

**ANNUAL  
FINANCIAL  
REPORT**

**Knoxville / Knox County**

**Metropolitan Planning Commission**

**June 30, 2012 and 2011**

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

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June 30, 2012 and 2011**

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INTRODUCTORY  
SECTION

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KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Listing of Commission Members

June 30, 2012

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Nominated by the Mayor of Knoxville

Expiration of Term

Ms. Ursula Bailey	2012
Mr. Bart Carey, Vice Chair	2015
Mr. Art Clancy, III	2012
Mr. George A. Ewart	2013
Mr. Michael A. Kane	2015
Mr. Nate Kelly	2013
Mr. Jack C. Sharp	2015

Nominated by the Knox County Mayor

Mr. Robert Anders,	2013
Ms. Laura Cole	2014
Mr. Stan Johnson	2012
Mr. Robert Lobetti	2012
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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## INDEPENDENT AUDITOR'S REPORT

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

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 year ended June 30, 2012, which collectively comprise MPC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of MPC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of MPC as of and for the year ended June 30, 2011, were audited by other auditors whose report dated March 28, 2013, expressed an unqualified opinion on those statements.

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. 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2012 financial statements referred to previously 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, 2012, and the respective changes in financial position, and the budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2013, on our consideration of the 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* and should be considered in assessing the results of our audit.

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**McGLADREY ALLIANCE**



**TSCPA**  
Members of the Tennessee Society  
Of Certified Public Accountants

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 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 audit 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the MPC's 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) and schedule of expenditures of state awards are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenues and expenses - budget to actual (budget basis) and schedules of expenditures of federal and state awards are fairly stated in all material respects in relation to the financial statements as a whole. The financial statements as of June 30, 2011, and for the year then ended were audited by other auditors in accordance with auditing standards generally accepted in the United States of America whose report dated December 14, 2011 expressed an unqualified opinion on the 2011 basic financial statements. The 2011 auditor's report did not express an opinion on the 2011 supplementary section.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the MPC's basic financial statements. The introductory section is presented for the 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 the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Pugh & Company, P.C.*

Certified Public Accountants  
Knoxville, Tennessee  
March 28, 2013



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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, 2012 and June 30, 2011. 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 2012 Financial Highlights**

- The assets of the MPC exceeded its liabilities at the close of the most recent fiscal year by \$660,853 (net assets). Of this amount, \$629,806 (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 \$163,490. This increase is primarily the result of a combination of higher amounts 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.

#### **Fiscal 2011 Financial Highlights**

- The assets of the MPC exceeded its liabilities at the close of the most recent fiscal year by \$497,363 (net assets). Of this amount, \$467,253 (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 \$188,530. This increase is primarily the result of a combination of higher charges for services, lower operating costs, and a higher contribution by the City of Knoxville.
- The MPC's total capital assets changed by \$9,736 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 \$156,169 due to lower accounts payable and deferred revenue and netted against small increases in accrued payroll, due to others, and compensated absences 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 Assets; 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 comparative 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 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 assets may serve over time as a useful indicator of the MPC's financial position. As of June 30, 2012 and 2011 the MPC's assets exceeded its liabilities by \$660,853 and \$497,363 (net assets), respectively. At June 30, 2012, the majority of MPC's net assets reflect its current assets (e.g. cash and cash equivalents, grants receivable, and prepaid items less current liabilities). These current assets (less current liabilities) equals 106 percent of total net assets; however, all net assets are not available for future operational spending as \$31,047, or five percent, are invested in capital assets and are restricted on how they may be used. The remaining balance of unrestricted net assets \$629,802 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 \$163,490 and \$188,530 during the years ended June 30, 2012 and 2011, respectively. At June 30, 2012, the MPC's increase in net assets is primarily due to a higher amount of grants receivables net of related accounts payable. The MPC reported an increase in net assets of \$188,530 during the year ended June 30, 2011. This increase was primarily due to a combination of higher charges for development services with lower operating expenditures, and a larger contribution by the City of Knoxville.

**Knoxville-Knox County Metropolitan Planning Commission**

	Net Assets		
	FYE June 30, 2012	FYE June 30, 2011	FYE June 30, 2010
Current and Other Assets	\$ 1,599,745	\$ 961,111	\$ 919,014
Capital Assets	31,047	30,110	39,846
Total Assets	<u>1,630,792</u>	<u>991,221</u>	<u>958,860</u>
Long Term Liabilities Outstanding	68,486	68,283	64,765
Other Liabilities	901,453	425,575	585,262
Total Liabilities	<u>969,939</u>	<u>493,858</u>	<u>650,027</u>
Net Assets:			
Invested in Capital Assets	31,047	30,110	39,846
Unrestricted	629,806	467,253	268,987
Total Net Assets	<u>\$ 660,853</u>	<u>\$ 497,363</u>	<u>\$ 308,833</u>

The next table shows the key elements from ongoing operations that contributed to the \$163,490 increase in net assets during fiscal year 2012. This increase is primarily due to a 36 percent increase in grant receivables net of related accounts payable over the prior fiscal year. Key elements from ongoing operations contributed to an \$188,530 increase in net assets during fiscal year 2011. This increase is explained by several issues, including fee receipts being 36 percent higher than fiscal year 2010 while funding from grants and contracts decreased by 11 percent and local funding from county stayed the same but increased 13 percent from the city.

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 assets 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 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 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 assets of \$163,490.

Revenues for fiscal year 2011 were \$3,923,255 compared to \$3,903,435 for fiscal year 2010 or an increase of \$19,820. The source of this increase is from \$105,000 higher funding from the city for general appropriations, combined with \$109,649 lower revenues from grant funding and \$24,469 higher fees and charges. Expenses for fiscal year 2011 were \$3,734,725 compared to \$3,884,920 for fiscal year 2010 or a decrease of \$150,195 due to one percent lower personal services costs but primarily due to a ten percent decrease in contracted services including grant related subcontractor payments. The change in net assets for fiscal year 2011 was an increase of \$188,530, compared to an increase of \$18,515 for fiscal year 2010.

Fee revenues totaled \$486,766 for fiscal year 2011 compared to \$462,297 for fiscal year 2010, a five percent increase due to the fee rate schedule increases. Grant reimbursements totaled \$1,672,325 for fiscal year 2011 compared to \$1,781,974 for fiscal year 2010, a six percent decrease of \$109,649. Local funding (not restricted for specific programs) from the City of Knoxville and Knox County totaled \$1,645,000 and \$1,540,000 in 2011 and 2010, respectively. MPC made no capital purchases in fiscal years 2011 and 2010. Total assets equaled \$991,221 in fiscal year 2011, compared to \$958,860 for fiscal year 2010, an increase of \$32,361. Total liabilities equaled \$493,858 in fiscal year 2011, compared to \$650,027 for fiscal year 2010, a decrease of \$156,169. The net effect is an increase to net assets of \$188,530.

### Knoxville-Knox County Metropolitan Planning Commission

#### Statements of Activities

	FYE June 30, 2012	FYE June 30, 2011	FYE June 30, 2010
Revenues:			
Fees and Charges	\$ 439,467	\$ 486,766	\$ 462,297
Grants	2,948,495	1,672,325	1,781,974
City & County Funding	1,545,000	1,645,000	1,540,000
In-kind	—	119,164	119,164
Total Revenues	<u>4,932,962</u>	<u>3,923,255</u>	<u>3,903,435</u>
Expenses:			
Salaries and Employee Benefits	2,603,407	2,619,294	2,649,876
Contracted Services	1,875,668	917,947	1,023,276
Supplies and Material	84,810	54,985	57,765
Depreciation	9,736	9,736	21,614
Other Expenses	195,851	132,763	132,389
Total Expenditures	<u>4,769,472</u>	<u>3,734,725</u>	<u>3,884,920</u>
Increase/(decrease) in Net Assets	163,490	188,530	18,515
Net Assets July 1	<u>497,363</u>	<u>308,833</u>	<u>290,318</u>
Net Assets June 30	<u>\$ 660,853</u>	<u>\$ 497,363</u>	<u>\$ 308,833</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 \$745,038 less than

the final budget due primarily from delays in grant and contract related projects. The MPC's actual expenses were \$912,622 less than the final budget due to salary savings and delays in grant related projects. The net result is a \$167,584 favorable budget variance.

### **Capital Assets and Debt Administration**

*Capital Assets.* The MPC's investment in capital assets as of June 30, 2012 and 2011 was \$31,047 and \$30,110 (net of accumulated depreciation). There was a \$10,673 capital purchase in 2012 and none in 2011. Depreciation expense for fiscal year 2012 and 2011 was \$9,736 each year. 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 \$68,486, compared to \$68,283 at the end of the fiscal year 2011, an increase of \$203.

### **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, 2012 and June 30, 2011**

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Cash and Cash Equivalents	\$ 390,701	\$ 379,089
Accounts Receivable:		
Grants Receivable (net of doubtful accts)	1,201,035	562,368
Other	1,775	9,409
Prepaid Items	6,234	10,245
Capital assets, net of accumulated depreciation	31,047	30,110
<b>Total Assets</b>	<u>1,630,792</u>	<u>991,221</u>
<u>Liabilities</u>		
Accounts Payable	615,060	131,743
Accrued Payroll	99,886	85,516
Deferred Revenue	10,000	1,500
Due to Others	400	22,200
Compensated Absences:		
Expected to be paid within one year	176,107	184,616
Expected to be paid after one year	68,486	68,283
<b>Total Liabilities</b>	<u>969,939</u>	<u>493,858</u>
<u>Net Assets</u>		
Invested in capital assets	31,047	30,110
Unrestricted	629,806	467,253
<b>Total Net Assets</b>	<u>\$ 660,853</u>	<u>\$ 497,363</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, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b><u>Program revenues:</u></b>		
Charges for services	\$ 439,467	\$ 486,766
Operating grants and contributions:		
Federal government grants	2,694,509	1,466,351
State of Tennessee grants	242,544	195,473
Local grant match (other than MPC)	11,442	10,501
Total program revenues	<u>3,387,962</u>	<u>2,159,091</u>
<b><u>Program Expenses:</u></b>		
General government - planning:		
Personal services	2,603,407	2,619,294
Contracted services	1,875,668	917,947
Materials and supplies	84,810	54,985
Depreciation	9,736	9,736
Other charges	195,851	132,763
Total program expenses	<u>4,769,472</u>	<u>3,734,725</u>
Net program deficiency of revenues under expenses	<u>(1,381,510)</u>	<u>(1,575,634)</u>
<b><u>General revenues:</u></b>		
Grants and contributions not restricted to specific programs:		
City of Knoxville	905,000	905,000
Knox County	640,000	740,000
In-kind contributions	—	119,164
Total general revenues	<u>1,545,000</u>	<u>1,764,164</u>
Change in net assets	163,490	188,530
<b><u>Net assets:</u></b>		
Beginning of year	<u>497,363</u>	<u>308,833</u>
End of year	\$ <u>660,853</u>	\$ <u>497,363</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, 2012 and June 30, 2011

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Cash and Cash Equivalents	\$ 390,701	\$ 379,089
Accounts Receivable:		
Grants Receivable (net of doubtful accts)	1,201,035	562,368
Other	1,775	9,409
Prepaid Items	6,234	10,245
<b>Total Assets</b>	<b>\$ 1,599,745</b>	<b>\$ 961,111</b>
<b><u>Liabilities and Fund Balances</u></b>		
Liabilities:		
Accounts Payable	\$ 615,060	\$ 131,743
Accrued Payroll	99,886	85,516
Compensated Absences Payable - current year	176,107	184,616
Deferred Revenue	10,000	1,500
Due to Others	400	22,200
<b>Total Liabilities</b>	<b>901,453</b>	<b>425,575</b>
Fund Balances:		
Nonspendable	6,234	10,245
Assigned	—	217,702
Unassigned	692,058	307,589
<b>Total Fund Balances</b>	<b>698,292</b>	<b>535,536</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,599,745</b>	<b>\$ 961,111</b>

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 Assets**  
**As of June 30, 2012 and June 30, 2011**

	2012	2011
Amounts reported for governmental activities in the statement of net assets are different because:		
Ending Fund Balance - General Fund	\$ 698,292	\$ 535,536
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds	31,047	30,110
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	(68,486)	(68,283)
Net Assets of Governmental Activities	\$ 660,853	\$ 497,363

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, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b><u>Revenues:</u></b>		
Fees and Charges	\$ 439,467	\$ 486,766
Federal Government Grants	2,694,509	1,466,351
State of Tennessee Grants	242,544	195,473
Local Grant Match (other than MPC)	11,442	10,501
City of Knoxville	905,000	905,000
Knox County	640,000	740,000
In-Kind Contributions	—	119,164
<b>Total revenues</b>	<u>4,932,962</u>	<u>3,923,255</u>
<b><u>Expenditures:</u></b>		
Salaries and Employee Benefits	2,603,204	2,615,776
Contracted Services	1,875,668	917,947
Supplies and Materials	84,810	54,985
Other Charges	195,851	132,763
Capital outlay	10,673	—
<b>Total expenditures</b>	<u>4,770,206</u>	<u>3,721,471</u>
<b>Revenues over (under) expenditures</b>	162,756	201,784
<b>Fund Balance, July 1</b>	<u>535,536</u>	<u>333,752</u>
<b>Fund Balance, June 30</b>	<u>\$ 698,292</u>	<u>\$ 535,536</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 - General Fund to the Statements of Activities**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

	2012	2011
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - General Fund	\$ 162,756	\$ 201,784
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 \$9,736 in 2012 and \$9,736 in 2011. Capital outlay amounted to \$10,673 in 2012 and \$0 in 2011.	937	(9,736)
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.	(203)	(3,518)
Change in net assets per statement of activities	\$ 163,490	\$ 188,530

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, 2012**  
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>2012 Actual</u>	<u>Variance with Final Budget</u>	<u>2011 Actual</u>
<b>Revenues:</b>					
Fees and Charges	\$ 375,000	\$ 435,000	\$ 389,160	\$ (45,840)	\$ 441,070
Federal Government Grants	3,368,400	3,357,400	2,694,509	(662,891)	1,466,351
State of Tennessee Grants	322,600	322,600	242,544	(80,056)	195,473
Local Grant Match - (other than MPC)	12,000	12,000	11,442	(558)	10,501
City of Knoxville - contracts	—	—	4,398	4,398	21,793
City of Knoxville	905,000	905,000	905,000	—	905,000
Knox County	740,000	640,000	640,000	—	740,000
Knox County - contracts	6,000	6,000	38,409	32,409	23,903
Other miscellaneous	—	—	7,500	7,500	—
In-Kind Contributions	120,000	—	—	—	119,164
<b>Total revenues</b>	<b>5,849,000</b>	<b>5,678,000</b>	<b>4,932,962</b>	<b>(745,038)</b>	<b>3,923,255</b>
<b>Expenditures:</b>					
Salaries and Employee Benefits	2,745,402	2,667,132	2,603,204	63,928	2,615,776
Contracted Services	2,671,800	2,676,800	1,875,668	801,132	917,947
Supplies and Materials	124,200	120,200	84,810	35,390	54,985
Other Charges	140,000	205,700	195,851	9,849	132,763
Capital Outlay	13,000	13,000	10,673	2,327	—
<b>Total expenditures</b>	<b>5,694,402</b>	<b>5,682,832</b>	<b>4,770,206</b>	<b>912,626</b>	<b>3,721,471</b>
<b>Revenues over (under) expenditures</b>	<b>154,598</b>	<b>(4,832)</b>	<b>162,756</b>	<b>167,588</b>	<b>201,784</b>
<b>Fund Balance, July 1</b>	<b>535,536</b>	<b>535,536</b>	<b>535,536</b>	<b>—</b>	<b>333,752</b>
<b>Fund Balance, June 30</b>	<b>\$ 690,134</b>	<b>\$ 530,704</b>	<b>\$ 698,292</b>	<b>\$ 167,588</b>	<b>\$ 535,536</b>

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

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## KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

### Notes to Financial Statements

June 30, 2012 and 2011

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#### 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 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.

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.

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# KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

## Notes to Financial Statements

June 30, 2012 and 2011

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### 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.

### **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 April 9, 2011; the first amended budget on June 9, 2011; and the line item budget transfers on March 8, 2012, which was the final ending budget.

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.

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.

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## KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

### Notes to Financial Statements

June 30, 2012 and 2011

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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**

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 Assets. 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.

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# KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

## Notes to Financial Statements

June 30, 2012 and 2011

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### 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 resolutions or ordinances passed 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.

Net assets in government-wide financial statements are classified as invested in capital assets, net of related debt; restricted, and unrestricted. Restricted net assets represent 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.

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**KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION**

Notes to Financial Statements

June 30, 2012 and 2011

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**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, 2012 and 2011. Banks participating in the collateral pool determine the aggregate balance of their public fund accounts for the Knox County Trustee. 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 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.



**KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION**

Notes to Financial Statements

June 30, 2012 and 2011

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.

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 \$184,545 and \$168,221, respectively, for the year ended June 30, 2012. Employee and employer contributions were \$187,200 and \$172,790, respectively, for the year ended June 30, 2011. 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, 2012.

**Note 4: Capital Assets**

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, 2012 and 2011

The following is a summary of changes in capital assets for the year ended June 30, 2011:

	<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	—	—	140,274
Vehicles	49,923	—	—	49,923
Total capital assets, at cost	<u>222,697</u>	<u>—</u>	<u>—</u>	<u>222,697</u>
Less accumulated depreciation				
Furniture and fixtures	(32,500)	—	—	(32,500)
Computers and equipment	(107,651)	(6,525)	—	(114,176)
Vehicles	(42,700)	(3,211)	—	(45,911)
Total	<u>(182,851)</u>	<u>(9,736)</u>	<u>—</u>	<u>(192,587)</u>
Total capital assets being depreciated, net	<u>\$ 39,846</u>	<u>\$ (9,736)</u>	<u>\$ —</u>	<u>\$ 30,110</u>

**Note 5: In-Kind and Contributed Service**

Knox County provided in-kind 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, 2012, was estimated to be \$120,000, based on the 2011 actual cost of \$119,164 calculated at the rate of \$9.85 per square foot. The actual cost for the year ending June 30, 2012 was \$119,200, about 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 fiscal year 2011 but charged the Commission \$63,088 in central service costs in fiscal year 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 is 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 et seq. 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, 2012 amounted to \$7,843 as compared to \$9,070 for 2011. 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.

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KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Notes to Financial Statements

June 30, 2012 and 2011

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**Note 7: Economic Concentration**

The City of Knoxville and Knox County, Tennessee provided funding of \$1,545,000, or 31 percent of the Commission's revenues and in-kind contributions for the fiscal year ended June 30, 2012 as compared to \$1,645,000, which was 42 percent for 2011.

**Note 8: Fund Balance**

The amount that is reported on the balance sheets – general fund as nonspendable fund balance at June 30, 2012 and 2011 is comprised of the following:

	<u>2012</u>	<u>2011</u>
Prepaid Items	\$ <u>6,234</u>	\$ <u>10,245</u>

SUPPLEMENTARY

SECTION

**KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION**  
**Schedule of General Fund Expenditures - Budget vs. Actual**  
**For the Fiscal Year Ended June 30, 2012**  
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

Expenditure Type	2012 Original Budget	2012 Final Budget	2012 Actual	2012 Variance with Final Budget	2011 Actual
Salaries and Employee Benefits	\$ 2,745,402	\$ 2,667,132	\$ 2,603,204	\$ 63,928	\$ 2,615,776
Legal Services - attorney	40,000	40,000	40,000	—	40,000
Legal Notices	43,800	36,800	19,278	17,522	19,937
Other Professional Services ( Adv. & Audit Svcs.)	43,000	55,000	38,129	16,871	42,049
Rent, Repair, & Maintenance	53,000	53,000	46,677	6,323	46,879
Communications	30,000	30,000	27,258	2,742	30,052
Other Services (Consultant, Postage,& Printing)	2,298,000	2,298,000	1,644,249	653,751	687,438
Contracts with other Agencies	98,500	98,500	35,310	63,190	31,696
Travel, Tuition, Dues and Memberships	65,500	65,500	24,768	40,732	19,896
Food	21,700	31,700	20,798	10,902	11,500
Utilities & Fuel	5,000	5,000	2,966	2,034	3,267
Office Supplies & Minor Equipment	91,500	77,500	52,954	24,546	33,958
Vehicle/Equip - Repair, Maintenance supplies	1,000	1,000	404	596	0
Educational materials	3,000	3,000	5,589	(2,589)	5,171
Other materials (signs)	2,000	2,000	2,100	(100)	1,089
Capital outlay	13,000	13,000	10,673	2,327	0
Insurance Related expenses - building and vehicles	1,700	1,700	1,181	519	359
Workers' Compensation Insurance	14,000	14,000	6,662	7,338	8,711
Commission Trustee Fees	5,100	5,100	3,902	1,198	4,529
Space Cost	119,200	119,200	119,200	—	119,164
Other central service costs	—	65,700	64,904	796	—
<b>Total Expenditures</b>	<b>\$ 5,694,402</b>	<b>\$ 5,682,832</b>	<b>\$ 4,770,206</b>	<b>\$ 912,626</b>	<b>\$ 3,721,471</b>

See accompanying independent auditors' report.

INTERNAL CONTROL  
AND  
COMPLIANCE SECTION

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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 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, 2012, which collectively comprise the MPC's basic financial statements and have issued our report thereon dated March 28 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of MPC is responsible for establishing and maintaining effective internal control financial reporting. In planning and performing our audit, we considered MPC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MPC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MPC's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

*Pugh & Company, P.C.*

Certified Public Accountants  
Knoxville, Tennessee  
March 28, 2013



SINGLE AUDIT

SECTION

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE  
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the 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, 2012. MPC's major federal programs are 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 each of its major federal programs is the responsibility of MPC's management. Our responsibility is to express an opinion on MPC'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 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. Our audit does not provide a legal determination of MPC's compliance with those requirements.

In our opinion the Knoxville – Knox County Metropolitan Planning Commission complied, in all material respects, with the 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, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 12-1.

## Internal Control Over Compliance

Management of MPC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered MPC's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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, 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 12-1. 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.

Management's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit management's responses and accordingly, we express no opinion on them.

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

*Pugh & Company, P.C.*  
Certified Public Accountants  
Knoxville, Tennessee  
March 28, 2013

**KNOXVILLE -- KNOX COUNTY METROPOLITAN PLANNING COMMISSION**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ended June 30, 2012**

<u>Program Name</u>	<u>CFDA #</u>	<u>State Contract Number</u>	<u>Federal Expenditures</u>
<b>Non-Major Program:</b>			
<i>U.S. Department of Transportation - CFDA 20.205 (pass through TDOT)</i>			
Highway Planning and Construction	20.205	F&A Contract No. Z-07-036297-00 Amend. # 6 FHWA Project No. SPR-PI-1(268) BPD Project No. 47954-1031-54	\$ 496,137
Regional Transportation and Air Quality	20.205	SPR 2010-32	154,103
Knoxville Smart Trips Program	20.205	Contract No. 060150 PIN No. 106867	176,596
TPO Bike Enhancement Program	20.205	PIN No. 115203 CM-STP-9109(144)	7,719
Knoxville Regional ITS Architecture Update Study	20.205	PIN # 113305.00 CM-9109(152) State Project # 47LPLM-FO-077	199,568
Regional Transit Corridor Study	20.205	TDOT # 40100-49810	115,806
<b>Total - U.S. Department of Transportation CFDA 20.205</b>			<u>1,149,929</u>
<b>Major Programs:</b>			
<i>U.S. Department of Transportation - CFDA cluster 20.516 &amp; 20.521</i>			
Federal Transit - Job Access Reverse Commute	20.516	Federal Project ID # TN-37-X082-01	175,982
Federal Transit - New Freedom	20.521	Federal Project ID # TN-57-X010-01	150,609
<b>Total - U.S. Department of Transportation -CFDA cluster 20.516 &amp; 20.521</b>			<u>326,591</u>
<b>Non-Major Program:</b>			
<i>U.S. Department of Transportation (pass through TDOT)</i>			
Federal Transit Technical Studies Grant	20.505	F&A Contract No. GG-09-31540-00 TDOT Project No. 475303-S3-011 & 012 FTA Grant No. TN-80-0003-01 & TN-80-0004-00	102,036
<b>Total - U.S. Department of Transportation</b>			<u>1,578,556</u>
<b>Major Programs:</b>			
<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	1,115,953
<b>Total Expenditures of Federal Awards</b>			<u>\$ 2,694,509</u>

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, 2012**

<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	\$ 38,526
Regional Transit Corridors Study	20.205	TDOT # 40100-49810	28,952
Federal Transit - Job Access Reverse Commute	20.516	Federal Project ID # N-37-X082-01 State Contract No. 47-5316-S3-007 & 008	96,815
Federal Transit - New Freedom	20.521	Federal Project ID # TN-57-X010-01 State Contract No. 47-5317-S3-003 & 004	65,497
Federal Transit Technical Studies Grant	20.505	F&A Contract No. GG-08-25961-00 TDOT Project No. 47-5303-S3-011 & 012 FTA Grant No. TN-80-0003-01 & TN-80-0004-00	12,754
<b>Total Expenditure of State Awards</b>			<b>\$ <u>242,544</u></b>

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, 2012

### (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, 2012. 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, 2012

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?        X   yes           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, 2012 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: Federal Transit – Job Access Reverse Commute	20.516
Federal Transit – New Freedom	20.521

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

Auditee qualified as low-risk auditee?        X   yes           no

KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2012

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

Current Year Audit Findings:

None.



KNOXVILLE -- KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2012

Section III. Findings Related to Federal Awards

**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.