Notes to Financial Statements

June 30, 2013 and 2012

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Knoxville - Knox County Metropolitan Planning Commission (the Commission), was formed in 1956. The Commission, which is funded as a joint venture between the City of Knoxville and Knox County, is a regional planning commission established by the Tennessee Department of Economic and Community Development pursuant to the provisions of the Tennessee Code Annotated, Section 13-3-102. The Commission's Board is composed of fifteen members serving four-year terms, eight of whom are nominated by the Knox County Mayor and the remaining seven are nominated by the Mayor of the City of Knoxville. The Local Planning Division of the Tennessee Department of Economic and Community Development approves the nominations. The participating governments have an ongoing financial responsibility to the Commission, but do not have any equity interest in the joint venture.

The Commission's financial statements include the accounts of all Commission operations.

B. Basis of Accounting and Presentation

1. Basis of Accounting

The government-wide financial statements (i.e., the statement of net position and the statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements (i.e., the balance sheet and statement of revenues, expenditures and changes in fund balance for the General Fund) employ the modified accrual basis of accounting. The revenues and related assets are recognized when they become measurable and available as net current assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for compensated absences which are recognized to the extent they have matured.

The General Fund is accounted for using the current flow of financial resources as the measurement focus. This means that only current assets and current liabilities are generally included on the balance sheet. The general fund balance is considered a measure of “available spendable resources.” The operating statement of the general fund presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Because of its spending measurement focus, expenditure recognition for the General Fund excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as general fund expenditures or fund liabilities.

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Notes to Financial Statements

June 30, 2013 and 2012

2. Fund Accounting

The accounts of the Commission are organized, operated and presented on the basis of funds. Funds are independent fiscal and accounting entities with self-balancing sets of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The Commission reports one governmental fund, the General Fund. The General Fund is the Commission's operating fund which accounts for all financial resources.

3. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year end are reported as nonspendable fund balances since they do not constitute expenditures or liabilities.

4. Sources of Revenue

The Commission receives funding from Knox County, the City of Knoxville, the State of Tennessee, the Federal government, and from private grants and fees.

5. New Pronouncements

During the fiscal year ended June 30, 2013, the Commission implemented GASB Statement No. 62 "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*", which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance, included in certain FASB and AICPA pronouncements issued prior to November 30, 1989, which does not conflict with or contradict GASB pronouncements.

During the fiscal year ended June 30, 2013, the Commission implemented GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*", which establishes guidance for reporting the statements of net position and statements of revenues, expenses, and changes in net position.

C. Budgets and Budgetary Accounting

The Commission's annual budget is prepared using the modified accrual basis of accounting for the fiscal year ending June 30. The Commission's budget is presented to its Executive Committee for review and approval then forwarded to the full Commission for vote and legal adoption. The Commission followed this formal budget adoption process to approve: the original budget on May 10, 2012 and the first amended budget on March 14, 2013, which was the final ending budget.

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Notes to Financial Statements

June 30, 2013 and 2012

The Commission's primary funding source is federal, state, and local grants which have a grant period that may or may not coincide with the fiscal year. These grants range from a less than twelve month period to multiple years.

Because of the Commission's dependency on federal, state, and local budgetary decisions, revenue estimates are based upon the best available information as to potential sources of funding.

The annual budget is subject to constant change within the fiscal year due to:

- Increases/decreases in actual grant awards from those estimated.
- Changes in grant periods.
- Unanticipated grant awards not included in the budget.
- Revised expenditure needs.

The full Commission formally approves the annual budget at a summary level and emphasis is also placed on complying with the grant budget, terms and conditions on a grant-by-grant basis. These terms and conditions usually specify the period during which costs may be incurred and outline budget restrictions or allowances.

D. Cash and Cash Equivalents

The Commission's Cash and Cash Equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

E. Deposits and Investments

The Commission's cash and cash equivalents are pooled and managed by the Trustee of Knox County. State statutes authorize the Commission to invest in obligations of the federal government, State of Tennessee, U.S. governmental agencies, the State of Tennessee Local Government Investment Pool, certificates of deposit and repurchase agreements. All investments are stated at fair market value.

Tennessee Code Annotated Section 5-8-201 requires financial institutions to secure the Commission's deposits by pledging governmental securities as collateral. The market value of pledged securities must equal at least 105 percent of the average daily balance of deposits.

F. Compensated Absences

Commission employees are granted vacation and sick leave based on years of service. In the event of termination, an employee is paid only for accumulated vacation leave.

G. Comparative Data

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Notes to Financial Statements

June 30, 2013 and 2012

Summaries of comparative data for the prior year have been presented in selected sections of the accompanying supplementary information to provide an understanding of changes in the Commission's financial position and operations.

H. Capital Assets

Capital assets, which include property and equipment, are reported in the Statements of Net Position. The Commission defines capital assets as assets with an initial, individual cost of more than \$5,000. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. The depreciable lives of all capital assets are estimated to be five years except for the high volume copier which is estimated to have a ten year life.

I. Fund Balance

In the governmental fund financial statements, fund balance is reported in classifications that comprise a hierarchy based primarily on the extent to which MPC is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. The classifications are as follows:

Nonspendable fund balance includes amounts that cannot be spent because they are (a) not in spendable form, or (b) legally or contractually required to be maintained intact (e.g., endowments.) Fund balance not in spendable form includes items not expected to be converted to cash (e.g., prepaid items).

Restricted fund balance includes amounts that are restricted for specific purposes. These amounts result from constraints placed on the use of resources (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which for MPC is the Commission. Amounts are reported as committed pursuant to approvals voted by Commission (legislative branch), which have also been approved by the MPC Director (executive branch).

Assigned fund balance consists of amounts constrained by MPC's intent to be used for specific purposes, but are neither restricted nor committed. Assignments may be made upon the authority of the Director.

Unassigned fund balance is the residual balance in the general fund (i.e., fund balance that is not nonspendable, and is not restricted, committed, or assigned.) When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, restricted amounts are expended first, and then unrestricted funds are used. When expenditures are incurred utilizing unrestricted funds, unassigned amounts are expended first, then assigned amounts, then committed amounts.

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Notes to Financial Statements

June 30, 2013 and 2012

Net position in government-wide financial statements is classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law.

J. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2: Cash

The bank collateral pool administered by the Treasurer of the State of Tennessee covered the Commission's cash and cash equivalents, pooled and managed by the Trustee of Knox County, at June 30, 2013 and 2012. Banks participating in the collateral pool determine the aggregate balance of their public fund accounts for the Commission. The amount of collateral required to secure these deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be entirely insured or collateralized.

Note 3: Retirement Plans – 401(a) and Voluntary 457

Employees of the Commission are allowed to individually participate in the Knox County defined contribution plan, ("asset accumulation" plan). The plan covers substantially all full-time employees under the age of 65. Plan benefits depend solely on amounts contributed to the plan plus investment earnings. Commission employees are eligible to participate from their initial employment date. All employees who work at least 18.5 hours a week are required to contribute a minimum of six percent of pre-tax contributions (of gross wages) into the mandatory 401(a) plan which is equally matched by the employer.

An enhancement to the asset accumulation plan is the Knox County Voluntary 457 plan added effective July 1, 2007 which allows pre-tax contributions and employer match over and above the mandatory six percent based on years of county service and up to a dollar limit set by the Internal Revenue Service. Employees choosing to participate with over five years of service receive an equal employer match starting at two percent and staggered up to a maximum additional six percent for those with 15 years or more service. Two other 457 plans, Security Benefits and Nationwide, also allow similar employee contributions and employer match.

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Notes to Financial Statements

June 30, 2013 and 2012

The Commission's contributions on behalf of employees vest at twenty percent per year and are fully vested after five years. Employee and employer contributions were \$197,166 and \$174,754, respectively, for the year ended June 30, 2013. Employee and employer contributions were \$184,545 and \$168,221, respectively, for the year ended June 30, 2012. A description of the significant accounting policies used in the plan is described in the *Knox County Comprehensive Annual Financial Report (CAFR)* for the fiscal year ended June 30, 2013.

Note 4: Capital Assets

The following is a summary of changes in capital assets for the year ended June 30, 2013:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Capital assets being depreciated				
Furniture and fixtures	\$ 32,500	\$ —	\$ —	\$ 32,500
Computers and equipment	150,947	—	(25,703)	125,244
Vehicles	49,923	—	(13,439)	36,484
Total capital assets, at cost	<u>233,370</u>	<u>—</u>	<u>(39,142)</u>	<u>194,228</u>
Less accumulated depreciation				
Furniture and fixtures	(32,500)	—	—	(32,500)
Computers and equipment	(120,701)	(8,656)	25,703	(103,654)
Vehicles	(49,122)	(803)	13,439	(36,486)
Total	<u>(202,323)</u>	<u>(9,459)</u>	<u>39,142</u>	<u>(172,640)</u>
Total capital assets being depreciated, net	\$ <u>31,047</u>	\$ <u>(9,459)</u>	\$ <u>—</u>	\$ <u>21,588</u>

The following is a summary of changes in capital assets for the year ended June 30, 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Capital assets being depreciated				
Furniture and fixtures	\$ 32,500	\$ —	\$ —	\$ 32,500
Computers and equipment	140,274	10,673	—	150,947
Vehicles	49,923	—	—	49,923
Total capital assets, at cost	<u>222,697</u>	<u>10,673</u>	<u>—</u>	<u>233,370</u>
Less accumulated depreciation				
Furniture and fixtures	(32,500)	—	—	(32,500)
Computers and equipment	(114,176)	(6,525)	—	(120,701)
Vehicles	(45,911)	(3,211)	—	(49,122)
Total	<u>(192,587)</u>	<u>(9,736)</u>	<u>—</u>	<u>(202,323)</u>
Total capital assets being depreciated, net	\$ <u>30,110</u>	\$ <u>937</u>	\$ <u>—</u>	\$ <u>31,047</u>

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Notes to Financial Statements

June 30, 2013 and 2012

Note 5: In-Kind and Contributed Service

Knox County provided office space within the City/County Building to the Commission through the fiscal year 2011 by offsetting the cost charged with an equivalent in-kind revenue contribution. Starting in fiscal year 2012 Knox County did not provide the offsetting in-kind revenue contribution. The value of space provided during the year ended June 30, 2013, was estimated to be \$119,200, based on the 2012 actual cost of \$119,200 calculated at the rate of \$9.85 per square foot. The actual cost for the year ending June 30, 2013 was \$119,200, the same as last year, for the total 12,098 square footage provided. Knox County provided various administrative and internal service functions to the Commission at no cost to the Commission through 2011 but charged the Commission \$65,053 in central service costs in fiscal year 2013 and \$64,906 in 2012.

Note 6: Risk Management

The Commission is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission has been considered an entity of Knox County Government which has elected to be self-insured for general liability coverage and is subject to the limits of the Tennessee Government Tort Liability Act 29-20-101 ct seg. The Commission maintains auto liability and worker's compensation insurance through a public entity risk pool operated as a risk-sharing program by the Tennessee Municipal League (TML). This pool is sustained by member premiums. The Commission's premium expenditures for fiscal year ended June 30, 2013 amounted to \$8,735 as compared to \$7,843 for 2012. Because the TML pool has excess aggregate and individual claim loss insurance coverage, management considers any related risk to be insignificant. There were no settlements in excess of insurance coverage in the past three fiscal years. There were no significant reductions in coverage.

Note 7: Economic Concentration

The City of Knoxville and Knox County, Tennessee provided funding of \$1,451,000, or 31 percent of the Commission's revenues for the fiscal year ended June 30, 2013 as compared to \$1,545,000, which was also 31 percent for 2012.

Note 8: Fund Balance

The amount that is reported on the balance sheets – general fund as nonspendable fund balance at June 30, 2013 and 2012 is comprised of the following:

	<u>2013</u>	<u>2012</u>
Prepaid Items	\$ <u>4,729</u>	\$ <u>6,234</u>

SUPPLEMENTARY

SECTION

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Schedule of General Fund Expenditures

For the Fiscal Year Ended June 30, 2013

(With Comparative Totals for the Fiscal Year Ended June 30, 2012)

Expenditure Type	2013 Original Budget	2013 Final Budget	2013 Actual	Variance with Final Budget	2012 Actual
Salaries and Employee Benefits	\$ 2,738,561	\$ 2,738,561	\$ 2,644,846	\$ 93,715	\$ 2,603,204
Legal Services - attorney	40,000	40,000	40,000	—	40,000
Legal Notices	32,300	32,300	25,099	7,201	19,278
Other Professional Services (Adv. & Audit Srvs.)	54,000	54,000	31,303	22,697	38,129
Rent, Repair, & Maintenance	53,000	53,000	45,410	7,590	46,677
Communications	35,200	35,200	26,391	8,809	27,258
Other Services (Consultant, Postage,& Printing)	1,821,000	1,866,500	1,351,905	514,595	1,644,249
Contracts with other Agencies	96,000	107,500	37,607	69,893	35,310
Travel, Tuition, Dues and Memberships	61,500	63,300	29,490	33,810	24,768
Food	29,000	30,800	14,865	15,935	20,798
Utilities & Fuel	5,000	5,000	2,749	2,251	2,966
Office Supplies & Minor Equipment	79,000	79,500	38,659	40,841	52,954
Vehicle/Equip - Repair, Maintenance supplies	1,000	1,000	261	739	404
Educational materials	5,000	5,000	5,062	(62)	5,589
Other materials (signs)	3,000	3,000	1,690	1,310	2,100
Capital outlay	13,000	13,000	0	13,000	10,673
Insurance Related expenses - building and vehicles	1,700	1,700	865	835	1,181
Workers' Compensation Insurance	14,000	14,000	7,869	6,131	6,662
Commission Trustee Fees	5,100	5,100	4,850	250	3,902
Space Cost	119,200	119,200	119,200	—	119,200
Other central service costs	65,700	65,700	65,057	643	64,904
Total Expenditures	\$ 5,272,261	\$ 5,333,361	\$ 4,493,178	\$ 840,183	\$ 4,770,206

See accompanying independent auditors' report.

INTERNAL CONTROL
AND
COMPLIANCE SECTION

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PUGH & COMPANY, P.C.
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INDEPENDENT AUDITOR'S 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*

Board of Commissioners of the
Knoxville – Knox County Metropolitan Planning Commission
Knoxville, Tennessee

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 the major governmental fund of the Knoxville – Knox County Metropolitan Planning Commission ("MPC"), as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the MPC's basic financial statements, and have issued our report thereon dated February 21, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MPC'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MPC's internal control. Accordingly, we do not express an opinion on the effectiveness of MPC'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 MPC's 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 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*.

We noted certain other matters that were reported to management of MPC in the governance letter dated February 21, 2014.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
February 21, 2014

SINGLE AUDIT
SECTION

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Commissioners of the
Knoxville – Knox County Metropolitan Planning Commission
Knoxville, Tennessee

Report on Compliance for Each Major Federal Program

We have audited Knoxville – Knox County Metropolitan Planning Commission's ("MPC") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of MPC's major federal programs for the year ended June 30, 2013. MPC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of MPC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MPC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of MPC's compliance.

Opinion on Each Major Federal Program

In our opinion, the Knoxville – Knox County Metropolitan Planning Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of MPC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered MPC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MPC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
February 21, 2014

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013

<u>Program Name</u>	<u>CFDA #</u>	<u>State Contract Number</u>	<u>Federal Expenditures</u>
Major Programs:			
<i>U.S. Department of Transportation - CFDA 20.205 (pass through TDOT)</i>			
Highway Planning and Construction	20.205	F&A Contract No. GG1237132-01	\$ 607,680
Regional Transportation and Air Quality	20.205	SPR 2010-32 Amendment 2	82,063
Knoxville Smart Trips Program	20.205	Contract No. 060150 PIN No. 106867	221,260
TPO Bike Enhancement Program	20.205	PIN No. 115203 CM-STP-9109(144)	5,754
Knoxville Smart Trips Carshare Program	20.205	PIN # 115208.00 CM-9109(145) Contract # 110034	5,410
Regional Transit Corridors Study	20.205	TDOT # 40100-49810	60,094
Total - U.S. Department of Transportation CFDA 20.205			<hr/> 982,261
Non-Major Programs:			
<i>U.S. Department of Transportation - CFDA cluster 20.516 & 20.521</i>			
Federal Transit - Job Access Reverse Commute	20.516	Federal Project ID # TN-37-X082-01	261,815
Federal Transit - New Freedom	20.521	Federal Project ID # TN-57-X010-01	125,256
Total - U.S. Department of Transportation -CFDA cluster 20.516 & 20.521			<hr/> 387,071
Non-Major Program:			
<i>U.S. Department of Transportation (pass through TDOT)</i>			
Federal Transit Technical Studies Grant	20.505	F&A Contract No. GG-11-36515-00 TDOT Project No. 475303-S3-012 FTA Grant No. TN-80-0004-00	106,830
Total - U.S. Department of Transportation			<hr/> 1,476,162
Major Programs:			
<i>U.S. Department of Housing and Urban Development</i>			
PlanET / Sustainable Communities Grant (pass through City of Knoxville)	14.703	Doc. No. C-11-0226	1,043,185
Total Expenditures of Federal Awards			<hr/> \$ 2,519,347 <hr/>

See accompanying notes to Schedule of Expenditures of Federal and State Awards.

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION
Schedule of Expenditures of State Awards
For the Fiscal Year Ended June 30, 2013

<u>Program Name</u>	<u>CFDA #</u>	<u>State Contract Number</u>	<u>State Expenditures</u>
Regional Transportation and Air Quality	20.205	SPR 2010-32 Amendment 2	\$ 20,516
Regional Transit Corridors Study	20.205	TDOT # 40100-49810	15,024
Federal Transit - Job Access Reverse Commute	20.516	Federal Project ID # N-37-X082-01 State Contract No. 47-5316-S3-008	128,060
Federal Transit - New Freedom	20.521	Federal Project ID # TN-57-X010-01 State Contract No. 47-5317-S3-004	57,057
Federal Transit Technical Studies Grant	20.505	F&A Contract No. GG-11-36515-00 TDOT Project No. 47-5303-S3-012 FTA Grant No. TN-80-0004-00	13,354
Total Expenditure of State Awards			\$ <u>234,011</u>

See accompanying notes to Schedule of Expenditures of Federal and State Awards.

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Notes to Schedules of Expenditures of Federal and State Awards

Year ended June 30, 2013

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards summarizes the expenditures of the Knoxville - Knox County Metropolitan Planning Commission (MPC) under federal programs for the year ended June 30, 2013. Because the schedule presents only a selected portion of the operations of MPC, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the MPC.

For purposes of the Schedule of Expenditures of Federal Awards, federal awards include all grants, contracts, and similar agreements entered into directly between MPC and agencies and departments of the federal government and all subawards to MPC by nonfederal organizations pursuant to federal grants, contracts, and similar agreements.

For purposes of the Schedule of Expenditures of Federal Awards, expenditures for federal programs are recognized on the accrual basis of accounting.

(2) Indirect Costs

Many of MPC's federally funded programs allow indirect costs to be charged and include them as a line item in the grant budget. However, if the grant budget does not specifically provide for indirect costs to be charged, none of the indirect costs are reported as costs to the grantor nor are the costs included or presented in the Schedule of Expenditures of Federal Awards.

(3) Schedule of Expenditures of State Awards

In compliance with Tennessee state law, the accompanying schedule of expenditures of state awards is included with this report. Such schedule presents all state funded financial awards, as defined by the State Comptroller's Office, and is prepared and presented in a manner consistent with the schedule of expenditures of federal awards.

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditors' report issued on compliance for major federal programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 yes X no

Major federal programs for the Knoxville – Knox County Metropolitan Planning Commission for the fiscal year ended June 30, 2013 are:

<u>Program Name</u>	<u>CFDA#</u>
U.S. Department of Housing and Urban Development: Sustainable Communities Grant	14.703
U.S. Department of Transportation: Highway Planning and Construction	20.205

Dollar threshold used to distinguish between Type A & Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes X no

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

**Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2013**

Section II - Findings Related to the Audit of the Financial Statements

Current Year Audit Findings:

None.

Section III - Findings Related to Federal Awards

Current Year Audit Findings:

None.

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

**Schedule of Corrected Prior Audit Findings
For the Year Ended June 30, 2013**

Finding 12-1	Subrecipient Monitoring
Program:	Sustainable Communities Grant (CFDA# 14.703)
Criteria:	Federal award recipients are required to conduct monitoring procedures on contracts determined to be subrecipients.
Condition:	UT Partners is a consortium of University of Tennessee entities bringing a variety of skills and services to the PlanET process. The determination of subrecipient status for the UT Partners contract was made after completion of the contract and determination of the full scope of the services.
Questioned Cost:	There were no questioned costs identified.
Context:	The determination of subrecipient status can affect the timing of the monitoring process.
Effect:	Monitoring procedures have been performed by the Commission regarding this grant. However, communication of subrecipient status was not relayed to its recipient at the commencement of the grant. Accordingly, the subrecipient has not reported its share of grant expenditures to date on its schedule of expenditures of federal awards. In addition, there were significant delays in finalizing the contract and there have been occasional delays in receiving supporting documentation from the subrecipient.
Cause:	The determination of subrecipient status was delayed due to the design and interpretation of the contract.
Recommendation:	The Commission should communicate the subrecipient status to UT Partners.
Management's Response:	The Commission will communicate subrecipient status to UT Partners. Monitoring procedures are currently in place to meet the grant requirements.
Current Status:	This finding has been resolved during the fiscal year ended June 30, 2013.

