

ANNUAL FINANCIAL REPORT

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Knoxville / Knox County

Metropolitan Planning Commission

June 30, 2004 and 2003

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

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June 30, 2004 and 2003**

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INTRODUCTORY

SECTION

KNOXVILLE/KNOX COUNTY METROPOLITAN PLANNING COMMISSION

LISTING OF COMMISSION MEMBERS (UNAUDITED)

June 30, 2004

	Expiration of <u>Term</u>
Nominated by the Mayor of the City of Knoxville	
Ms. Susan Brown, Chairman	2007
Mr. Herbert Donaldson, Sr.	2004
Mr. Richard Graf, Vice Chair	2005
Mr. Mark Jendrek	2005
Mr. Chester Kilgore	2007
Mr. Jack C. Sharp	2007
Mr. David Wolf	2004
Nominated by the Knox County Executive	
Mr. Trey Benefield	2006
Mr. Ray Evans	2007
Ms. Mamosa Foster	2004
Mr. Philip French	2006
Mr. Stephen Lewis	2004
Mr. C. Randy Massey	2006
Ms. Mary Parker Slack	2005
Mr. R. Larry Smith	2005

GENERAL PURPOSE
FINANCIAL STATEMENTS



Report of Independent Auditors

The Board of Directors
Knoxville/ Knox County Metropolitan Planning Commission
Knoxville, Tennessee

We have audited the accompanying basic financial statements of the Knoxville/ Knox County Metropolitan Planning Commission (the "Commission") as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the System's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of June 30, 2004 and 2003, and the changes in its financial position and cash flows for the year ended June 30, 2004 and 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the System adopted GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", effective July 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2004 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis information is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements. The information listed as supplementary information in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it.

Cherry, Behaert & Holland, L.L.P.

Knoxville, Tennessee
November 23, 2004

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, 2004 and June 30, 2003. 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.

Financial Highlights

- ▶ The assets of the MPC exceeded its liabilities at the close of the most recent fiscal year by \$584,582 (net assets). Of this amount, \$567,811 (unrestricted net assets) may be used to meet the MPC's ongoing obligations to citizens and creditors.
- ▶ The MPC's total net assets increased by \$128,465. This increase is primarily the result of increased fee revenue collected and savings from budgeted expenses.
- ▶ The MPC's total capital assets before depreciation decreased by \$35,376. The decrease is primarily due to the Xerox DC230 copier lease ending in May 2004 and the retirement of the Chevy 1994 S-10 truck. The MPC did not purchase any additional capital assets in fiscal year 2004.
- ▶ The MPC's total liabilities decreased by \$50,341. The decrease is due to accounts payable and retainage payable reduction and accrued payroll increase at year end.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to the MPC's basic financial statements. The MPC's basic financial statements consist of two components: 1) financial statements comprised of the Comparative Statements of Net Assets and 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 Assets presents information on all of the MPC's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the MPC is improving or deteriorating.

The Statement of Activities presents information showing how the MPC's net assets changed during the last two fiscal years. All changes in net assets 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 user service fees, and earned but unused vacation leave).

The financial statements can be found on pages 8 - 14 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 15 - 20 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 21 of this report.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the MPC's financial position. As of June 30, 2004 the MPC's assets exceeded its liabilities by \$584,582 (net assets). At June 30, 2003, the MPC's net assets totaled \$456,117. The majority of the MPC's net assets reflect its current assets (e.g. cash and cash equivalents, grants receivable, and prepaid items). Current assets (less current liabilities) amount to \$681,909, which is over 100 percent of total net assets. All of total net assets are not available for future operational spending as \$16,771, or 3%, are invested in capital assets and are restricted on how they may be used. The remaining balance of unrestricted net assets (\$567,811) 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 assets of \$128,465 during the year ended June 30, 2004. As previously noted, this increase is primarily the result of increased fee revenues collected and savings from budgeted expenses. For the fiscal year ended June 30, 2004, the MPC's funding from the City of Knoxville and Knox County was \$1,417,388 compared to \$1,470,425 in the fiscal year ended June 30, 2003, a decrease of \$53,037. Fee revenues totaled \$475,702 for 2004 compared to \$377,370 for 2003, an increase of \$98,332. Grant revenues totaled \$818,779 for 2004 compared to \$939,353 for 2003, a decrease of \$120,574. Capital assets decreased by \$9,445 in fiscal year 2004 due to depreciation expense.

**Knoxville/ Knox County Metropolitan Planning Commission
Net Assets**

	FYE June 30, 2004	FYE June 30, 2003
Current and Other Assets	\$ 917,489	\$ 829,920
Capital Assets	16,771	26,216
Total Assets	934,260	856,136
Long Term Liabilities Outstanding	114,098	113,089
Other Liabilities	235,580	286,930
Total Liabilities	349,678	400,019
Net Assets:		
Invested in Capital Assets	16,771	26,216
Unrestricted	567,811	429,901
Total Net Assets	\$ 584,582	\$ 456,117

The next table shows the key elements from ongoing operations that contributed to the increase in net assets of \$128,465 during the current fiscal year. This increase is due to several issues. Operating revenues, comprised of user service fees (e.g. funding from the City of Knoxville and Knox County and federal and state grants) decreased in fiscal year 2004 by \$74,273. This overall decrease is from decreases in revenues sources other than fees and charges. Fee revenues for year ended June 30, 2004 was \$475,702 compared to \$377,370 for fiscal year ended June 30, 2003, or an increase of \$98,332. Unrestricted funding from City of Knoxville and Knox County decreased \$53,037 from fiscal year 2004 compared to fiscal year 2003. Likewise, grant funding decreased by \$120,574 from \$818,779 in fiscal year ended June 30, 2004 compared to \$939,353 in fiscal year ended June 30, 2003.

Expenses for fiscal year 2004 was \$2,698,825 compared to \$2,851,811 for fiscal year 2003. The decrease in expense was due to delays in consultant work on grant related projects and salary savings due to delays in filling vacant positions.

Knoxville/ Knox County Metropolitan Planning Commission Changes in Net Assets

	FYE June 30, 2004	FYE June 30, 2003
Revenues:		
Fees and Charges	\$ 475,702	\$ 377,370
Grants	818,779	939,353
City & County Funding	1,417,388	1,470,425
In-kind	115,421	114,415
Total Revenues	2,827,290	2,901,563
Expenses:		
Salaries and Employee Benefits	2,051,872	1,972,545
Contracted Services	422,274	657,570
Supplies and Materials	43,422	51,117
Depreciation	9,445	12,211
Other Expenses	171,812	158,368
Total Expenses	2,698,825	2,851,811
Increase in Net Assets	128,465	49,752
Net Assets July 1	456,117	406,365
Net Assets June 30	584,582	456,117

Budgetary Highlights

The Schedule of Revenues and Expenditures and Changes in Fund Balance – Budget to Actual which is found on page 14 of this report, details the final budget, actual revenues and expenses, as well as variances from the final budget. The MPC's actual revenues were \$40,848 less than the final budget due to a combination of collecting more fees than expected and from timing delays in grant related projects. The MPC's actual expenses were \$255,568 less than the final budget due to salary savings from timing of filling vacant positions and from delays in grant related projects.

Capital Assets and Debt Administration

Capital Assets. The MPC's investment in capital assets as of June 30, 2004 was \$16,771 (net of accumulated depreciation). This investment in capital assets includes a plotter purchased in fiscal year 2003 for \$7,684. Current year depreciation expense was \$9,445. Depreciation expense in fiscal year 2003 was \$12,211. The MPC purchased no additional capital assets in fiscal year 2004.

Long Term Liabilities. At the end of the current fiscal year, the MPC's long term liabilities consisted of compensated absences payable of \$114,098 compared to \$113,089 at the end of the fiscal year 2003. Long term liabilities also included a capital lease obligation of \$4,199 in year 2003 which was paid off in the current year.

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 Assets
As of June 30, 2004 and June 30, 2003

<u>Assets</u>	<u>2004</u>	<u>2003</u>
Cash and Cash Equivalents	\$ 498,048	\$ 370,617
Restricted Cash - TTCDA	6,935	6,935
Accounts Receivable:		
Grants Receivable	394,920	436,358
Other	1,417	82
Prepaid Expenses	16,169	15,928
Capital assets, net of accumulated depreciation	16,771	26,216
	<u>934,260</u>	<u>856,136</u>
Total Assets		
<u>Liabilities</u>		
Accounts Payable	68,566	137,231
Retainage Payable	-	54,286
Accrued Payroll	88,524	7,098
Deferred Revenue	14,506	20,636
Due to Others	6,935	6,935
Compensated Absences:		
Expected to be paid within one year	57,049	56,545
Expected to be paid after one year	114,098	113,089
Capital lease obligation:		
Expected to be paid within one year	-	4,199
	<u>349,678</u>	<u>400,019</u>
Total Liabilities		
<u>Net Assets</u>		
Invested in capital assets, net of related debt	16,771	26,216
Unrestricted	567,811	429,901
Total Net Assets	<u>\$ 584,582</u>	<u>\$ 456,117</u>

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, 2004 and 2003**

	2004	2003
Expenses:		
General government - planning:		
Personal services	\$ 2,051,872	\$ 1,972,545
Contracted services	422,274	657,570
Materials and supplies	43,422	51,117
Depreciation	9,445	12,211
Other expenses	171,812	158,368
Total program expenses	2,698,825	2,851,811
Program revenues:		
Charges for services	475,702	377,370
Operating grants and contributions:		
Federal government grants	446,463	320,028
State of Tennessee grants	184,141	505,451
Local grant match	122,175	91,874
City of Knoxville - PNI grant	66,000	22,000
Net program expense	1,404,344	1,535,088
Program revenues:		
Grants and contributions not restricted to specific programs:		
City of Knoxville	692,650	729,100
Knox County	724,738	741,325
In-kind contributions	115,421	114,415
Total general revenues	1,532,809	1,584,840
 Change in net assets	 128,465	 49,752
Net assets:		
Beginning of year	456,117	406,365
End of year	\$ 584,582	\$ 456,117

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, 2004 and June 30, 2003

<u>Assets</u>	<u>2004</u>	<u>2003</u>
Cash and Cash Equivalents	\$ 498,048	\$ 370,617
Restricted Cash - TTCDA	6,935	6,935
Accounts Receivable:		
Grants Receivable	394,920	436,358
Other	1,417	82
Prepaid Expenses	16,169	15,928
 Total Assets	\$ 917,489	\$ 829,920
<u>Liabilities and Fund Balances</u>		
Liabilities:		
Accounts Payable	\$ 68,566	\$ 137,231
Retainage Payable	-	54,286
Accrued Payroll	88,524	7,098
Compensated Absences Payable	57,049	56,545
Deferred Revenue	14,506	20,636
Due to Others	6,935	6,935
 Total Liabilities	235,580	282,731
 Fund Balances:		
Reserved	44,601	43,815
Undesignated, Unreserved	637,308	503,374
Total Fund Balances	681,909	547,189
 Total Liabilities and Fund Balances	\$ 917,489	\$ 829,920

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

**Knoxville/Knox County Metropolitan Planning Commission
Reconciliation of the Balance Sheets to the Statements of Net Assets
As of June 30, 2004 and June 30, 2003**

	2004	2003
Amounts reported for governmental activities in the statement of net assets are different because:		
Ending Fund Balance - General Fund	\$ 681,909	\$ 547,189
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds	16,771	26,216
Long-term liabilities, including capital leases and compensated absences, are not due and payable in the current period and therefore are not reported in the funds:		
Capital lease obligations	-	(4,199)
Compensated absences	(114,098)	(113,089)
Net Assets of Governmental Activities	\$ 584,582	\$ 456,117

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, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Revenues:		
Fees and Charges	\$ 475,702	\$ 377,370
Federal Government Grants	446,463	320,028
State of Tennessee Grants	184,141	505,451
Local Grant Match	122,175	91,874
City of Knoxville- PNI grant	66,000	22,000
City of Knoxville	692,650	729,100
Knox County	724,738	741,325
In-Kind Contributions	115,421	114,415
Total revenues	<u>2,827,290</u>	<u>2,901,563</u>
Expenditures:		
Salaries and Employee Benefits	2,050,863	1,964,133
Contracted Services	422,274	657,570
Supplies and Materials	43,422	51,117
Other Charges	133,001	129,663
Capital Outlay	43,010	42,004
Total expenditures	<u>2,692,570</u>	<u>2,844,487</u>
Revenues over expenditures	134,720	57,076
Fund Balance, July 1	434,100	377,024
Fund Balance, June 30	<u>\$ 568,820</u>	<u>\$ 434,100</u>

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 to the Statements of Activities
 For the Fiscal Years Ended June 30, 2004 and 2003**

	2004	2003
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - General Fund	\$ 134,720	\$ 57,076
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Depreciation expense amounted to \$9,445 and \$12,211 in 2004 and 2003, respectively. Capital outlay amounted to \$9,184 in 2003.	(9,445)	(3,027)
Expenses reported in the statement of activities for the increase in the liability for compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in the General Fund.	(1,009)	(8,412)
Repayment of debt principal is reflected as an expenditure in the General Fund, whereas the repayment reduces long-term liabilities in the statement of net assets.	4,199	4,115
Change in net assets per statement of activities	\$ 128,465	\$ 49,752

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

Knoxville/Knox County Metropolitan Planning Commission
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For the Fiscal Year Ended June 30, 2004
(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2003)

	Original Budget	Final Budget	2004 Actual	Variance with Final Budget Positive (Negative)	2003 Actual
Revenues:					
Fees and Charges	\$ 396,881	\$ 382,100	\$ 475,702	\$ 93,602	\$ 377,370
Federal Government Grants	354,552	564,541	446,463	(118,078)	320,028
State of Tennessee Grants	121,384	195,842	184,141	(11,701)	505,451
Local Grant Match	91,864	132,267	122,175	(10,092)	91,874
City of Knoxville- PNI grant	65,000	66,000	66,000	-	-
City of Knoxville	758,264	692,650	692,650	-	751,100
Knox County	770,738	724,738	724,738	-	741,325
In-Kind Contributions	110,000	110,000	115,421	5,421	114,415
Total revenues	2,668,683	2,868,138	2,827,290	(40,848)	2,901,563
Expenditures:					
Salaries and Employee Benefits	2,193,418	2,125,123	2,050,863	74,260	1,964,133
Contracted Services	302,665	551,921	422,274	129,647	657,570
Supplies and Materials	48,160	53,154	43,422	9,732	51,117
Other Charges	124,440	132,940	133,001	(61)	129,663
Capital Outlay	75,000	85,000	43,010	41,990	42,004
Total expenditures	2,743,683	2,948,138	2,692,570	255,568	2,844,487
Revenues over (under) expenditures	(75,000)	(80,000)	134,720	214,720	57,076
Fund Balance, July 1 (as restated)	434,100	434,100	434,100	-	377,024
Fund Balance, June 30	\$ 359,100	\$ 354,100	\$ 568,820	\$ 214,720	\$ 434,100

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

KNOXVILLE/KNOX COUNTY METROPOLITAN PLANNING COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

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. NEW FINANCIAL REPORTING MODEL (GASB STATEMENT NO. 34)

The accompanying financial statements of the Commission have been prepared in conformity with accounting principles as generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In fiscal year 2004, the Commission implemented GASB Statement No. 34 (*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*). The Statement establishes financial reporting requirements for state and local governments throughout the United States. The standard provides for significant changes in terminology and presentation. This adoption resulted in a restatement of the 2003 financial statements for comparative purposes.

For the first time, the financial statements include:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Commission's overall financial position and results of operations.
- A Statement of Net Assets instead of a Balance Sheet, where the difference between assets and liabilities that was recently referred to as *equity* is now referred to as *net assets*.
- A Statement of Activities instead of Statement of Revenues, Expenditures and Changes in Fund Balance, again where *equity* is now referred to as *net assets*. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues.

C. BASIS OF ACCOUNTING AND PRESENTATION

1. Basis of Accounting

The government-wide financial statements (i.e., the statement of net assets 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.

KNOXVILLE/KNOX COUNTY METROPOLITAN PLANNING COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

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.

The General Fund is accounted for on a 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 (net current assets) 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 noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as general fund expenditures or fund liabilities.

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 reservations of 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, private grants and fees.

D. 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 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 normally are for a twelve-month period; however, they can be awarded for periods shorter or longer than twelve months.

KNOXVILLE/KNOX COUNTY METROPOLITAN PLANNING COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

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.

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.

E. 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.

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/ RECLASSIFICATIONS

Summaries of comparative data for the prior year have been presented in selected sections of the accompanying financial statements to provide an understanding of changes in the Commission's financial position and operations. Also, certain amounts presented in the prior year have been reclassified in order to be consistent with the current year presentation.

H. CAPITAL ASSETS

Capital assets, which include property and equipment, are reported in the Statement of Net Assets. The Commission defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. 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.

I. FUND EQUITY

In the fund financial statements (General Fund), reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change and are available for appropriation at the discretion of management.

KNOXVILLE/KNOX COUNTY METROPOLITAN PLANNING COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

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 AND CASH EQUIVALENTS

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, 2004. 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 between 90 – 115 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.

On February 18, 1999, the Commission entered into a contract with the Tennessee Technology Corridor Development Authority (TTCDA) whereby the Commission agreed to provide Executive Director services, office space, and clerical support to TTCDA. In return, the Commission receives TTCDA fees and requests an additional allocation of \$6,000 from Knox County which has not been funded for the past two fiscal years. TTCDA transferred \$8,606 to the Commission to be used for specific purposes (such as equipment purchases) as approved by the TTCDA board. As of June 30, 2004, \$6,935 of the balance transferred remained and is reflected in the financial statements as restricted cash and due to others.

NOTE 3: RETIREMENT PLANS 401(a)

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. Employees may contribute up to 15% (the first 6% is before tax and the other 9% is after tax) of their gross wages and the Commission will match these contributions up to 6% of gross wages. All employees who work at least 18 hours a week are required to contribute a minimum of 6% of compensation. The Commission's contributions to the plan on behalf of employees vest at twenty percent per year and are fully vested after five years. Employee and employer contributions were approximately \$109,200 and \$97,400, respectively, for the year ended June 30, 2004. A description of the significant accounting policies used in the plan are described in the *Knox County Comprehensive Annual Financial Report (CAFR)* for the fiscal year ended June 30, 2004.

KNOXVILLE/KNOX COUNTY METROPOLITAN PLANNING COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 4: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2004:

	Beginning Balance	Additions	Deductions	Ending Balance
Capital assets being depreciated, July 1, 2003:				
Furniture and fixtures	\$ 32,500	\$ -	\$ -	\$ 32,500
Computers and equipment	230,298	-	(23,026)	207,272
Vehicles	46,220	-	(12,350)	33,870
	309,018	-	(35,376)	273,642
Less accumulated depreciation	(282,802)	(9,445)	35,376	(256,871)
Total capital assets being depreciated, June 30, 2004	\$ 26,216	\$ (9,445)	\$ -	\$ 16,771

The following is a summary of changes in capital assets for the year ended June 30, 2003:

	Beginning Balance	Additions	Deductions	Ending Balance
Capital assets being depreciated, July 1, 2002:				
Furniture and fixtures	\$ 32,500	\$ -	\$ -	\$ 32,500
Computers and equipment	221,114	9,184	-	230,298
Vehicles	46,220	-	-	46,220
	299,834	9,184	-	309,018
Less accumulated depreciation	(270,591)	(12,211)	-	(282,802)
Total capital assets being depreciated, June 30, 2003	\$ 29,243	\$ (3,027)	\$ -	\$ 26,216

NOTE 5: CAPITAL LEASE OBLIGATIONS PAYABLE

Beginning June 1, 1999, the Commission entered into a capital lease obligation for a copy machine. Terms of this lease agreement specify total lease payments of \$24,282, which includes monthly maintenance charges. The current monthly payment is \$711.

The capital lease transactions are summarized as follows:

	Balance July 1, 2003	Additions	Payments/ Reductions	Balance June 30, 2004
Long-term debt payable – Capitalized lease obligation	<u>\$4,119</u>	<u>\$ 0</u>	<u>\$(4,119)</u>	<u>\$ 0</u>

KNOXVILLE/KNOX COUNTY METROPOLITAN PLANNING COMMISSION
NOTES TO FINANCIAL STATEMENTS
 June 30, 2004 and 2003

NOTE 6: IN-KIND AND CONTRIBUTED SERVICE

The City of Knoxville and Knox County provide space within the City/County Building to the Commission at no cost to the Commission. The value of space provided during the year ended June 30, 2004, was estimated to be \$114,000 (estimated at \$105,000 for 2003), based on the previous year's actual cost at \$9.48 / foot. The actual cost for the year ending June 30, 2004 was calculated to be \$115,421 based on an increased rate of \$9.60 / foot for the 12,069 square footage provided. Knox County provides various administrative and internal service functions to the Commission at no cost to the Commission. Since the value of such services has not been determined, no income or related expenses have been included in these financial statements.

NOTE 7: 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 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 FY 2004 amounted to \$12,004 (\$10,567 in FY 2003). Because the TML pool has excess aggregated 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 four fiscal years.

NOTE 8: ECONOMIC CONCENTRATION

The City of Knoxville and Knox County, Tennessee provided funding of \$1,483,388 and \$1,492,425, which was 52% and 51% of the Commission's revenues and in-kind contributions for the years ended June 30, 2004 and 2003, respectively.

NOTE 9: FUND BALANCE

The amounts that are reported on the General Fund balance sheet as reserved fund balance at June 30, 2004 are comprised of the following:

	2004	2003	
Appropriations	\$ 21,441	\$ 27,571	
Prepaid Items	16,169	15,928	
Encumbrances	6,991	316	
Total	\$ 44,601	\$ 43,815	

SUPPLEMENTARY

SECTION

Knoxville/Knox County Metropolitan Planning Commission
Schedule of General Fund Expenditures (Unaudited)
For the Fiscal Year Ended June 30, 2004
(With Comparative Amounts for the Fiscal Year Ended June 30, 2003)

Expenditure Type	Final Budget	2004 Actual	Variance Favorable (Unfavorable)	2003 Actual
Salaries and Employee Benefits	\$ 2,125,123	\$ 2,050,863	\$ 74,260	\$ 1,964,133
Advertising	32,000	25,937	6,063	2,473
Audit Services	9,600	8,833	767	9,925
Communications	20,400	20,426	(26)	18,712
Consultants	302,200	194,892	107,308	440,358
Contracts With Other Agencies	4,000	3,292	708	6,614
Dues and Memberships	8,400	8,592	(192)	6,792
Evaluation and Testing	1,000	45	955	1,085
Freight	300	485	(185)	130
Operating Lease Payments	6,200	6,080	120	6,357
Legal Services	35,600	36,356	(756)	34,850
Legal Notices and Recordings	25,000	32,165	(7,165)	28,763
Licenses	-	1,395	(1,395)	1,395
Maintenance Agreements	33,000	30,698	2,302	32,400
Maintenance and Repair	6,515	4,330	2,185	3,673
Postage	16,006	13,763	2,243	16,785
Printing	17,500	9,248	8,252	16,950
Usage Charges	13,000	10,539	2,461	12,000
Rental	200	-	200	-
Travel and Tuition	21,000	15,198	5,802	18,308
Data Processing Supplies	6,000	5,780	220	4,415
Duplicating Supplies	14,000	8,075	5,925	14,033
Equipment Parts - Light	-	-	-	184
Food Supplies	10,700	9,376	1,324	11,453
Gasoline	2,300	2,661	(361)	2,141
Books and Periodicals	6,094	5,200	894	5,456
Office Supplies	9,000	9,079	(79)	9,157
Signage	4,000	2,964	1,036	3,367
Tires and Tubes	800	192	608	757
Uniforms	260	95	165	155
Software	23,000	11,603	11,397	2,441
Small Equipment	62,000	31,407	30,593	39,563
Vehicle and Other Insurance	2,540	750	1,790	(387)
Trustee Commission	3,500	4,897	(1,397)	3,776
Workman's Comp	13,000	11,832	1,168	10,567
Space Costs	113,900	115,522	(1,622)	115,706
Total Expenditures	\$ 2,948,138	\$ 2,692,570	\$ 255,568	\$ 2,844,487

INTERNAL CONTROL
AND
COMPLIANCE SECTION



***REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS***

The Board of Directors
Knoxville/ Knox County Metropolitan Planning Commission
Knoxville, Tennessee

We have audited the basic financial statements of the Knoxville/ Knox County Metropolitan Planning Commission as of and for the year ended June 30, 2004, and have issued our report thereon dated November 23, 2004. 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.

Compliance

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 grants, 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management, 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.

Cherry Bekaert & Holland, L.L.P.

Knoxville, Tennessee
November 23, 2004

SINGLE AUDIT

SECTION



***REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133***

The Board of Directors
Knoxville/ Knox County Metropolitan Planning Commission
Knoxville, Tennessee

Compliance

We have audited the compliance of the Knoxville/ Knox County Metropolitan Planning Commission with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, that are applicable to its major federal program for the year ended June 30, 2004. The Commission's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

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 the Commission'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. Our audit does not provide a legal determination on the Commission's compliance with those requirements.

In our opinion, the Knoxville/ Knox County Metropolitan Planning Commission, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Knoxville/ Knox County Metropolitan Planning Commission, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control system that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Knoxville/ Knox County Metropolitan Planning Commission, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 23, 2004. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of directors, management, 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.

Cherry, Behaert & Holland, L.L.P.

Knoxville, Tennessee
November 23, 2004

KNOXVILLE/ KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

I. Summary of Auditor's Results:

- A. An unqualified opinion was issued on the basic financial statements of the Knoxville/ Knox County Metropolitan Planning Commission.
- B. The audit of the basic financial statements disclosed no material weaknesses in internal controls.
- C. The audit of the financial statements disclosed no instances of noncompliance with laws, regulations and the provisions of contracts and grant agreements that were material to the basic financial statements.
- D. The audit of compliance with the types of compliance requirements applicable to the Knoxville/ Knox County Metropolitan Planning Commission's major program disclosed no material weaknesses in internal controls over its major program.
- E. There were no audit findings relative to the major federal award program for the Knoxville/ Knox County Metropolitan Planning Commission.
- F. An unqualified opinion was issued on the Knoxville/ Knox County Metropolitan Planning Commission's compliance with the types of compliance requirements applicable to its major federal program.
- G. The major federal program for the Knoxville/ Knox County Metropolitan Planning Commission for the fiscal year ended June 30, 2004 is as follows:

<u>Program Name</u>	<u>CFDA#</u>
U.S. Department of Transportation: Highway Planning and Construction	20.205

- H. The threshold for determining type A and B programs for the Knoxville/ Knox County Metropolitan Planning Commission is \$300,000.
- I. The Knoxville/ Knox County Metropolitan Planning Commission did qualify as a low risk auditee under Section .530 of Circular No. A-133.

KNOXVILLE / KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

II. Findings related to the audit of the financial statements of the Knoxville / Knox County Metropolitan Planning Commission:

None

III. Findings and questioned costs related to the audit of Federal awards:

None

IV. Status of Prior Year Findings:

None

**Knoxville/Knox County Metropolitan Planning Commission
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2004**

Program Name	Federal Agency	State Contract Number	CFDA #	Expenditures
Major Federal Program:				
Highway Planning and Construction (FHWA & O&D)	U.S. Department of Transportation	F&A Contract No. Z-03-014500-00 FHWA Project No. SPR-PL-1(169) BPD Project No. 47953-1051-54	20.205	\$ 84,031
Highway Planning and Construction (FHWA & O&D)	U.S. Department of Transportation	F&A Contract No. Z-04-019876-00 FHWA Project No. SPR-PL-1(176) TDOT Project No. 47953-1068-54	20.205	430,400
Planning and Analysis of CMAQ Program / Project Greenlight	U.S. Department of Transportation	TDOT Project No. 47-952-1644-54 CM-STP-9109 (21)	20.205	13,590
Regional Transportation Alternatives Study (Cades Cove)	U.S. Department of the Interior	TDOT Project No. 78-900-9666-04 Contract No. GG-01-08977-00	20.205	47,705
Knoxville Smart Trips Program	U.S. Department of Transportation	LP Project No. 4024 CM-STP-9109(88)	20.205	11,859
Knoxville Smart Trips Program	U.S. Department of Transportation	TDOT Project No. 47-901-9632-04 F&A Contract No. GG-03-09743-00	20.205	61,393
Total Major Program				<u>648,978</u>
Non-major Federal Programs:				
Federal Transit Technical Studies Grants (FTA)	U.S. Department of Transportation	TDOT Project No. 47-901-9631-04 F&A Contract No. GG-03-09959-00 FTA Grant No. TN-80-X009	20.505	9,853
Federal Transit Technical Studies Grants (FTA)	U.S. Department of Transportation	TDOT Project No. 47-901-9640-04 F&A Contract No. GG-04-10691-00 FTA Grant No. TN-80-X012	20.505	64,774
Regional Transportation Alternatives Study (Cades Cove)	U.S. Department of the Interior	NPS Cooperative Agreement No. 1443-CA-5460-AO-012	15.904	11,329
Gateway Communities	U.S. Department of the Interior	NPS Cooperative Agreement #CA-5460-A1-009	15.904	3,230
Tennessee Historical Commission	U.S. Department of the Interior	Contract No. GG-01-08793-00 RFS No. 327-04-046	15.904	3,016
Empowerment Zone PNI	U.S. Department of Housing and Urban Development	Doc. No. C-03-0311	14.244	66,000
Total Non-major Programs				<u>158,202</u>
Total Federal Financial Assistance				<u>\$ 807,180</u>

KNOXVILLE/ KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Note to the Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2004

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Knoxville/ Knox County Metropolitan Planning Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.