



# Geographic Information Systems

## ANNUAL FINANCIAL STATEMENTS

For the Fiscal Years Ended  
JUNE 30, 2018 and 2017



**Prepared By:**  
**Knox County Department of Finance**

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

**ANNUAL FINANCIAL STATEMENTS**

**For the Fiscal Years Ended  
June 30, 2018 and 2017**

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

ANNUAL FINANCIAL STATEMENTS  
For the Fiscal Years Ended  
June 30, 2018 and 2017

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**INTRODUCTORY  
SECTION**

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

POLICY BOARD

June 30, 2018

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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, and Knoxville Utilities Board  
Geographic Information Systems  
Knoxville, Tennessee

### Report on the Financial Statements

We have audited the accompanying financial statements of Knoxville, Knox County, and Knoxville Utilities Board (KUB) Geographic Information Systems (the "System") which comprise the statements of net position as of June 30, 2018 and 2017, 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.



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## 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, 2018 and 2017, 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 9 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 supplementary 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 audits 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 December 19, 2018, 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 solely 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 the effectiveness of the System's 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  
December 19, 2018



# Knoxville ♦ Knox County ♦ Knoxville Utilities Board Geographic Information System

Keith G. Stump  
Director

## Management's Discussion and Analysis

As the 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, 2018, 2017 and 2016. 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 2018

- The assets of the System exceeded its liabilities at the close of the most recent fiscal year by \$875,572 (*net position*). Of this amount, \$623,601 is unrestricted. The unrestricted net position amount is a total of three amounts: \$387,085 may be used to meet the System's ongoing obligations to citizens and creditors, \$20,918 is designated for the aerial reserve, and \$215,598 is designated for the equipment reserve.
- The System's total net position increased by \$114,017. The increase is primarily due to a \$104,724 increase in operating revenues.
- The System's total liabilities decreased by \$28,517. This decrease is primarily due to a \$36,188 decrease in accounts payable.
- The System's cash and cash equivalents increased by \$101,421.
- The System's total revenues increased by \$114,570. This increase is primarily due to an increase of \$71,272 in aerial map sales revenues.
- The System's operating expenses increased by \$83,769. The expense increase is primarily due to an increase of \$73,702 in depreciation.

#### POLICY BOARD

Madeline Rogero, Mayor, City of Knoxville; Gabriel Bolas, President, KUB; Glenn Jacobs, County Mayor, Knox County

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### **Financial Highlights for Fiscal Year 2017**

- The assets of the System exceeded its liabilities at the close of the most recent fiscal year by \$761,555 (*net position*). Of this amount, \$486,557 is unrestricted. The unrestricted net position amount is a total of three amounts: \$324,527 may be used to meet the System's ongoing obligations to citizens and creditors, \$48,847 is designated for the aerial reserve, and \$113,183 is designated for the equipment reserve.
- The System's total net position increased by \$83,216. The increase is primarily due to a slight increase in operating revenues.
- The System's total liabilities decreased by \$42,402. This decrease is primarily due to a decrease of \$23,978 in accrued payroll and \$22,500 in deferred revenue.
- The System's cash and cash equivalents increased by \$98,657.
- The System's total revenues decreased by \$171,711. This decrease is primarily due to a \$184,023 decrease in subsidies from the City, County and K.U.B.
- The System's operating expenses increased by \$64,510 due to a \$77,707 increase in depreciation.

### **Financial Highlights for Fiscal Year 2016**

- The assets of the System exceeded its liabilities at the close of the most recent fiscal year by \$678,339 (*net position*). Of this amount, \$433,127 is unrestricted. The unrestricted net position amount is a total of three amounts: \$283,227 may be used to meet the System's ongoing obligations to citizens and creditors, \$75,776 is designated for the aerial reserve, and \$74,124 is designated for the equipment reserve.
- The System's total net position increased by \$319,437. The increase is primarily due to an increase in nonoperating revenues.
- The System's total liabilities increased by \$45,507. This increase is primarily due to an increase in accounts payable and deferred revenue.
- The System's cash and cash equivalents increased by \$68,298. This increase is primarily due to increased revenues.
- The System's total revenues increased by \$447,586. This increase is primarily due to an increase in nonoperating revenues and user service fees.
- The System's operating expenses increased by \$8,418. The expense increase is primarily due to an increase in supplies and materials.

## 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 present 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 present 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 present 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 10-13 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 14-21 of this report.

**Supplementary 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 22 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain other information concerning the System's dedicated assets. This other 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, 2018, the System's assets exceeded its liabilities by \$875,572 (*net position*). At June 30, 2017, the System's assets exceeded its liabilities by \$761,555 (*net position*). At June 30, 2016, the System's assets exceeded its liabilities by \$678,339 (*net position*). At June 30, 2018, the current assets (less current liabilities) amounted to 72 percent of total net position. At June 30, 2017, 64 percent of the System's net position reflected its net current assets (e.g., cash and cash equivalents, accounts receivable and due from other governments). At June 30, 2016, 64 percent of the System's net position reflected its net current assets. At June 30, 2018, 29 percent of the System's net position are invested in capital assets, which compares to 36 percent for the prior year.

As the following table shows, the System reported an increase in net position of \$114,017 as of the fiscal year ended June 30, 2018. The increase was primarily the result of higher aerial map sales. The depreciation expense charged during the fiscal year was \$184,591.

During the fiscal year ended June 30, 2017, the System reported an increase in net position of \$83,216. The increase was primarily the result of higher nonoperating revenues. The depreciation expense charged during fiscal year ended June 30, 2017 was \$110,889.

During the fiscal year ended June 30, 2016, the System reported an increase in net position of \$319,437. The increase was primarily the result of higher nonoperating revenues. The depreciation expense charged during fiscal year ended June 30, 2016 was \$33,182.

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

	FYE June 30, 2018	FYE June 30, 2017	FYE June 30, 2016
<b>Assets:</b>			
Current assets	\$ 676,455	\$ 567,928	\$ 556,900
Capital assets, net	251,971	274,998	245,212
Total assets	<u>928,426</u>	<u>842,926</u>	<u>802,112</u>
<b>Liabilities:</b>			
Current liabilities	47,550	78,288	119,513
Long-term liabilities outstanding	<u>5,304</u>	<u>3,083</u>	<u>4,260</u>
Total liabilities	<u>52,854</u>	<u>81,371</u>	<u>123,773</u>
<b>Net position:</b>			
Investment in capital assets	251,971	274,998	245,212
Unrestricted	<u>623,601</u>	<u>486,557</u>	<u>433,127</u>
Total net position	<u>\$ 875,572</u>	<u>\$ 761,555</u>	<u>\$ 678,339</u>

The next table shows the key elements from ongoing activities that contributed to the increase in net position of \$114,017 during the current fiscal year. Operating revenues, comprised mainly of user service fees and operating reimbursements, increased by \$104,724 in fiscal year 2018, while in fiscal year 2017 they increased by \$9,527 and in fiscal year 2016 they increased by \$262,003. User service fees increased by \$33,452, \$7,269, and \$211,449 during FY 2018, 2017, and 2016, respectively. The increases and decreases are due to the revenues received from Knoxville, Knox County, and K.U.B. (Knoxville Utilities Board) which is based on the projects for the fiscal year.

Aerial map sales which are comprised of viewer licenses, sale of maps, and sale of IDS cd's increased by \$71,272 in fiscal year 2018 compared to an increase in fiscal year 2017 of \$2,258 and compared to a decrease in fiscal year 2016 of \$50,554. The overall increase in the last three fiscal years is due to increased activities in the revenue accounts. Additionally, interest earnings in fiscal year 2018 were \$14,702 compared to fiscal year 2017 of \$4,856 resulting in an increase of \$9,846 from increased cash balance.

Expenses for fiscal year 2018 increased by \$83,769 primarily due to a \$73,702 increase in depreciation. During fiscal year 2017, expenses increased by \$64,510 primarily due to a \$77,707 increase in depreciation and during fiscal year 2016, expenses increased by \$8,418 primarily due to an increase in depreciation.

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

	FYE June 30, 2018	FYE June 30, 2017	FYE June 30, 2016
Revenues:			
Operating revenues:			
User service fees	\$ 1,436,695	\$ 1,403,243	\$ 1,395,974
Aerial map sales	207,125	135,853	133,595
Total Operating revenues:	<u>1,643,820</u>	<u>1,539,096</u>	<u>1,529,569</u>
Nonoperating revenues:			
Knox County subsidy	-	-	55,860
City of Knoxville subsidy	-	-	25,270
Knoxville Utilities Board subsidy	-	-	102,893
Interest income	14,702	4,856	2,071
Total Nonoperating revenues	<u>14,702</u>	<u>4,856</u>	<u>186,094</u>
Total revenues	<u>1,658,522</u>	<u>1,543,952</u>	<u>1,715,663</u>
Expenses:			
Operating expenses:			
Personnel services	555,096	523,241	523,100
Employee benefits	188,913	184,150	177,617
Contracted services	514,927	545,698	519,171
Supplies and materials	34,074	33,862	77,700
Office rent	64,237	62,366	61,333
Insurance	2,667	530	4,123
Depreciation	184,591	110,889	33,182
Total operating expenses	<u>1,544,505</u>	<u>1,460,736</u>	<u>1,396,226</u>
Change in net position	114,017	83,216	319,437
Net Position, Beginning of Year	761,555	678,339	358,902
Net Position, End of Year	<u>\$ 875,572</u>	<u>\$ 761,555</u>	<u>\$ 678,339</u>

**Budgetary Information**

Revenues were more than budget by \$153,035 during fiscal year 2018. Expenses of \$1,544,505 were \$76,989 less than budget of \$1,621,494. The current year expenses include \$184,591 in depreciation that is not budgeted. 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 22, details the original budget, budget amendments, final budget, and actual revenues and expenses, as well as the variances from the final budget.

**Capital Assets.** The System's investment in capital assets as of June 30, 2018 amounts to \$251,971 (net of accumulated depreciation). This investment in capital assets includes purchases of communications and equipment and computer software of \$161,564 during FY 2018. Depreciation expense was \$184,591 for 2018. As of June 30, 2017, and 2016, the System's investment in capital assets amounted to \$274,998 and \$245,212, respectively (net of accumulated depreciation). Depreciation expense was \$110,889 for 2017 and \$33,182 for 2016. Additional information regarding the System's capital assets can be found in Note 4 to the financial statements.

**Compensated Absences.** At the end of the current fiscal year, the System's noncurrent liabilities consisted of compensated absences payable of \$5,304 compared to \$3,083 at the end of fiscal year 2017. Additional information regarding the System's compensated absences liabilities can be found in Note 5 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 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, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 663,996	\$ 562,575
Accounts receivable	7,222	-
Prepaid items	5,237	5,353
Total current assets	<u>676,455</u>	<u>567,928</u>
<b>Noncurrent assets:</b>		
Capital assets (net of accumulated depreciation)	251,971	274,998
Total assets	<u>928,426</u>	<u>842,926</u>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts payable	330	36,518
Accrued payroll payable	14,658	14,028
Compensated absences payable	32,562	27,742
Total current liabilities	<u>47,550</u>	<u>78,288</u>
<b>Noncurrent Liabilities:</b>		
Compensated absences payable	5,304	3,083
Total liabilities	<u>52,854</u>	<u>81,371</u>
<b>NET POSITION</b>		
Investment in capital assets	251,971	274,998
Unrestricted	623,601	486,557
Total Net Position	<u>\$ 875,572</u>	<u>\$ 761,555</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 Fiscal Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Operating revenues:</b>		
User service fees	\$ 1,436,695	\$ 1,403,243
Aerial map sales	207,125	135,853
Total operating revenues	<u>1,643,820</u>	<u>1,539,096</u>
<b>Operating expenses:</b>		
Personnel services	555,096	523,241
Employee benefits	188,913	184,150
Contracted services	514,927	545,698
Supplies and materials	34,074	33,862
Office rent	64,237	62,366
Insurance	2,667	530
Depreciation	184,591	110,889
Total operating expenses	<u>1,544,505</u>	<u>1,460,736</u>
Operating income (loss)	<u>99,315</u>	<u>78,360</u>
<b>Nonoperating revenues:</b>		
Interest income	14,702	4,856
Change in net position	114,017	83,216
Total net position - beginning of year	<u>761,555</u>	<u>678,339</u>
Total net position - end of year	<u>\$ 875,572</u>	<u>\$ 761,555</u>

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

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

**STATEMENTS OF CASH FLOWS  
For the Fiscal Years Ended June 30, 2018 and 2017**

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	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities</b>		
Receipts from customers and users	\$ 1,636,598	\$ 1,564,381
Payments to vendors	(651,977)	(586,761)
Payments to employees	(736,338)	(743,144)
	<u>248,283</u>	<u>234,476</u>
Net cash provided (used) by operating activities		
<b>Cash Flows used in Capital Financing Activities</b>		
Purchase of fixed assets	(161,564)	(140,675)
<b>Cash Flows from Investing Activities</b>		
Interest received	14,702	4,856
Net change in cash and cash equivalents	101,421	98,657
Cash and cash equivalents - beginning of year	562,575	463,918
Cash and cash equivalents - end of year	<u>\$ 663,996</u>	<u>\$ 562,575</u>

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

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

**STATEMENTS OF CASH FLOWS (Continued)  
For the Fiscal Years Ended June 30, 2018 and 2017**

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**Reconciliation of Operating Income (Loss) to  
Net Cash Provided (Used) by Operating Activities**

	<u>2018</u>	<u>2017</u>
Operating income (loss)	\$ 99,315	\$ 78,360
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	184,591	110,889
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(7,222)	25,285
(Increase) decrease in prepaid items	116	62,344
Increase (decrease) in accounts payable	(36,188)	15,851
Increase (decrease) in accrued payroll payable	630	(23,978)
Increase (decrease) in deferred revenue	-	(22,500)
Increase (decrease) in compensated absences payable	7,041	(11,775)
Net cash provided (used) by operating activities	<u>\$ 248,283</u>	<u>\$ 234,476</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018 and 2017

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**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 a joint venture that provides automated mapping and geographic information. The system was created by a tri-party agreement between the City of Knoxville (City), Knox County (County), and the Knoxville Utilities Board (K.U.B.) originally dated August 9, 1985 and most recently amended January 25, 2016. 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 are 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 as a proprietary type fund – enterprise fund under the flow of economic resources measurement focus, or the full-accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. The System follows the full accrual basis of accounting in accordance with generally accepted accounting principles (GAAP), which is promulgated by the Governmental Accounting Standards Board (GASB).

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.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2018 and 2017

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. 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.

**D. Receivables and Revenue Recognition**

All trade and subsidy receivables and revenues are recognized by the System in the period in which services are rendered. 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.

**E. 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.

**F. 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 \$10,000. 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.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2018 and 2017

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. Compensated Absences**

It is the System's policy to permit employees to accumulate earned but unused annual leave and sick pay benefits. There is no current liability for unpaid accumulated sick leave. Upon retirement, employees receive a sick leave payout based on the requirements in Knox County's sick leave policy. Annual leave pay is accrued when earned by System employees.

Employees may accumulate annual 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

**H. 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.

**I. 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: investment in capital assets, restricted net position, and unrestricted net position. Investment in capital assets includes all capital assets, net of accumulated depreciation.

The restricted net position category includes net position 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 net position as of June 30, 2018, and 2017. The unrestricted net position category includes all other assets that do not meet the definition of "restricted" or "investment in capital assets".

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.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2018 and 2017

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**NOTE 2: BUDGETARY INFORMATION**

Annually, the System's Policy Board adopts a budget prepared on the modified accrual basis of accounting. 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. All annual appropriations lapse at fiscal year-end.

The budget adopted by the Policy Board includes non-operating subsidies and miscellaneous operating revenues 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.

Accounting principles used in developing data on a budgetary basis differ from those used in reporting financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). The System reports a total increase or decrease in net position which enables the Board to determine the funds available for appropriation. The System is a proprietary type fund – enterprise fund. The annual operating budget is not legally binding but is a projection.

**NOTE 3: DEPOSITS**

The System's cash and cash equivalents, are pooled and managed by the Trustee of Knox County. As of June 30, 2018, and June 30, 2017, all of the bank accounts 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.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2018 and 2017

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the fiscal years ended June 30, 2018 and 2017, was as follows:

<b><u>2018</u></b>	Beginning Balance	Increases	Decreases & Reclassification	Ending Balance
Communications and Office Equipment	\$ 1,003,070	\$ 17,817	\$ -	\$ 1,020,887
Computer Software	4,567,135	226,456	-	4,793,591
Work in Progress	82,709	-	(82,709)	-
<b>Total Capital Assets</b>	<b>5,652,914</b>	<b>244,273</b>	<b>(82,709)</b>	<b>5,814,478</b>
Less Accumulated Depreciation for:				
Communications and Office Equipment	(987,677)	(12,220)	-	(999,897)
Computer Software	(4,390,239)	(172,371)	-	(4,562,610)
<b>Total Accumulated Depreciation</b>	<b>(5,377,916)</b>	<b>(184,591)</b>	<b>-</b>	<b>(5,562,507)</b>
<b>Total Capital Assets, Net</b>	<b>\$ 274,998</b>	<b>\$ 59,682</b>	<b>\$ (82,709)</b>	<b>\$ 251,971</b>
<b><u>2017</u></b>				
Communications and Office Equipment	\$ 991,842	\$ 11,228	\$ -	\$ 1,003,070
Computer Software	4,327,103	240,032	-	4,567,135
Work in Progress	193,294	82,708	(193,293)	82,709
<b>Total Capital Assets</b>	<b>5,512,239</b>	<b>333,968</b>	<b>(193,293)</b>	<b>5,652,914</b>
Less Accumulated Depreciation for:				
Communications and Office Equipment	(973,675)	(14,002)	-	(987,677)
Computer Software	(4,293,352)	(96,887)	-	(4,390,239)
<b>Total Accumulated Depreciation</b>	<b>(5,267,027)</b>	<b>(110,889)</b>	<b>-</b>	<b>(5,377,916)</b>
<b>Total Capital Assets, Net</b>	<b>\$ 245,212</b>	<b>\$ 223,079</b>	<b>\$ (193,293)</b>	<b>\$ 274,998</b>

Total outstanding contractual commitments related to the aerial photography as of June 30, 2018 and 2017, for the Atlantic Group, LLC. was \$0 and \$47,397, respectively.



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

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2018 and 2017

**NOTE 5: COMPENSATED ABSENCES**

Compensated absences for the fiscal years ended June 30, 2018 and 2017, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
2018	\$ 30,825	\$ 50,265	\$ (43,224)	\$ 37,866	\$ 32,562
2017	\$ 42,600	\$ 48,720	\$ (60,495)	\$ 30,825	\$ 27,742

**NOTE 6: NET POSITION- UNRESTRICTED**

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

	2018	2017
Designated for equipment reserve	\$ 215,598	\$ 113,183
Designated for aerial reserve	20,918	48,847
Undesignated	387,085	324,527
Total	\$ 623,601	\$ 486,557

**NOTE 7: RELATED PARTY TRANSACTIONS**

During the 2018 and 2017 fiscal years, the County provided various administrative functions to the System at direct cost. The System paid the County \$16,171 and \$16,730 for various administrative services for the 2018 and 2017 years, respectively.

Revenues received from the County, City, and KUB during the year ending June 30, 2018 were \$394,126, \$387,643, and \$627,495, respectively, representing approximately 86 percent of total operating revenues for 2018. Revenues received from the County, City, and KUB during the year ending June 30, 2017 were \$393,174, \$387,389, and \$598,574, respectively, representing approximately 90 percent of total revenues for 2017.

There were no amounts due to the System from the City, County, and KUB at June 30, 2018 and June 30, 2017.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2018 and 2017

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**NOTE 8: DEFERRED COMPENSATION PLAN and DEFINED CONTRIBUTION PLAN**

A. Deferred Compensation Plan (457 Plan)

The System provides the opportunity for each of its employees to participate in the Knox County deferred compensation 457 plan, a single employer plan of Knox County, Tennessee. 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. The 457 plan allows pre-tax contributions and employer matching contributions over and above the mandatory 6% of the defined contribution plan based on years of 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 matching contribution starting at 2% and staggered up to a maximum additional 6% for those with 15 years or more of service. As of June 30, 2018, and 2017, there were 7 active plan members.

B. Defined Contribution Plan

Certain employees of the System are required to participate in the Knox County defined contribution plan (asset accumulation plan), a single employer plan of Knox County, Tennessee. 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 on the first day of employment and vest in employer contributions at 20% per year after one year of service and are 100% vested after five years. The plan requires all participants to contribute a minimum of 6% of compensation. Employees may contribute up to 15% of compensation and the System will match these contributions up to 6% of compensation. Forfeitures were used to assist in funding the Knox County Employee Disability Plan, a single employer Other Post Employment Benefit (OPEB) defined benefit plan of Knox County, Tennessee. As of June 30, 2018, and 2017, there were 7 active plan members.

C. Contributions

During the 2018 fiscal year, the employer and member contributions for the defined contribution and 457 plans amounted to a total of \$60,147 and \$60,104, respectively. During the 2017 fiscal year, the employer and member contributions for the defined contribution and 457 plans amounted to a total of \$58,906 and \$61,079, respectively.

D. Administration

The assets of these plans are held in trust for the benefit of participants and their beneficiaries and are administered and managed by the Knox County Pension and Retirement Board. A description of the plans, financial statements and notes are presented in the *Knox County Comprehensive Annual Financial Report (CAFR)* for the fiscal year ended June 30, 2018.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2018 and 2017

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**NOTE 9: RISK MANAGEMENT**

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 and Casualty Insurance. 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.

**NOTE 10: OPERATING LEASE**

In fiscal year 2018, the System renewed a lease with Ritchie Family Partnership, L.P. (formerly Main Avenue Partnership) for office space. The five-year lease term commenced July 1, 2018 and will terminate June 30, 2023. Rent expense for the years ending June 30, 2018 and 2017 was \$64,237 and \$62,366, respectively. The expected annual operating lease payments as of June 30, 2018 are as follows:

Fiscal Year Ending June 30,	Amount
2019	\$ 62,841
2020	\$ 62,841
2021	\$ 62,841
2022	\$ 62,841
2023	\$ 62,841

The annual lease payments will be adjusted accordingly to 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 Fiscal Years Ended June 30, 2018 and 2017**

	2018					2017				
	Original Budget	Budget Revisions	Final Budget	Actual	Variance With Final Budget	Original Budget	Budget Revisions	Final Budget	Actual	Variance With Final Budget
<b>Revenues</b>										
Operating:										
User Service Fees	\$ 1,385,987	\$ -	\$ 1,385,987	\$ 1,436,695	\$ 50,708	\$ 1,406,569	\$ -	\$ 1,406,569	\$ 1,403,243	\$ (3,326)
Aerial Map Sales	119,500	-	119,500	207,125	87,625	104,500	-	104,500	135,853	31,353
Nonoperating:										
Interest Income	-	-	-	14,702	14,702	-	-	-	4,856	4,856
<b>Total Revenues</b>	<b>1,505,487</b>	<b>-</b>	<b>1,505,487</b>	<b>1,658,522</b>	<b>153,035</b>	<b>1,511,069</b>	<b>-</b>	<b>1,511,069</b>	<b>1,543,952</b>	<b>32,883</b>
<b>Expenses</b>										
Operating:										
Personnel Services	548,579	-	548,579	555,096	(6,517)	532,601	-	532,601	523,241	9,360
Employee Benefits	190,171	-	190,171	188,913	1,258	185,570	-	185,570	184,150	1,420
Contracted Services	630,526	116,007	746,533	514,927	231,606	669,986	15,093	685,079	545,698	139,381
Supplies and Materials	19,669	-	19,669	17,182	2,487	20,354	-	20,354	19,912	442
Office Rent	64,237	-	64,237	64,237	-	62,253	-	62,253	62,366	(113)
Depreciation	-	-	-	184,591	(184,591)	-	-	-	110,889	(110,889)
Insurance	2,805	-	2,805	2,667	138	2,805	-	2,805	530	2,275
Equipment Reserve:										
Supplies and Materials	-	-	-	16,892	(16,892)	-	-	-	13,950	(13,950)
Capital Outlay	49,500	-	49,500	-	49,500	37,500	-	37,500	-	37,500
<b>Total Expenses</b>	<b>1,505,487</b>	<b>116,007</b>	<b>1,621,494</b>	<b>1,544,505</b>	<b>76,989</b>	<b>1,511,069</b>	<b>15,093</b>	<b>1,526,162</b>	<b>1,460,736</b>	<b>65,426</b>
<b>(Decrease) Increase in Net Position</b>	<b>\$ -</b>	<b>\$ (116,007)</b>	<b>\$ (116,007)</b>	<b>\$ 114,017</b>	<b>\$ 230,024</b>	<b>\$ -</b>	<b>\$ (15,093)</b>	<b>\$ (15,093)</b>	<b>\$ 83,216</b>	<b>\$ 98,309</b>

## **OTHER INFORMATION**

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

**SCHEDULES OF DEDICATED ASSETS (Unaudited)  
For the Fiscal Years Ended June 30, 2018 and 2017**

2018

Equipment

	Aerial Photography	General Equipment	Total
Dedicated Assets - July 1	\$ 48,847	\$ 113,183	\$ 162,030
Dedicated Contributions	115,819	137,125	252,944
Dedicated Expenses	(143,748)	(34,710)	(178,458)
Dedicated Assets - June 30	<u>\$ 20,918</u>	<u>\$ 215,598</u>	<u>\$ 236,516</u>

2017

Equipment

	Aerial Photography	General Equipment	Total
Dedicated Assets - July 1	\$ 75,776	\$ 74,124	\$ 149,900
Dedicated Contributions	102,517	68,853	171,370
Dedicated Expenses	(129,446)	(29,794)	(159,240)
Dedicated Assets - June 30	<u>\$ 48,847</u>	<u>\$ 113,183</u>	<u>\$ 162,030</u>

**INTERNAL CONTROL  
AND COMPLIANCE SECTION**





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

INDEPENDENT AUDITOR'S REPORT

Policy Board of the  
 Knoxville, Knox County, and Knoxville Utilities Board  
 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, and Knoxville Utilities Board (KUB) Geographic Information Systems (the "System") which comprise the statements of net position as of June 30, 2018 and June 30, 2017, 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 December 19, 2018.

**Internal Control Over Financial Reporting**

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



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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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  
December 19, 2018

**KNOXVILLE, KNOX COUNTY, AND KNOXVILLE UTILITIES BOARD  
GEOGRAPHIC INFORMATION SYSTEMS**

**SCHEDULE OF FINDINGS AND RESPONSES**

**For the Year Ended June 30, 2018**

There were no findings in the current year.

**KNOXVILLE, KNOX COUNTY, AND KNOXVILLE UTILITIES BOARD  
GEOGRAPHIC INFORMATION SYSTEMS**

**SCHEDULE OF DISPOSITION OF PRIOR YEAR FINDINGS**

**For the Year Ended June 30, 2018**

There were no findings reported in the prior year.