

KNOXVILLE – KNOX COUNTY
METROPOLITAN PLANNING
COMMISSION

FINANCIAL STATEMENTS

June 30, 2015 and June 30, 2014

Prepared By:
Knox County Department of Finance

**KNOXVILLE – KNOX COUNTY METROPOLITAN PLANNING
COMMISSION**

FINANCIAL STATEMENTS

June 30, 2015 and June 30, 2014

KNOXVILLE - KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Knoxville, Tennessee

FINANCIAL STATEMENTS June 30, 2015 and June 30, 2014

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KNOXVILLE - KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Knoxville, Tennessee

FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

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**INTRODUCTORY
SECTION**

KNOXVILLE - KNOX COUNTY METROPOLITAN PLANNING COMMISSION

COMMISSION MEMBERS

June 30, 2015

Nominated by the Mayor of Knoxville:

Mr. Bart Carey, Vice Chair

Ms. Elizabeth Eason

Mr. Michael A. Kane

Rev. Charles F. Lomax, Jr.

Mr. Conrad "Mac" Goodwin

Mr. Jack C. Sharp

Ms. Janice L. Tocher

Nominated by the Knox County Mayor:

Mr. Herb Anders

Mr. Art Clancy, III

Ms. Laura Cole

Mr. Len Johnson

Ms. Rebecca Longmire, Chairman

Mr. Scott Smith

Mr. Jeffery W. Roth

Mr. Jim Wakefield

FINANCIAL SECTION

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KNOXVILLE, TENNESSEE 37923
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying 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 years ended June 30, 2015 and 2014, the budgetary comparison of the general fund, and the related notes to the financial statements, which collectively comprise the MPC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major governmental fund of the Knoxville - Knox County Metropolitan Planning Commission as of June 30, 2015 and 2014, and the respective changes in financial position and the budgetary comparison of the general fund for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2015 on our consideration of MPC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Knoxville - Knox County Metropolitan Planning Commission's internal control over financial reporting and compliance.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 28, 2015



Management's Discussion and Analysis

As management of the Knoxville - Knox County Metropolitan Planning Commission (the Commission), we offer the readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal years ended June 30, 2015 and June 30, 2014. 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 Commission's financial activities and condition.

Financial Highlights for Fiscal Year 2015

- ❖ The assets of the Commission exceeded its liabilities at the close of the most recent fiscal year by \$925,288 (*net position*). Of this amount, \$921,019 (unrestricted net position) may be used to meet the Commission's ongoing obligations to citizens and creditors.
- ❖ The Commission's total net position decreased by \$109,904. This decrease is primarily the result of decreased grant related revenue.
- ❖ The Commission's total capital assets changed by \$8,663 for the amount of current year depreciation only since there were no capital assets purchased during the year.
- ❖ The Commission's total liabilities decreased by \$337,575 due to fewer grant related accounts payable.

Financial Highlights for Fiscal Year 2014

- ❖ The assets of the Commission exceeded its liabilities at the close of the most recent fiscal year by \$1,035,192 (*net position*). Of this amount, \$1,022,260 (unrestricted net position) may be used to meet the Commission's ongoing obligations to citizens and creditors.
- ❖ The Commission's total net position increased by \$187,748. This increase is primarily the result of a combination of higher charges for services and increased grant related revenue.
- ❖ The Commission's total capital assets changed by \$8,656 for the amount of current year depreciation only since there were no capital assets purchased during the year.
- ❖ The Commission's total liabilities increased by \$98,698 due to higher grants related accounts payable, and higher accrued payroll.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to the Commission's basic financial statements which consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business. The comparative Statements of Net Position presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

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

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Commission uses one fund, the general fund, which is considered a governmental fund.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliations to facilitate this comparison between governmental funds and governmental activities.

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 16-27 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the Commission’s budgetary compliance and variances from the final amended budget. This supplementary information can be found on page 28 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Commission’s financial position. As of June 30, 2015, and 2014 the Commission’s assets exceeded its liabilities by \$925,288 and \$1,035,192 (*net position*), respectively. At June 30, 2015, the majority of the Commission’s net position reflects its current assets (e.g. cash and cash equivalents, grants receivable, and prepaid items). These current assets (less current liabilities) equal 102 percent of total net position; however, all net position is not available for future operational spending as \$4,269, or less than one percent, is invested in capital assets. The remaining balance of unrestricted net position \$921,019 may be used to meet the Commission’s ongoing obligations to citizens and creditors.

As the following table shows, the Commission reported a decrease in net position of \$109,904 for the current fiscal year ended June 30, 2015. As previously noted this decrease is primarily the result of decreased grant related revenue. The decrease of \$8,663 in investment in capital assets is primarily due to depreciation expense charged during the current fiscal year.

During the fiscal year ended June 30, 2014, the Commission reported an increase in net position of \$187,748. This increase was primarily the result of higher charges for services and increased grant related revenue. The decrease of \$8,656 in investment in capital assets is primarily due to depreciation expense charged during the 2014 fiscal year.

**Knoxville-Knox County Metropolitan Planning Commission
Net Position**

	FYE June 30, 2015	FYE June 30, 2014	FYE June 30, 2013
Current and Other Assets	\$ 1,421,332	\$ 1,860,148	\$ 1,565,046
Capital Assets - Net	4,269	12,932	21,588
Total Assets	<u>1,425,601</u>	<u>1,873,080</u>	<u>1,586,634</u>
Non Current Liabilities Outstanding	21,642	67,410	74,464
Current Liabilities	478,671	770,478	664,726
Total Liabilities	<u>500,313</u>	<u>837,888</u>	<u>739,190</u>
Net Position:			
Investment in			
Capital Assets	4,269	12,932	21,588
Unrestricted	921,019	1,022,260	825,856
Total Net Position	<u>\$ 925,288</u>	<u>\$ 1,035,192</u>	<u>\$ 847,444</u>

The next table shows the key elements from ongoing operations that contributed to the decrease in net position of \$109,904 during the current fiscal year. The reasons for this year's decrease are related to grant revenues. Program revenues, comprised mainly of grant revenues, decreased by \$1,348,738 or approximately 38% during fiscal year 2015, and program expenses decreased by \$1,032,938 or 21%, a result primarily of decreased personnel costs and contracted services.

For fiscal year 2015, revenues decreased by \$1,348,738. That decrease is the combination of a decrease in the charges for service totaling \$11,008, decrease of federal government grants of \$1,257,694, decrease of \$84,629 in state government grants, increase of local grant match of \$4,593, and General Revenues increased by \$18,148 primarily as a result of deferred revenue from Knox County Schools and corporate contributions.

Total expenses for FY 2015 decreased by \$1,032,938, with the decrease being comprised of a decrease of \$213,502 in personnel services (this includes salaries and employee benefits), decreased costs of contracted services totaling \$793,231, a decrease in supplies and materials totaling \$54,560, and an increase in other charges totaling \$28,348. During FY 2014, total expenses increased by \$359,980, with the increase being comprised of higher personnel services and contracted services for grant subcontractors.

**Knoxville-Knox County Metropolitan Planning Commission
Changes in Net Position**

	FYE June 30, 2015	FYE June 30, 2014	FYE June 30, 2013
Revenues:			
Charges for Services	\$ 541,431	\$ 552,439	\$ 486,695
Federal and State of Tennessee Grants	1,615,174	2,952,904	2,757,511
City of Knoxville and Knox County	<u>1,569,148</u>	<u>1,551,000</u>	<u>1,451,000</u>
Total Revenues	<u>3,725,753</u>	<u>5,056,343</u>	<u>4,695,206</u>
Expenses:			
Personnel Services	2,616,914	2,830,416	2,650,824
Contracted Services	915,240	1,708,471	1,587,205
Supplies and Materials	73,483	128,043	63,286
Other Charges	221,357	193,009	197,841
Depreciation and Amortization	<u>8,663</u>	<u>8,656</u>	<u>9,459</u>
Total Expenses	<u>3,835,657</u>	<u>4,868,595</u>	<u>4,508,615</u>
Change in Net Position	(109,904)	187,748	186,591
Net Position - Beginning of Year	<u>1,035,192</u>	<u>847,444</u>	<u>660,853</u>
Net Position - End of Year	<u>\$ 925,288</u>	<u>\$ 1,035,192</u>	<u>\$ 847,444</u>

Budgetary Highlights

The Statement 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 the variances from the final budget. The Commission’s actual revenues were \$727,098 under budget primarily due to decreases in grant and contract related projects. The Commission’s actual expenses were \$596,006 under budget primarily due to decreases in grant related projects. The net result is a \$131,092 unfavorable budget variance.

Capital Assets and Debt Administration

Capital Assets. The Commission’s investment in capital assets as of June 30, 2015, amounts to \$4,269 (net of accumulated depreciation). Capital assets include furniture and fixtures, computer and office equipment, and vehicles. The Commission’s investment in capital assets decreased for the current fiscal year by 67%, or \$8,663, due mainly to a decrease in investment in capital assets due to depreciation expense charged during the current fiscal year. As of June 30, 2014, the Commission’s investment in capital assets amounted to \$12,932 (net of accumulated depreciation). For the fiscal year ending June 30, 2014, the Commission’s investment in capital assets decreased 40%, or \$8,656. The fiscal year 2014 decrease resulted mainly from a decrease in investment in capital assets due to depreciation expense charged during the 2014 fiscal year. For a detailed schedule of the Commission’s capital assets, see Note 4: Capital Assets on pages 23 and 24 in the Notes to the Financial Statements.

Long-term Debt. Compensated absences payable decreased by a net of \$15,972 and \$24,323 in 2015 and 2014, respectively. For a detailed schedule of the Commission’s long term debt, see Note 5: Long Term Liabilities on page 25 in the Notes to the Financial Statements.

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 Commission’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Executive Director, Knoxville-Knox County Metropolitan Planning Commission, 400 Main Street, Suite 403, City-County Building, Knoxville, Tennessee, 37902.

**KNOXVILLE - KNOX COUNTY METROPOLITAN
PLANNING COMMISSION**

**STATEMENTS OF NET POSITION
June 30, 2015 and June 30, 2014**

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and Cash Equivalents	\$ 851,480	\$ 953,787
Accounts Receivable:		
Grants Receivable (net of doubtful accounts)	552,704	894,483
Prepaid Items	17,148	11,878
Capital Assets, net of accumulated depreciation	<u>4,269</u>	<u>12,932</u>
Total Assets	<u>1,425,601</u>	<u>1,873,080</u>
LIABILITIES		
Accounts Payable	125,843	464,788
Accrued Payroll	104,001	132,852
Unearned Revenue	53,693	7,500
Due to Others	300	300
Compensated Absences:		
Expected to be paid within one year	194,834	165,038
Expected to be paid after one year	<u>21,642</u>	<u>67,410</u>
Total Liabilities	<u>500,313</u>	<u>837,888</u>
NET POSITION		
Investment in Capital Assets	4,269	12,932
Unrestricted	<u>921,019</u>	<u>1,022,260</u>
Total Net Position	<u>\$ 925,288</u>	<u>\$ 1,035,192</u>

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

**KNOXVILLE - KNOX COUNTY METROPOLITAN
PLANNING COMMISSION**

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2015 and June 30, 2014

	2015	2014
Program Revenues:		
Charges for Services	\$ 541,431	\$ 552,439
Operating Grants and Contributions:		
Federal Government Grants	1,448,085	2,705,779
State of Tennessee Grants	152,549	237,178
Local Grant Match (other than MPC)	14,540	9,947
 Total Program Revenues	 2,156,605	 3,505,343
 Program Expenses:		
Personnel Services	2,616,914	2,830,416
Contracted Services	915,240	1,708,471
Supplies and Materials	73,483	128,043
Other Charges	221,357	193,009
Depreciation and Amortization	8,663	8,656
 Total Program Expenses	 3,835,657	 4,868,595
 Net Program Deficiency of Revenues Under Expenses	 (1,679,052)	 (1,363,252)
 General Revenues:		
Grants and Contributions not Restricted to Specific Programs:		
City of Knoxville	900,000	905,000
Knox County	646,000	646,000
Other Revenues	23,148	-
 Total General Revenues	 1,569,148	 1,551,000
 Change in Net Position	 (109,904)	 187,748
 Total Net Position - Beginning of Year	 1,035,192	 847,444
Total Net Position - End of Year	 \$ 925,288	 \$ 1,035,192

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

**KNOXVILLE - KNOX COUNTY METROPOLITAN
PLANNING COMMISSION**

**BALANCE SHEETS - GENERAL FUND
June 30, 2015 and June 30, 2014**

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and Cash Equivalents	\$ 851,480	\$ 953,787
Accounts Receivable:		
Grants Receivable (net of doubtful accounts)	552,704	894,483
Prepaid Assets	<u>17,148</u>	<u>11,878</u>
Total Assets	<u>1,421,332</u>	<u>1,860,148</u>
LIABILITIES		
Accounts Payable	125,843	464,788
Accrued Payroll	104,001	132,852
Unearned Revenue	53,693	7,500
Due to Others	300	300
Compensated Absences Payable - current year	<u>194,834</u>	<u>165,038</u>
Total Liabilities	<u>478,671</u>	<u>770,478</u>
FUND BALANCES		
Nonspendable	17,148	11,878
Unassigned	<u>925,513</u>	<u>1,077,792</u>
Total Fund Balances	<u>\$ 942,661</u>	<u>\$ 1,089,670</u>

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

**KNOXVILLE - KNOX COUNTY METROPOLITAN
PLANNING COMMISSION
RECONCILIATION OF THE BALANCE SHEETS -GENERAL FUND TO
THE STATEMENTS OF NET POSITION
June 30, 2015 and June 30, 2014**

	2015	2014
Amounts reported for governmental activities in the statement of net position are different because:		
Ending Fund Balance - General Fund	\$ 942,661	\$ 1,089,670
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds:		
	4,269	12,932
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	(21,642)	(67,410)
Net Position of Governmental Activities	\$ 925,288	\$ 1,035,192

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

**KNOXVILLE - KNOX COUNTY METROPOLITAN
PLANNING COMMISSION**

**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
IN FUND BALANCE - GENERAL FUND
For the Years Ended June 30, 2015 and June 30, 2014**

	2015	2014
Revenues:		
Charges for Services	\$ 541,431	\$ 552,439
Federal Government Grants	1,448,085	2,705,779
State of Tennessee Grants	152,549	237,178
Local Grant Match (other than MPC)	14,540	9,947
City of Knoxville	900,000	905,000
Knox County	646,000	646,000
Other Revenues	23,148	-
	3,725,753	5,056,343
Expenditures:		
Personnel Services	2,662,682	2,837,470
Contracted Services	915,240	1,708,471
Supplies and Materials	73,483	128,043
Other Charges	221,357	193,009
	3,872,762	4,866,993
Net Change in Fund Balance	(147,009)	189,350
Fund Balance, July 1	1,089,670	900,320
Fund Balance, June 30	\$ 942,661	\$ 1,089,670

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
June 30, 2015 and June 30, 2014**

	2015	2014
Amounts reported for governmental activities in the statement of activities are different because:		
Net Change in Fund Balance - General Fund	\$ (147,009)	\$ 189,350
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. Depreciation expense, including transactions related to the disposal of assets, amounted to \$8,663 in 2015 and \$8,656 in 2014. There were no capital outlay expenditures in 2015 and 2014.	(8,663)	(8,656)
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.	45,768	7,054
Change in Net Position per Statement of Activities	\$ (109,904)	\$ 187,748

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 Year Ended June 30, 2015

(With Comparative Totals for Fiscal Year Ended June 30, 2014)

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)	2014 Total
Revenues					
Charges for Services	\$ 504,000	\$ 504,000	\$ 541,431	\$ 37,431	\$ 552,439
Federal Government Grants	1,525,000	1,494,000	1,448,085	(45,915)	2,705,779
State of Tennessee Grants	626,000	626,000	152,549	(473,451)	237,178
Local Grant Match - (other than MPC)	-	-	14,540	14,540	9,947
City of Knoxville	905,000	905,000	900,000	(5,000)	905,000
Knox County	646,000	646,000	646,000	-	646,000
Other Miscellaneous Revenues	259,838	277,851	23,148	(254,703)	-
Total Revenues	<u>4,465,838</u>	<u>4,452,851</u>	<u>3,725,753</u>	<u>(727,098)</u>	<u>5,056,343</u>
Expenditures					
Personnel Services	2,881,438	2,771,211	2,662,682	108,529	2,837,470
Contracted Services	1,324,400	1,391,317	915,240	476,077	1,708,471
Supplies and Materials	89,000	89,000	73,483	15,517	128,043
Other Charges	171,000	217,240	221,357	(4,117)	193,009
Capital Outlay	-	-	-	-	-
Total Expenditures	<u>4,465,838</u>	<u>4,468,768</u>	<u>3,872,762</u>	<u>596,006</u>	<u>4,866,993</u>
Net Change in Fund Balances	-	(15,917)	(147,009)	(131,092)	189,350
Fund Balances, July 1	<u>1,089,670</u>	<u>1,089,670</u>	<u>1,089,670</u>	-	<u>900,320</u>
Fund Balances, June 30	<u>\$ 1,089,670</u>	<u>\$ 1,073,753</u>	<u>\$ 942,661</u>	<u>\$ (131,092)</u>	<u>\$ 1,089,670</u>

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

**KNOXVILLE - KNOX COUNTY METROPOLITAN
PLANNING COMMISSION**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

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 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 Commission.

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

B. Basis of Accounting

The government-wide financial statements (i.e., the statements of net position and the statements 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 employ the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they are "measurable and available". "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Commission considers revenue generated from charges for service (i.e. fees) available if they are collected within 60 days after the fiscal year end. All other revenues are considered available if collected within one year after the fiscal year end. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting, except for compensated absences which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

**KNOXVILLE - KNOX COUNTY METROPOLITAN
PLANNING COMMISSION**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting (continued)

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.

1. 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 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.

2. 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.

**KNOXVILLE - KNOX COUNTY METROPOLITAN
PLANNING COMMISSION**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Equity

1. Deposits and Investments

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. The Commission's cash, cash equivalents and investments 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 reported at fair value. Short-term investments, however, are reported at cost, which approximates fair 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 the securities must be at least 105 percent of the average daily balance of the Commission's deposits.

2. Receivables and Payables

All trade and subsidy receivables and payables are recognized when incurred and recorded at full value. Any amounts later determined to be uncollectible are written off when that determination is made. Any necessary allowance for doubtful accounts would not be material.

3. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items when paid, and expensed in the applicable future accounting period.

4. Capital Assets

Capital assets, which include property and equipment, are defined as assets with an initial, individual cost of more than \$5,000 (amount not rounded). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**KNOXVILLE - KNOX COUNTY METROPOLITAN
PLANNING COMMISSION**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Equity (continued)

4. Capital Assets (continued)

Property and equipment are depreciated using the straight-line method over the following estimated useful lives of the assets:

<u>Assets</u>	<u>Years</u>
Furniture and Fixtures	5
Computers and Equipment	5-10
Vehicles	5

Maintenance and repairs are charged to operations as incurred; major renewals and betterments are capitalized. When capital assets are sold, the related costs and accumulated depreciation are removed from the respective accounts, and any gain or loss is charged or credited to operations.

Capital assets considered construction in progress are stated at cost and are depreciated using the straight-line method over their estimated useful lives when placed into service.

5. Compensated Absences Payable

It is the Commission's policy to permit employees to accumulate earned but unused vacation and sick pay benefits based on years of service. There is no liability for unpaid accumulated sick leave since it is the Commission's policy that, upon separation or retirement, employees do not receive any payment for unused sick time. Vacation pay is accrued when earned.

6. 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 the Commission is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. The classifications are as follows:

**KNOXVILLE - KNOX COUNTY METROPOLITAN
PLANNING COMMISSION**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Equity (continued)

6. Fund Balance (continued)

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 the Knoxville-Knox County Metropolitan Planning Commission is the Commission's Board. Amounts are reported as committed pursuant to approvals voted by the Commission's legislative branch, which have also been approved the Commission's Director, the executive branch.

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

Unassigned fund balance is the residual balance in the general fund (i.e. fund balance that is not nonspendable, nor restricted, nor committed, nor 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 position in government-wide financial statements is classified as investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law.

**KNOXVILLE - KNOX COUNTY METROPOLITAN
PLANNING COMMISSION**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Equity (continued)

7. Estimates

The preparation of financial statements in accordance 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 may differ from these estimates.

8. 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.

NOTE 2: BUDGETARY INFORMATION

As required by State Statutes, the Commission adopts an annual budget. The budget proposal is prepared using the modified accrual basis of accounting. 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 appropriated budget is approved 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.

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 due to the grants range from being less than twelve month period to multiple years. Because of the Commission's dependency on federal, state, and local budgetary decisions, revenue estimates are based upon the best available information as to potential sources of funding.

The annual budget is subject to constant change within the fiscal year due to increases/decreases in actual grant awards from those estimated, changes in grant periods, unanticipated grant awards not included in the budget, and revised expenditure needs.

**KNOXVILLE - KNOX COUNTY METROPOLITAN
PLANNING COMMISSION**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE 2: BUDGETARY INFORMATION (Continued)

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded 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.

Encumbrances represent commitments related to unperformed contracts for goods or services. Outstanding encumbrances are reappropriated in the subsequent year. There were not any encumbrances committed at June 30, 2015, nor 2014 respectively.

NOTE 3: DEPOSITS AND INVESTMENTS

At June 30, 2015, and June 30, 2014, the bank collateral pool administered by the Treasurer of the State of Tennessee covered the Commission's cash and cash equivalents, which were pooled and managed by the Trustee of Knox County. 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 be equal to 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.

**KNOXVILLE - KNOX COUNTY METROPOLITAN
PLANNING COMMISSION**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Being Depreciated:				
Furniture and fixtures	\$ 32,500	\$ -	\$ -	\$ 32,500
Computer and equipment	125,244	-	(101,542)	23,702
Vehicles	36,484	-	-	36,484
Total Capital Assets Being Depreciated	<u>194,228</u>	<u>-</u>	<u>(101,542)</u>	<u>92,686</u>
Less Accumulated Depreciation for:				
Furniture and fixtures	(32,500)	-	-	(32,500)
Computer and equipment	(112,310)	(8,663)	101,542	(19,431)
Vehicles	<u>(36,486)</u>	<u>-</u>	<u>-</u>	<u>(36,486)</u>
Total Accumulated Depreciation	<u>(181,296)</u>	<u>(8,663)</u>	<u>101,542</u>	<u>(88,417)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 12,932</u>	<u>\$ (8,663)</u>	<u>\$ -</u>	<u>\$ 4,269</u>

**KNOXVILLE - KNOX COUNTY METROPOLITAN
PLANNING COMMISSION**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE 4: CAPITAL ASSETS (Continued)

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Being Depreciated:				
Furniture and fixtures	\$ 32,500	\$ -	\$ -	\$ 32,500
Computer and equipment	125,244	-	-	125,244
Vehicles	36,484	-	-	36,484
Total Capital Assets Being Depreciated	194,228	-	-	194,228
Less Accumulated Depreciation for:				
Furniture and fixtures	(32,500)	-	-	(32,500)
Computer and equipment	(103,654)	(8,656)	-	(112,310)
Vehicles	(36,486)	-	-	(36,486)
Total Accumulated Depreciation	(172,640)	(8,656)	-	(181,296)
Total Capital Assets Being Depreciated, Net	\$ 21,588	\$ (8,656)	\$ -	\$ 12,932

**KNOXVILLE - KNOX COUNTY METROPOLITAN
PLANNING COMMISSION**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE 5: LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated Absences	\$ 232,448	\$ 152,490	\$ (168,462)	\$ 216,476	\$ 194,834

Long-term liability activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated Absences	\$ 256,771	\$ 191,289	\$ (215,612)	\$ 232,448	\$ 165,038

NOTE 6: RELATED PARTY TRANSACTIONS

Knox County provides office space within the City/County Building to the Commission. The Commission paid for space costs amounting to \$79,200 in fiscal year 2015 and \$119,200 in 2014. Space costs are agreed to each year during budget negotiations. Knox County provides various administrative and internal service functions to the Commission. During the current fiscal year, the total charged by the County to the Commission for those services was \$102,179. The County charged the Commission \$47,562 for those services in fiscal year 2014. The Commission had their own personnel in FY 2014 to perform some of the accounting functions. During FY 2015, the Knox County Finance department absorbed more of these functions.

**KNOXVILLE - KNOX COUNTY METROPOLITAN
PLANNING COMMISSION**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE 7: ECONOMIC CONCENTRATION

The City of Knoxville and Knox County, Tennessee provided funding of \$1,546,000 in the current fiscal year and \$1,551,000 in the past fiscal year to the Commission, which amounted to 41 and 31 percent of total revenues for the fiscal years 2015 and 2014, respectively.

NOTE 8: RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains general liability, 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. Because the TML pool has excess aggregate and individual claim loss insurance coverage, management considers any related risk to be insignificant. The Commission has had no significant reduction in insurance coverage over the last three years. There have been no settlements in excess of insurance coverage over the last three years.

NOTE 9: FUND BALANCE

The amount that is reported on the balance sheets –general fund as nonspendable fund balance at June 30, 2015 and 2014 is comprised of prepaid items. Those amounts totaled \$17,148 and \$11,878 for fiscal years 2015 and 2014, respectively.

NOTE 10: EMPLOYEE RETIREMENT PLANS

The Commission has a defined contribution plan (asset accumulation plan) that covers substantially all full time employees of the Commission under the age of 65. The plan is administered by USI Consulting Group. Plan benefits depend solely on amounts contributed to the plan plus investment earnings. Participation begins on the first day of employment and all eligible employees not participating in another county or state retirement plan are required to participate. Employees vest in the employer contributions at 20% per year after one year of service and are 100% vested after five years. All employees who work at least 18.5 hours a week are required to contribute a minimum of 6% of compensation. This contribution is matched dollar-for-dollar by the Commission.

**KNOXVILLE - KNOX COUNTY METROPOLITAN
PLANNING COMMISSION**

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and June 30, 2014

NOTE 10: EMPLOYEE RETIREMENT PLANS (Continued)

On July 1, 2007, the Commission incorporated both a 401(a) Plan and a 457(b) Plan in the Defined Contribution Plan for Commission participants. Commission's Voluntary 457 plan incorporates voluntary pre-tax contributions by the participant with an employer match based on length of service with the Commission. Two other 457 plans, Security Benefits and Nationwide, also allow similar employee contributions and employer match.

During the year, the Commission made total employer contributions of \$162,602 and the Commission's employees contributed a total amount of \$183,297 to the DC Plan and 457 Plan. During 2014, the Commission contributed a total amount of \$189,909 and the Commission's employees contributed a total amount of \$198,427 to the DC Plan and 457 Plan.

NOTE 11: SUBSEQUENT EVENTS

During July 2015, the Commission hired a new Executive Director.

**SUPPLEMENTARY
INFORMATION**

**KNOXVILLE - KNOX COUNTY METROPOLITAN
PLANNING COMMISSION**

**SCHEDULE OF GENERAL FUND EXPENDITURES
For the Year Ended June 30, 2015**

(With Comparative Totals for Fiscal Year Ended June 30, 2014)

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)	2014 Actual
Expenditures					
Personnel Services	\$ 2,881,438	\$ 2,771,211	\$ 2,662,682	\$ 108,529	\$ 2,837,470
Legal Services - Attorney	40,000	40,000	40,000	-	40,000
Legal Notices	25,400	25,570	27,508	(1,938)	29,654
Other Professional Services (Advertisement & Audit Services)	51,000	51,000	23,962	27,038	62,902
Rent, Repair, & Maintenance	50,000	50,000	52,002	(2,002)	51,813
Communications	35,000	35,000	31,324	3,676	31,746
Other Services (Consulting, Postage, & Printing)	1,053,000	1,068,747	652,067	416,680	1,389,059
Contracts with Other Agencies	32,000	83,000	62,109	20,891	52,199
Travel, Tuition, Dues & Memberships	36,000	36,000	25,680	10,320	51,100
Food	13,000	13,000	12,962	38	19,363
Utilities & Fuel	3,000	3,000	1,844	1,156	3,003
Office Supplies & Minor Equipment	64,500	64,500	50,296	14,204	97,333
Vehicle/ Equipment - Repair, Maintenance Supplies	3,000	3,000	1,047	1,953	-
Educational Materials	5,900	5,900	4,614	1,286	5,624
Other Materials (signs)	1,600	1,600	3,309	(1,709)	2,718
Insurance Related Expenses - Building & Vehicles	12,700	21,100	22,130	(1,030)	14,609
Workers' Compensation	9,100	9,100	5,573	3,527	5,984
Trustee Commission	5,000	5,000	12,274	(7,274)	5,654
Space Costs	79,200	79,200	79,200	-	119,200
Other Central Service Costs	65,000	102,840	102,179	661	47,562
Total Expenditures	\$ 4,465,838	\$ 4,468,768	\$ 3,872,762	\$ 596,006	\$ 4,866,993

See accompanying Independent Auditor's Report.

**INTERNAL CONTROL
AND COMPLIANCE SECTION**

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major governmental fund of the Knoxville - Knox County Metropolitan Planning Commission ("MPC"), as of and for the year ended June 30, 2015, and the related notes to the financial statements which collectively comprise the MPC's basic financial statements, and have issued our report thereon dated December 28, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MPC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MPC's internal control. Accordingly, we do not express an opinion on the effectiveness of MPC's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2015-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

Response to Finding

The MPC's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The MPC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 28, 2015

SINGLE AUDIT SECTION

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

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

Report on Compliance for Each Major Federal Program

We have audited Knoxville - Knox County Metropolitan Planning Commission's ("MPC") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of MPC's major federal programs for the year ended June 30, 2015. MPC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Knoxville - Knox County Metropolitan Planning Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 2015-002. Our opinion on each major federal program is not modified with respect to these matters.

The MPC's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The MPC's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-001, that we consider to be a significant deficiency.

The MPC's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The MPC's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 28, 2015

KNOXVILLE - KNOX COUNTY METROPOLITAN PLANNING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
Major Program:			
<i>U.S. Department of Housing and Urban Development</i>			
USDA Agriculture Marketing Services (Food Hub)	10.618	14-LFPPX-TN-0159	\$ 17,282
Total U.S. Department of Housing and Urban Development			<u>17,282</u>
Non-Major Programs:			
<i>U.S. Department of the Interior National Park Service</i>			
Pass through the State of Tennessee Department of Environment and Conservation			
Tennessee Historical Commission	15.904	EDISON ID 38801	<u>5,032</u>
Total passed through the Tennessee Department of Environment and Conservation			5,032
Total US Department of the Interior National Park Service			<u>5,032</u>
Major Program:			
<i>U.S. Department of Transportation - CFDA 20.205 (pass through TDOT)</i>			
Highway Planning and Construction	20.205	ZMPO008 EDISON ID 38616	783,752
Knoxville Smart Trips Program (Comprehensive)	20.205	Contract No.060150 PIN No. 106867	42,092
Knoxville Smart Trips Program (Ridesharing)	20.205	Contract No.060150 PIN No. 106867	146,712
Knoxville Smart Trips Program (Ridesharing)	20.205	Contract No.140230 PIN No. 121580.00	8,452
TPO Bike Enhancement Program	20.205	PIN No. 115203 CM-STP-9109(145)	4,022
Knoxville Smart Trips Car Share Program	20.205	Contract No. 110034 PIN No. 115208.00	27,333
Total U.S. Department of Transportation CFDA 20.205			<u>1,012,363</u>
Non-Major Programs:			
<i>U.S. Department of Transportation - CFDA cluster 20.513, 20.516 and 20.521</i>			
Federal Transit - Enhanced Mobility	20.513	Federal Project ID # TN-16-X007-00	69,491
Federal Transit - Job Access Reverse Commute	20.516	Federal Project ID # TN-37-X082-01	20,066
Federal Transit - Job Access Reverse Commute	20.516	Federal Project ID # TN-37-X082-02	65,460
Federal Transit - New Freedom	20.521	Federal Project ID # TN-57-X010-01	3,460
Federal Transit - New Freedom	20.521	Federal Project ID # TN-57-X010-02	156,609
Total U.S. Department of Transportation-CFDA cluster 20.513, 20.516 & 20.521			<u>315,086</u>

KNOXVILLE - KNOX COUNTY METROPOLITAN PLANNING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
Non-Major Programs:			
<i>U.S. Department of Transportation - (pass through TDOT) Section 5310</i>			
Federal Transit Technical Studies Grant	20.505	F&A Contract No. GG13-34403-00 TDOT Project No. 475303-S3-013 FTA Grant No. TN-80-0004-02	\$ 98,321
Total U.S. Department of Transportation-CFDA 20.505			<u>98,321</u>
Total U.S. Department of Transportation			<u>1,425,770</u>
Total Expenditures of Federal Awards			<u>\$ 1,448,085</u>

KNOXVILLE - KNOX COUNTY METROPOLITAN PLANNING COMMISSION
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended June 30, 2015

Program Title	Identifying Number	State Expenditures
Tennessee Department of Transportation:		
Federal Transit - Job Access Reverse Commute	Federal Project ID # N-37-X082-02 State Contract No. 47-5316-S3-009	\$ 29,264
Federal Transit - New Freedom	Federal Project ID # TN-57-X010-01 State Contract No. 47-5317-S3-004	1,149
Federal Transit - New Freedom	Federal Project ID # TN-57-X010-02 State Contract No. 47-5317-S3-005	75,820
Federal Transit - Enhanced Mobility	Federal Project ID # TN-16-X007-00 State Contract No. 47-5310-S3-002	31,503
Federal Transit Technical Studies Grant	F&A Contract No. GG13-34403-00 TDOT Project No. 475303-S3-013 FTA Grant No. TN-80-0004-02	14,813
Total Tennessee Department of Transportation		<u>152,549</u>
Total Expenditures of State Awards		<u>\$ 152,549</u>

**KNOXVILLE - KNOX COUNTY METROPOLITAN
PLANNING COMMISSION**

**NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE
AWARDS**

June 30, 2015

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards summarizes the expenditures of the Knoxville-Knox County Metropolitan Planning Commission (the Commission) under federal programs for the year ended June 30, 2015. Because the schedule presents only a selected portion of the operations for the Commission, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the Commission. For purposes of the schedule of expenditures of federal awards, expenditures for federal programs are recognized on the accrual basis of accounting.

Federal awards include all grants, contracts, and similar agreements entered into directly between the Commission and agencies and departments of the federal government, and all subawards to the Commission by nonfederal organizations pursuant to federal grants, contracts, and similar agreements.

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

NOTE 2 – INDIRECT COSTS

Many of the Commission'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 and state awards.

KNOXVILLE - KNOX COUNTY METROPOLITAN PLANNING COMMISSION

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major federal programs:

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

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

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

Major federal programs for the Knoxville – Knox County Metropolitan Planning Commission for the fiscal year ended June 30, 2015 are as follows:

<u>Program Name</u>	<u>CFDA#</u>
U.S. Department of Transportation: Highway Planning and Construction	20.205
U.S. Department of Transportation: Transit Services Programs Cluster: Enhanced Mobility of Seniors and Individuals with Disabilities	20.513
Job Access and Reverse Commute Program	20.516
New Freedom Program	20.521

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

Auditee qualified as low-risk auditee? yes no

KNOXVILLE - KNOX COUNTY METROPOLITAN PLANNING COMMISSION

**Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2015**

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

Current Year Audit Findings:

2015-001 Review of Grant Billings and Related Payroll

Criteria or Specific Requirement - Proper internal control procedures include a review of the grant billings and related payroll charges by a knowledgeable individual, other than the preparer, preferably a member of senior management, prior to submission to the granting agency.

Condition - During the year, it was noted that grant billings for payroll related expenditures for certain individuals exceeded the allowable rates. It was also noted that a review of payroll had not been conducted by anyone other than the preparer during the majority of the year. The grant billing error was not detected or corrected by management during the audit year.

Cause and Effect - Due to personnel changes, the review of payroll allocations was not performed by management during the majority of the fiscal year. The possibility of an error is greatly increased by not performing an independent review of payroll charges.

Recommendation - We recommend MPC implement procedures to ensure that payroll charged to grants does not exceed the maximum allowable and that all grant billings and payroll allocations are reviewed by knowledgeable individuals. The review should include a comparison to source documents including signed timecards.

Management's Planned Corrective Actions - A practice has been put in place that will ensure payroll charged to grants does not exceed the maximum allowable and that all grant billings and payroll allocations are reviewed. This review will include a comparison to source documents including signed timecards. This review will be conducted by the Director of the Transportation Planning Division of MPC. This Division manages the majority of federal and state grants.

KNOXVILLE - KNOX COUNTY METROPOLITAN PLANNING COMMISSION

Schedule of Findings and Questioned Costs (Continued) For the Year Ended June 30, 2015

Section III - Findings Related to Federal Awards

Current Year Audit Findings:

2015-002 **Overbilling of Payroll Related Expenditures**

Program: Highway Planning and Construction (CFDA# 20.205)

Criteria or Specific Requirement - Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87) allow Federal award recipients to bill compensation of employees for the time devoted and identified specifically to the performance of the award. Compensation for personnel services include fringe benefits such as cost of leave and authorized absences paid to employees.

Condition - In the course of grant testing, we noted that incorrect billing rates were used for multiple employees who charged time to Federal programs during the year. The incorrect billings were caused by an error in how MPC bills the allowable paid time off during the year.

Questioned Costs - The amount of overbillings was determined to be \$53,693. This amount was reduced from the grant billings in the quarter ended September 30, 2015.

Context - A substantial portion of employee payroll is billed to Federal and State grants and MPC attempts to even out the seasonality of paid time off by billing it to the grants quarterly.

Cause and Effect - Due to personnel changes, the review of payroll allocations was not performed by management during the majority of the fiscal year. The error was detected by MPC after its fiscal year end. A timely review of payroll allocations charged to Federal grants would have reduced the likelihood of a billing error.

Recommendation - We recommend MPC implement procedures to ensure that payroll charged to grants does not exceed the maximum allowable based on the grant contract and the applicable costs circular (OMB Circular A-87).

Management's Planned Corrective Actions - At a minimum, on a quarterly basis MPC will conduct a comparison of actual payroll costs to maximum allowable based on the grant contract. This will be done prior to submittal of any grant reimbursement request(s) to the appropriate agency. This review will be conducted by the Director of Transportation Planning and Director of Information Services of MPC. MPC will also follow the applicable costs circular (OMB Circular-87).