



Geographic Information Systems

FINANCIAL STATEMENTS

JUNE 30, 2013 and JUNE 30, 2012



Prepared By:
Knox County Department of Finance

**KNOXVILLE, KNOX COUNTY, K.U.B.
GEOGRAPHIC INFORMATION SYSTEMS**

FINANCIAL STATEMENTS

June 30, 2013 and June 30, 2012

KNOXVILLE, KNOX COUNTY, K.U.B.
GEOGRAPHIC INFORMATION SYSTEMS
Knoxville, Tennessee

FINANCIAL STATEMENTS
June 30, 2013 and June 30, 2012

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**INTRODUCTORY
SECTION**

KNOXVILLE, KNOX COUNTY, K.U.B.
GEOGRAPHIC INFORMATION SYSTEMS

POLICY BOARD

June 30, 2013

Madeline Rogero, Mayor of the City of Knoxville

Mintha E. Roach, President and CEO -
Knoxville Utilities Board

Tim Burchett, Knox County Mayor

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Policy Board of the
Knoxville, Knox County, K.U.B. Geographic Information Systems
Knoxville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Knoxville, Knox County, K.U.B. Geographic Information Systems (the "System") which comprise the statements of net position as of June 30, 2013 and 2012 and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2013 and 2012 and the changes in its financial position and cash flows 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 3 through 8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The introductory, supplementary information and other information sections are presented for purposes of additional analysis and are not a required part of the financial statements.

The information in the supplementary information section 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 audits 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 supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The information in the introductory and other information sections has not been subjected to the auditing procedures applied in the audit of the 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 November 26, 2013, on our consideration of the System'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 System's internal control over financial reporting and compliance.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
November 26, 2013

Knoxville ♦ Knox County ♦ Knoxville Utilities Board Geographic Information Systems

Keith G. Stump
Director

Management's Discussion and Analysis

As management of the Knoxville, Knox County, K.U.B. Geographic Information Systems (the System), we offer the readers of the System's financial statements this narrative overview and analysis of the financial activities of the System for the fiscal years ended June 30, 2013 and June 30, 2012. We encourage readers to consider the information presented here in conjunction with the information provided in the financial statements, notes to financial statements and supplementary information when reviewing the System's financial activities and condition.

Financial Highlights for Fiscal Year 2013

- The assets of the System exceeded its liabilities at the close of the most recent fiscal year by \$1,496,576 (*net position*). Of this amount, \$495,010 is unrestricted. The unrestricted net position amount is a total of three amounts: \$322,443 may be used to meet the System's ongoing obligations to citizens and creditors, while \$14,173 is allocated for prior year encumbrances, and \$158,394 is allocated for the equipment reserve.
- The System's total net position decreased by \$1,195,338. The decrease is primarily due to reduced operating revenues and increased operating expenses.
- The System's total liabilities decreased by \$53,982. This decrease is primarily due to a decrease in accounts payable and deferred revenue.
- The System's cash and cash equivalents decreased by \$320,109. This decrease is primarily due to lower non-operating revenues.
- The System's total revenue increased \$96,970. This increase is primarily due to an increase in miscellaneous revenues.
- The System's expenses increased by \$108,912. The expense increase is primarily due to an increase in contracted services expense and depreciation.

POLICY BOARD

Madeline Rogero, Mayor, City of Knoxville; Mintha Roach, President/CEO, KUB; Tim Burchett, Mayor, Knox County

Phone: 865/215-2641 ♦ Facsimile: 865/215-2910 ♦ E-mail: kgis@kgis.org ♦ Website: <http://www.kgis.org>
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Financial Highlights for Fiscal Year 2012

- The assets of the System exceeded its liabilities at the close of the most recent fiscal year by \$2,691,914 (*net position*). Of this amount, \$772,610 is unrestricted. The unrestricted net position amount is a total of five amounts: \$54,823 may be used to meet the System's ongoing obligations to citizens and creditors, while \$7,179 is allocated for prior year encumbrances, \$8,936 is allocated for related assets, \$407,806 is allocated for the aerial reserve, and \$293,866 is allocated for the equipment reserve.
- The System's total net position decreased by \$1,183,396. The decrease is primarily due to reduced operating revenues and increased operating expenses.
- The System's total liabilities decreased by \$58,671. This decrease is primarily due to a decrease in accounts payable.
- The System's cash and cash equivalents decreased by \$439,779. This decrease is primarily due to lower non-operating revenues.
- The System's total revenue decreased \$378,669. This decrease is primarily due to decrease non-operating revenues as mentioned above.
- The System's expenses increased by \$154,410. The expense increase is primarily due to an increase in supplies and materials expense and depreciation.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The System's basic financial statements consist of two components: 1) financial statements comprised of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows, 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 Statements of Net Position presents information on all of the System'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 System is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Position presents information showing how the System'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 user service fees, and earned but unused vacation leave).

The Statements of Cash Flows presents information on the actual cash inflows and outflows resulting from the various operating, financing, capital, and investing activities of the System for the last two fiscal years.

The financial statements can be found on pages 9 - 13 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 14 - 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 System's budgetary compliance and variances from the original budget and final amended budget. This supplementary information can be found on page 23 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the System's financial position. As of June 30, 2013, the System's assets exceeded its liabilities by \$1,496,576 (*net position*). At June 30, 2012, the System's assets exceeded its liabilities by \$2,691,914 (*net position*). At June 30, 2013, the current assets (less current liabilities) amounted to 33 percent of total net position. At June 30, 2012, 29 percent of the System's net position reflected its current assets (e.g., cash and cash equivalents, accounts receivable and due from other governments). At June 30, 2013, 67 percent of the System's net position are invested in capital assets, which compares to 71 percent for the prior year.

As the following table shows, the System reported a decrease in net position of \$1,195,338 as of the current fiscal year ended June 30, 2013. As previously noted this decrease is primarily the result of lower operating revenues and increased operating expenses. The depreciation expense charged during the current fiscal year was \$1,088,283. Additionally, contracted services expense increased to \$348,406 as compared to \$173,018 in the 2012 fiscal year.

During the fiscal year ended June 30, 2012, the System reported a decrease in net position of \$1,183,396. The decrease was primarily the result of lower operating revenues and increased operating expenses. The depreciation expense charged during fiscal year ended June 30, 2012 was \$1,034,999.

**Knoxville, Knox County, K.U.B.
Geographic Information Systems
Statements of Net Position**

	FYE June 30, 2013	FYE June 30, 2012	FYE June 30, 2011
Assets:			
Current and other assets	\$ 591,226	\$ 922,808	\$ 1,375,411
Capital assets, net	1,001,566	1,919,304	2,708,768
Total assets	<u>1,592,792</u>	<u>2,842,112</u>	<u>4,084,179</u>
Liabilities:			
Long-term liabilities outstanding	3,196	3,732	3,496
Other liabilities	93,020	146,466	205,373
Total liabilities	<u>96,216</u>	<u>150,198</u>	<u>208,869</u>
Net position:			
Net Investment in capital assets	1,001,566	1,919,304	2,708,768
Unrestricted:			
Designated prior year encumbrances	14,173	7,179	67,250
Designated for prepaid items	-	8,936	5,411
Designated aerial reserve	-	407,806	428,696
Designated equipment reserve	158,394	293,866	698,912
Undesignated	322,443	54,823	(33,727)
Total net position	<u>\$ 1,496,576</u>	<u>\$ 2,691,914</u>	<u>\$ 3,875,310</u>

The next table shows the key elements from ongoing activities that contributed to the decrease in net position of \$1,195,338 during the current fiscal year. Operating revenues, comprised mainly of user service fees and operating reimbursements, increased by \$197,819 in fiscal year 2013, while in fiscal year 2012 they decreased by \$21,782. User service fees increased by \$166,304 in fiscal year 2013 primarily due to an increase in revenues from Knoxville, Knox County, and K.U.B (Knoxville Utilities Board). In fiscal year 2012, user service fees increased by \$41,183. Miscellaneous revenue which is comprised of viewer licenses, sale of maps, and sale of IDS cd's increased by \$31,515 in fiscal year 2013 compared to a decrease in fiscal year 2012 of \$62,965. This increase was due to increased activities in the revenue accounts listed above that make up the miscellaneous revenue total amount. Additionally, interest earnings in fiscal year 2013 were \$571 compared to fiscal year 2012 of \$1,096 resulting in a decrease of \$525 from lower rates.

Expenses for fiscal year 2013 increased by \$108,912 primarily due to an increase in depreciation and maintenance costs. During fiscal year 2012, expenses increased by \$154,410 primarily due to an increase in depreciation and maintenance costs from the System's software upgrade project.

**Knoxville, Knox County, K.U.B.
Geographic Information Systems
Statements of Revenues, Expenses, and Changes in Net Position**

	FYE <u>June 30, 2013</u>	FYE <u>June 30, 2012</u>	FYE <u>June 30, 2011</u>
Revenues:			
Operating revenues:			
User service fees	\$ 986,091	\$ 819,787	\$ 778,604
Miscellaneous revenue	70,396	38,881	101,846
Total Operating revenues:	<u>1,056,487</u>	<u>858,668</u>	<u>880,450</u>
Nonoperating revenues:			
Knox County Subsidy	38,796	55,857	131,950
City of Knoxville Subsidy	66,228	26,503	104,503
Knoxville Utilities Board Subsidy	124,846	250,576	451,778
Metropolitan Planning Commission Subsidy	22,515	19,738	19,738
Knoxville-Knox County Emergency Comm. District Subsidy	1,400	1,435	1,383
Interest income	571	1,096	2,740
Total Nonoperating revenues	<u>254,356</u>	<u>355,205</u>	<u>712,092</u>
Total revenues	<u>1,310,843</u>	<u>1,213,873</u>	<u>1,592,542</u>
Expenses:			
Operating expenses - cost of sales and services			
Personnel services	479,242	476,220	526,629
Employee benefits	144,655	137,048	150,631
Contracted services	348,406	173,018	250,604
Supplies and materials	378,447	510,308	459,447
Rental	64,938	64,938	64,938
Insurance	2,210	738	2,203
Depreciation	1,088,283	1,034,999	788,407
Total expenses - cost of sales and services	<u>2,506,181</u>	<u>2,397,269</u>	<u>2,242,859</u>
(Decrease) increase in net position	(1,195,338)	(1,183,396)	(650,317)
Net position July 1	2,691,914	3,875,310	4,525,627
Net position June 30	<u>\$ 1,496,576</u>	<u>\$ 2,691,914</u>	<u>\$ 3,875,310</u>

Budgetary Information

There were some budget amendments for the fiscal year 2013 outside of the planned appropriation of fund balances of \$41,554. Revenues were less than budget by \$411,653. Expenses of \$2,506,181 were \$783,685 more than budget of \$1,722,496. This was a timing difference, and now as the mapping projects are completed, the spending will occur and the reserves will be used. The Schedules of Revenues and Expenses and Changes in Net Position – Budget to Actual, which is found in the supplementary information section of this report on page 23, details the original budget, budget amendments, amended budget, and actual revenues and expenses, as well as the variances from the final amended budget.

Capital Assets and Debt Administration

Capital Assets. The System's investment in capital assets as of June 30, 2013 amounts to \$1,001,566 (net of accumulated depreciation). This investment in capital assets includes communications and office equipment and computer software. Depreciation on the System's capital assets was \$1,088,283 for 2013. As of June 30, 2012, the System's investment in capital assets amounted to \$1,919,304 (net of accumulated depreciation). Depreciation on the System's capital assets was \$1,034,999 for 2012. The System's total capital assets during the fiscal year 2013 increased by \$170,545 due to costs associated with the progress of the mapping projects offset by depreciation. The System's software upgrade project was completed and in service during the fiscal year 2010. Additional information regarding the System's capital assets can be found in Note 6 to the financial statements.

Long-term Liabilities. At the end of the current fiscal year, the System's long-term liabilities consisted of compensated absences payable of \$3,196 compared to \$3,732 at the end of fiscal year 2012. Additional information regarding the System's long-term liabilities can be found in Note 7 to the financial statements.

Requests for Information

This financial report is designed to provide a general overview of the Knoxville, Knox County, K.U.B. Geographic Information System's finances for all of those with an interest in the System'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, K.U.B. Geographic Information Systems, 606 Main Street, Suite 150 Main Place, Knoxville, TN 37902.

**KNOXVILLE, KNOX COUNTY, K.U.B.
GEOGRAPHIC INFORMATION SYSTEMS**

**STATEMENTS OF NET POSITION
June 30, 2013 and June 30, 2012**

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 480,173	\$ 800,282
Accounts receivable	111,053	113,590
Prepaid items	-	8,936
Total current assets	<u>591,226</u>	<u>922,808</u>
Noncurrent assets:		
Capital assets:		
Communications and office equipment	959,790	933,059
Computer software	4,276,477	4,132,663
	<u>5,236,267</u>	<u>5,065,722</u>
Less: accumulated depreciation	<u>(4,234,701)</u>	<u>(3,146,418)</u>
Total capital assets, net	<u>1,001,566</u>	<u>1,919,304</u>
Total assets	<u>\$ 1,592,792</u>	<u>\$ 2,842,112</u>

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

**KNOXVILLE, KNOX COUNTY, K.U.B.
GEOGRAPHIC INFORMATION SYSTEMS**

**STATEMENTS OF NET POSITION (Continued)
June 30, 2013 and June 30, 2012**

	<u>2013</u>	<u>2012</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 39,684	\$ 58,967
Accrued payroll payable	24,576	23,912
Deferred revenue	-	30,000
Compensated absences payable	28,760	33,587
Total current liabilities	<u>93,020</u>	<u>146,466</u>
Noncurrent Liabilities:		
Compensated absences payable	3,196	3,732
Total liabilities	<u>96,216</u>	<u>150,198</u>
NET POSITION		
Net Investment in capital assets	1,001,566	1,919,304
Unrestricted	495,010	772,610
Total Net Position	<u>\$ 1,496,576</u>	<u>\$ 2,691,914</u>

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

**KNOXVILLE, KNOX COUNTY, K.U.B.
GEOGRAPHIC INFORMATION SYSTEMS**

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
For the Years Ended June 30, 2013 and June 30, 2012**

	2013	2012
Operating revenues:		
User service fees	\$ 986,091	\$ 819,787
Miscellaneous revenue	70,396	38,881
	1,056,487	858,668
Operating expenses:		
Personnel services	479,242	476,220
Employee benefits	144,655	137,048
Contracted services	348,406	173,018
Supplies and materials	378,447	510,308
Rental	64,938	64,938
Insurance	2,210	738
Depreciation	1,088,283	1,034,999
	2,506,181	2,397,269
Operating (loss) income	(1,449,694)	(1,538,601)
Nonoperating revenues:		
Knox County Subsidy	38,796	55,857
City of Knoxville Subsidy	66,228	26,503
Knoxville Utilities Board Subsidy	124,846	250,576
Metropolitan Planning Commission Subsidy	22,515	19,738
Knoxville - Knox County Emergency Communications District Subsidy	1,400	1,435
Interest income	571	1,096
	254,356	355,205
Change in net position	(1,195,338)	(1,183,396)
Total net position - beginning of year	2,691,914	3,875,310
Total net position - ending of year	\$ 1,496,576	\$ 2,691,914

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

**KNOXVILLE, KNOX COUNTY, K.U.B.
GEOGRAPHIC INFORMATION SYSTEMS**

**STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2013 and June 30, 2012**

	2013	2012
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 1,059,024	\$ 875,017
Payments to vendors	(834,348)	(817,570)
Payments to employees	(628,596)	(606,896)
	(403,920)	(549,449)
Cash Flows from NonCapital Financing Activities		
Knox County Subsidy	38,796	55,857
City of Knoxville Subsidy	66,228	26,503
Knoxville Utilities Board Subsidy	124,846	250,576
Metropolitan Planning Commission Subsidy	22,515	19,738
Knoxville - Knox County Emergency Communications Subsidy	1,400	1,435
	253,785	354,109
Cash Flows used in Capital Financing Activities		
Purchase of fixed assets	(170,545)	(245,535)
Cash Flows from Investing Activities		
Interest received	571	1,096
Net change in cash and cash equivalents	(320,109)	(439,779)
Cash and cash equivalents - beginning of year	800,282	1,240,061
Cash and cash equivalents - end of year	\$ 480,173	\$ 800,282

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

**KNOXVILLE, KNOX COUNTY, K.U.B.
GEOGRAPHIC INFORMATION SYSTEMS**

**STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended June 30, 2013 and June 30, 2012**

**Reconciliation of Operating (loss) income to
Net Cash Provided (Used) by Operating Activities**

	<u>2013</u>	<u>2012</u>
Operating (loss) income	\$ (1,449,694)	\$ (1,538,601)
Adjustments to reconcile operating (loss) income to net cash provided (used) by operating activities:		
Depreciation and amortization	1,088,283	1,034,999
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	2,537	16,349
(Increase) decrease in prepaid items	8,936	(3,525)
Increase (decrease) in accounts payable	(19,282)	(95,043)
Increase (decrease) in accrued payroll payable	664	4,014
Increase (decrease) in deferred revenue	(30,000)	30,000
Increase (decrease) in compensated absences payable	(5,364)	2,358
Net cash provided (used) by operating activities	<u>\$ (403,920)</u>	<u>\$ (549,449)</u>

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

KNOXVILLE, KNOX COUNTY, K.U.B.
GEOGRAPHIC INFORMATION SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013 and June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Knoxville, Knox County, Knoxville Utilities Board (K.U.B.) Geographic Information Systems (the “System”) is an automated mapping and geographic information system created, owned, and funded by the City of Knoxville, Knox County, and the Knoxville Utilities Board. The System maintains digital geographic data for all of Knox County, Tennessee. The System is responsible for maintaining the centralized KGIS servers, databases, and network that is shared by the various departments and users. Some of the core mapping information, including topography and aerial photography, are managed by the System.

A summary of significant accounting policies of the System is presented as follows:

B. Basis of Accounting

The financial statements of the System are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

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

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

Additionally, proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the System are user service fees (operating reimbursements) from Knoxville, Knox County, and K.U.B. Operating expenses for proprietary funds include the cost of sales and services such as personal services, employee benefits, contracted services, supplies and materials, rental, insurance, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

KNOXVILLE, KNOX COUNTY, K.U.B.
GEOGRAPHIC INFORMATION SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013 and June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Net Position

1. Deposits and Investments

The System's cash and cash equivalents are considered to be demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The System's cash and cash equivalents are pooled and managed by the Trustee of Knox County.

2. Receivables and Payables

All trade and subsidy receivables and payables are recognized when incurred and recorded. Any amounts later determined to be uncollectible are written off when that determination is made. Management does not believe an allowance for doubtful accounts is necessary.

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 computer software and communication and office equipment, are defined as assets with an initial, individual cost of more than \$5,000. 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. These capital assets are depreciated using the straight-line method over the following estimated useful lives of the assets.

<u>Assets</u>	<u>Years</u>
Communications and Office Equipment	5-10
Computer Software	5

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

KNOXVILLE, KNOX COUNTY, K.U.B.
GEOGRAPHIC INFORMATION SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013 and June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Net Position (Continued)

5. Compensated Absences

It is the System's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since it is the System's policy to record the cost of sick leave only when it is used. Upon separation or retirement, employees do not receive any payment for unused sick time. Vacation pay is accrued when earned by System employees.

Employees may accumulate vacation leave according to the following schedule:

<u>Years of Service</u>	<u>Maximum Accrual</u>
0-8	36 days
9-20	39 days
21 and greater	42 days

6. 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.

7. Net Position

Net Position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets, restricted net assets, and unrestricted net assets. Net investment in capital assets includes all capital assets, net of accumulated depreciation.

The restricted net position category includes net assets whose use is subject to externally imposed stipulations that can be fulfilled by actions of the System pursuant to those stipulations or that expire by the passage of time. The System has no restricted assets as of June 30, 2013, and at June 30, 2012. The unrestricted net position category includes all other assets that do not meet the definition of "restricted" or "net investment in capital assets".

KNOXVILLE, KNOX COUNTY, K.U.B.
GEOGRAPHIC INFORMATION SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013 and June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Net Position (Continued)

7. Net Position (Continued)

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 2: BUDGETARY INFORMATION/DEDICATED ACCOUNTS

Annually, the System's Policy Board adopts a budget on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of control, that is the level at which management cannot overspend funds without a budget amendment by the Policy Board is at the major category level.

The budget adopted by the Policy Board includes non-operating subsidies and miscellaneous operating revenue which are dedicated to be expended only for specific purposes. One fee is expended for costs associated with the maintenance and update of aerial photography maps and the second fee is dedicated to the purchase of software and/or hardware for the System. The fees are collected from the County, the City and KUB.

The following represents the dedicated activity:

	Fiscal Year	
	<u>2013</u>	<u>2012</u>
Dedicated Assets, Beginning of Year	\$ 701,672	\$ 843,255
Dedicated Contributions	253,786	354,111
Dedicated Expenses	(797,064)	(495,933)
Interest Earned on Dedicated Assets	-	239
Dedicated Assets, End of Year	<u>\$ 158,394</u>	<u>\$ 701,672</u>

KNOXVILLE, KNOX COUNTY, K.U.B.
GEOGRAPHIC INFORMATION SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013 and June 30, 2012

NOTE 3: DEPOSITS AND INVESTMENTS

The System's cash and cash equivalents, pooled and managed by the Trustee of Knox County, at June 30, 2013 and June 30, 2012, were covered by the bank collateral pool administered by the Treasurer of the State of Tennessee. Banks participating in the collateral pool determine the aggregate balance of their public fund accounts for the System. Tennessee Code Annotated (TCA) Section 5-8-201 requires that the amount of collateral required to secure these deposits must equal 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 4: COMMITMENTS AND CONTINGENCIES

In fiscal year 2010, the System entered into a three year contract extension with Sanborn, Inc. for re-mapping of the County at an approximated cost of \$683,340. Actual payments made to Sanborn, Inc., for fiscal year 2013 were \$143,814 and for fiscal year 2012 were \$222,785. This project was completed in fiscal year 2013.

NOTE 5: DEFERRED COMPENSATION PLAN

The System provides the opportunity for each of its employees to participate in a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. Under this plan, employees may elect to reduce their salary by at least \$20 per month, in tax-deferred savings to supplement retirement income. The deferred compensation is generally not available to employees until termination, retirement, death or unforeseeable emergency.

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 for similar employee contributions and employer match.

The assets of the deferred compensation plan are held in trust for the exclusive benefit of participants and their beneficiaries and are not reflected as an asset or liability of the System.

KNOXVILLE, KNOX COUNTY, K.U.B.
GEOGRAPHIC INFORMATION SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013 and June 30, 2012

NOTE 6: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Communications and office equipment	\$ 933,059	\$ 26,731	\$ -	\$ 959,790
Computer software	4,132,663	143,814	-	4,276,477
Total capital assets	<u>5,065,722</u>	<u>170,545</u>	<u>-</u>	<u>5,236,267</u>
Less accumulated depreciation for:				
Communications and office equipment	(808,370)	(54,697)	-	(863,067)
Computer software	(2,338,048)	(1,033,586)	-	(3,371,634)
Total accumulated depreciation	<u>(3,146,418)</u>	<u>(1,088,283)</u>	<u>-</u>	<u>(4,234,701)</u>
Total capital assets, net	<u>\$ 1,919,304</u>	<u>\$ (917,738)</u>	<u>\$ -</u>	<u>\$ 1,001,566</u>

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Communications and office equipment	\$ 910,309	\$ 22,750	\$ -	\$ 933,059
Computer software	3,909,878	222,785	-	4,132,663
Total capital assets	<u>4,820,187</u>	<u>245,535</u>	<u>-</u>	<u>5,065,722</u>
Less accumulated depreciation for:				
Communications and office equipment	(772,976)	(35,394)	-	(808,370)
Computer software	(1,338,443)	(999,605)	-	(2,338,048)
Total accumulated depreciation	<u>(2,111,419)</u>	<u>(1,034,999)</u>	<u>-</u>	<u>(3,146,418)</u>
Total capital assets, net	<u>\$ 2,708,768</u>	<u>\$ (789,464)</u>	<u>\$ -</u>	<u>\$ 1,919,304</u>

KNOXVILLE, KNOX COUNTY, K.U.B.
GEOGRAPHIC INFORMATION SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013 and June 30, 2012

NOTE 7: LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	\$ 37,319	\$ 88,281	\$ 93,644	\$ 31,956	\$ 28,760

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	\$ 34,961	\$ 57,268	\$ 54,910	\$ 37,319	\$ 33,587

NOTE 8: NET POSITION

Unrestricted net position for the year ended June 30, reported on the Statements of Net Position is comprised of the following amounts:

	2013	2012
Designated for prior year encumbrance	\$ 14,173	\$ 7,179
Designated for prepaid items	-	8,936
Designated for equipment reserve	158,394	293,866
Designated for aerial reserve	-	407,806
Undesignated	322,443	54,823
	<u>\$ 495,010</u>	<u>\$ 772,610</u>

The designated for equipment reserve and designated for aerial reserve represent the total dedicated assets described in Note 2.

KNOXVILLE, KNOX COUNTY, K.U.B.
GEOGRAPHIC INFORMATION SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013 and June 30, 2012

NOTE 9: RELATED PARTY TRANSACTIONS

During the 2013 and 2012 fiscal years, the County provided various administrative functions to the System at a direct cost to the System. The System paid the County \$17,168 for various administrative services for the 2013 and 2012 years, respectively.

Revenues paid by the County, City, and KUB during the year ending June 30, 2013 were \$314,657, \$320,350, and \$573,046, respectively, representing approximately 92 percent of total revenues for 2013. Revenues paid by the County, City, and KUB during the year ending June 30, 2012 were \$355,284, \$262,090 and \$533,797, respectively, representing approximately 95 percent of total revenues for 2012.

The amounts due to the System from the County, City, and KUB at June 30, 2013 are \$32,165, \$23,627, and \$29,703 respectively. The amounts due to the System from the City, County, and KUB were \$30,405, \$38,911, and \$43,438 at June 30, 2012.

NOTE 10: RETIREMENT PLAN

Certain employees of the System are allowed to individually participate in the Knox County defined contribution plan (asset accumulation plan). The plan covers full-time System employees. Plan benefits depend solely on amounts contributed to the plan plus investment earnings. System employees are eligible to participate from their employment date. Employees may contribute up to fifteen percent of compensation and the System will match these contributions up to six percent of compensation. During the 2013 fiscal year, the employer and member contributions for the defined contribution and 457 plans amounted to a total of \$46,887 and \$46,872, respectively. During the 2012 fiscal year, the employer and member contributions for the defined contribution and 457 plans amounted to a total of \$45,378 and \$47,604, respectively. The System's employer contributions to the plans vest at twenty percent per year and are fully vested after five years. A description of the significant accounting policies used in the plan is described in the *Knox County Comprehensive Annual Financial Report (CAFR)* for the fiscal year ended June 30, 2013.

NOTE 11: RISK FINANCING

The System 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 System purchased commercial General Liability, Workers Compensation, and Property Insurance from outside vendors. The System has had no significant reductions in insurance coverage over the last three years. There have been no settlements in excess of insurance coverage over the last three years.

KNOXVILLE, KNOX COUNTY, K.U.B.
GEOGRAPHIC INFORMATION SYSTEMS

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2013 and June 30, 2012

NOTE 12: LEASES

In fiscal year 2013, the System renewed the contract with Ritchie Family Partnership, L.P. (formerly Main Avenue Partnership) for office space rental. The five-year lease term commenced July 1, 2013 and will terminate June 30, 2018. Rent expense for the years ending June 30, 2013 and 2012 were \$64,938 and \$64,938, respectively. Rental expense for fiscal year 2014 will be \$60,130, and will be adjusted in years (2) through (5) by the Consumer Price Index.

**SUPPLEMENTARY
INFORMATION**

KNOXVILLE, KNOX COUNTY, K.U.B.
GEOGRAPHIC INFORMATION SYSTEMS

SCHEDULES OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION - BUDGET TO ACTUAL
For the Years Ended June 30, 2013 and June 30, 2012

	2013					2012				
	Original Budget	Budget Revisions	Revised Budget	Actual	Variance With Final Budget	Original Budget	Budget Revisions	Revised Budget	Actual	Variance With Final Budget
Revenues										
Operating:										
User Service Fees	\$ 1,275,499	\$ -	\$ 1,275,499	\$ 986,091	\$ (289,408)	\$ 875,444	\$ -	\$ 875,444	\$ 819,787	\$ (55,657)
Sale of Maps	25,764	-	25,764	70,396	44,632	71,435	19,518	90,953	85,290	(5,663)
Sale of IDS Cd's	-	-	-	-	-	-	-	-	600	600
Nonoperating:										
Knox County Subsidy	-	-	-	38,796	38,796	60,772	-	60,772	55,857	(4,915)
City of Knoxville Subsidy	-	-	-	66,228	66,228	56,503	-	56,503	26,503	(30,000)
Knoxville Utilities Board Subsidy	-	-	-	124,846	124,846	220,391	-	220,391	250,576	30,185
Metropolitan Planning Commission Subsidy	-	-	-	22,515	22,515	-	-	-	19,738	19,738
Knoxville-Knox County Emergency Comm. District Subsidy	-	-	-	1,400	1,400	-	-	-	1,435	1,435
Interest Income	-	-	-	571	571	-	-	-	1,096	1,096
Appropriations from Fund Balance	41,554	-	41,554	-	(41,554)	19,518	(19,518)	-	-	-
Appropriations from Reserved Fund Balance	-	7,179	7,179	-	(7,179)	-	61,838	61,838	-	(61,838)
Appropriations from Designated Fund Balance	372,500	-	372,500	-	(372,500)	617,207	414,500	1,031,707	(47,009)	(1,078,716)
Total Revenues	1,715,317	7,179	1,722,496	1,310,843	(411,653)	1,921,270	476,338	2,397,608	1,213,873	(1,183,735)
Expenses										
Operating:										
Personnel Services	494,120	-	494,120	479,242	14,878	476,534	-	476,534	476,220	314
Employee Benefits	152,536	-	152,536	144,655	7,881	172,484	-	172,484	137,048	35,436
Contracted Services	375,128	-	375,128	344,956	30,172	219,259	7,723	226,982	165,056	61,926
Supplies and Materials	22,265	-	22,265	22,791	(526)	32,934	-	32,934	22,337	10,597
Workman's Comp	2,000	-	2,000	1,483	517	2,500	-	2,500	82	2,418
Rental	64,938	-	64,938	64,938	-	64,938	54,115	119,053	64,938	54,115
Depreciation & Insurance	231,830	-	231,830	1,089,010	(857,180)	335,414	414,500	749,914	1,035,655	(285,741)
Equipment Reserve:										
Contracted Services	25,000	-	25,000	3,450	21,550	10,000	-	10,000	7,962	2,038
Supplies and Materials	347,500	-	347,500	308,853	38,647	456,707	40,000	496,707	482,976	13,731
Capital Outlay	-	7,179	7,179	46,803	(39,624)	150,500	(40,000)	110,500	4,995	105,505
Aerial Reserve:										
Contracted Services	-	-	-	-	-	-	-	-	-	-
Total Expenses	1,715,317	7,179	1,722,496	2,506,181	(783,685)	1,921,270	476,338	2,397,608	2,397,269	339
(Decrease) Increase in Net Position	\$ -	\$ -	\$ -	\$ (1,195,338)	\$ (1,195,338)	\$ -	\$ -	\$ -	\$ (1,183,396)	\$ (1,183,396)

OTHER INFORMATION

KNOXVILLE, KNOX COUNTY, K.U.B.
GEOGRAPHIC INFORMATION SYSTEMS

SCHEDULES OF DEDICATED ASSETS (Unaudited)
For the Years Ended June 30, 2013 and June 30, 2012

2013

Equipment

	Aerial Photography	General Equipment	Total
Dedicated Assets - July 1	\$ 407,806	\$ 293,866	\$ 701,672
Dedicated Contributions	-	253,786	253,786
Dedicated Expenses and Encumbrances	(407,806)	(389,258)	(797,064)
Dedicated Assets - June 30	\$ -	\$ 158,394	\$ 158,394

2012

Equipment

	Aerial Photography	General Equipment	Total
Dedicated Assets - July 1	\$ 388,696	\$ 454,559	\$ 843,255
Dedicated Contributions	19,000	335,111	354,111
Dedicated Expenses and Encumbrances	-	(495,933)	(495,933)
Interest Earned	110	129	239
Dedicated Assets - June 30	\$ 407,806	\$ 293,866	\$ 701,672

**KNOXVILLE, KNOX COUNTY, K.U.B.
GEOGRAPHIC INFORMATION SYSTEMS**

**SCHEDULES OF RECONCILIATION OF AVAILABLE FUNDS (Unaudited)
June 30, 2013 and June 30, 2012**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Current Asset Approach:		
Current Assets	\$ 591,226	\$ 922,808
Current Liabilities	(93,020)	(146,466)
Net Current Assets	\$ 498,206	\$ 776,342
<i>Less Reserved Current Assets</i>		
Reserve for Encumbrance Prior Year	(14,173)	(7,179)
Noncurrent Compensated Absences Designated	(3,196)	(3,732)
Aerial Reserve	-	(8,936)
Equipment Reserve	(158,394)	(407,806)
	<u>(175,763)</u>	<u>(721,519)</u>
"Available" Current Assets (Deficit)	<u>\$ 322,443</u>	<u>\$ 54,823</u>

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Equity Approach:		
Total Net Position	\$ 1,496,576	\$ 2,691,914
<i>Less Specific Reserves:</i>		
Reserve for Encumbrance Prior Year	\$ 14,173	\$ 7,179
Designated	-	8,936
Aerial Reserve	-	407,806
Equipment Reserve	158,394	293,866
	<u>(172,567)</u>	<u>(717,787)</u>
Subtotal	\$ 1,324,009	\$ 1,974,127
<i>Less "Non-Spendable" Funds:</i>		
Net Position invested in Net Fixed Assets	<u>(1,001,566)</u>	<u>(1,919,304)</u>
"Undesignated Fund Balance"	<u>\$ 322,443</u>	<u>\$ 54,823</u>

**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

Policy Board of the
Knoxville, Knox County, K.U.B. Geographic Information Systems
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 Knoxville, Knox County, K.U.B. Geographic Information Systems which comprise the statements of net position as of June 30, 2013 and June 30, 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the financial statements, and have issued our report thereon dated November 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Knoxville, Knox County, K.U.B. Geographic Information Systems internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Knoxville, Knox County, K.U.B. Geographic Information System's internal control. Accordingly, we do not express an opinion on the effectiveness of Knoxville, Knox County, K.U.B. Geographic Information System's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Knoxville, Knox County, K.U.B Geographic Information System'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*.

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
November 26, 2013