



Geographic Information Systems

ANNUAL FINANCIAL STATEMENTS

For the Fiscal Years Ended
JUNE 30, 2020 and 2019



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, 2020 and 2019**

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

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**INTRODUCTORY
SECTION**

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

POLICY BOARD

June 30, 2020

Indya Kincannon, Mayor of the City of Knoxville

Gabe Bolas, President and CEO -
Knoxville Utilities Board

Glenn Jacobs, 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, 2020 and 2019, 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, 2020 and 2019, 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 17, 2020, 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 17, 2020

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, Knoxville Utilities Board (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, 2020, 2019 and 2018. 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 2020

- The assets of the System exceeded its liabilities at the close of the most recent fiscal year by \$1,009,391 (*net position*). Of this amount, \$921,835 is unrestricted. The unrestricted net position amount is a total of three amounts: \$395,622 may be used to meet the System's ongoing obligations to citizens and creditors, \$63,295 is designated for the aerial reserve, and \$462,918 is designated for the equipment reserve.
- The System's total net position increased by \$98,562. The increase is primarily due to a \$91,306 increase in operating revenues.
- The System's total liabilities increased by \$16,801. This increase is primarily due to a \$21,396 increase in compensated absences.
- The System's cash and cash equivalents increased by \$138,631.
- The System's total revenues increased by \$89,444. This increase is primarily due to an increase of \$87,607 in user service fee revenues.
- The System's operating expenses increased by \$26,139. The expense increase is primarily due to an increase in contracted services.

POLICY BOARD

Indya Kincannon, Mayor, City of Knoxville; Gabriel Bolas, President, KUB; Glenn Jacobs, County Mayor, Knox County

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Financial Highlights for Fiscal Year 2019

- The assets of the System exceeded its liabilities at the close of the most recent fiscal year by \$910,829 (*net position*). Of this amount, \$800,101 is unrestricted. The unrestricted net position amount is a total of three amounts: \$438,226 may be used to meet the System's ongoing obligations to citizens and creditors, \$20,918 is designated for the aerial reserve, and \$340,957 is designated for the equipment reserve.
- The System's total net position increased by \$35,257. The increase is primarily due to a \$11,941 increase in interest income.
- The System's total liabilities increased by \$15,618. This increase is primarily due to a \$9,006 increase in accounts payable.
- The System's cash and cash equivalents increased by \$198,425.
- The System's total revenues decreased by \$50,797. This decrease is primarily due to a decrease of \$47,879 in aerial map sales revenues.
- The System's operating expenses increased by \$27,963. The expense increase is primarily due to an increase in contracted services.

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.

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 and 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, 2020, the System's assets exceeded its liabilities by \$1,009,391 (*net position*). At June 30, 2019, the System's assets exceeded its liabilities by \$910,829. At June 30, 2018, the System's assets exceeded its liabilities by \$875,572. At June 30, 2020, the current assets (less current liabilities) amounted to 93 percent of total net position. At June 30, 2019, 88 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, 2018, 71 percent of the System's net position reflected its net current assets. At June 30, 2020, 9 percent of the System's net position are invested in capital assets, which compares to 12 percent for the prior year.

As the following table shows, the System reported an increase in net position of \$98,562 as of the fiscal year ended June 30, 2020. The increase was primarily the result of higher operating revenues. The depreciation expense charged during the fiscal year was \$86,310.

During the fiscal year ended June 30, 2019, the System reported an increase in net position of \$35,257. The increase was primarily the result of higher interest income. The depreciation expense charged during fiscal year ended June 30, 2019 was \$166,320.

During the fiscal year ended June 30, 2018, the System reported an increase in net position of \$114,017. The increase was primarily the result of higher nonoperating revenues. The depreciation expense charged during fiscal year ended June 30, 2018 was \$184,591.

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

	FYE June 30, 2020	FYE June 30, 2019	FYE June 30, 2018
Assets:			
Current assets	\$ 1,006,388	\$ 868,573	\$ 676,455
Capital assets, net	87,556	110,728	251,971
Total assets	<u>1,093,944</u>	<u>979,301</u>	<u>928,426</u>
Liabilities:			
Current liabilities	62,853	63,357	47,550
Long-term liabilities outstanding	<u>21,700</u>	<u>5,115</u>	<u>5,304</u>
Total liabilities	<u>84,553</u>	<u>68,472</u>	<u>52,854</u>
Net position:			
Investment in capital assets	87,556	110,728	251,971
Unrestricted	<u>921,835</u>	<u>800,101</u>	<u>623,601</u>
Total net position	<u>\$ 1,009,391</u>	<u>\$ 910,829</u>	<u>\$ 875,572</u>

The next table shows the key elements from ongoing activities that contributed to the increase in net position of \$98,562 during the current fiscal year. Operating revenues, comprised mainly of user service fees and operating reimbursements, increased by \$91,306 in fiscal year 2020, while in fiscal year 2019 they decreased by \$62,738 and in fiscal year 2018 they increased by \$104,724. User service fees increased by \$87,607 in fiscal year 2020, while in fiscal year 2019 they decreased by \$14,859 and in fiscal year 2018 they increased by \$33,452. 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 \$3,699 in fiscal year 2020 compared to a decrease in fiscal year 2019 of \$47,879 and compared to an increase in fiscal year 2018 of \$71,272. Additionally, interest earnings in fiscal year 2020 were \$24,781 compared to fiscal year 2019 of \$26,643.

Expenses for fiscal year 2020 increased by \$26,139 over the prior year primarily due to an increase in contracted services. During fiscal year 2019, expenses increased by \$27,963 primarily due to an increase in contracted services and during fiscal year 2018, expenses increased by \$73,702 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, 2020	FYE June 30, 2019	FYE June 30, 2018
Revenues:			
Operating revenues:			
User service fees	\$ 1,509,443	\$ 1,421,836	\$ 1,436,695
Aerial map sales	162,945	159,246	207,125
Total operating revenues:	<u>1,672,388</u>	<u>1,581,082</u>	<u>1,643,820</u>
Nonoperating revenues:			
Interest income	24,781	26,643	14,702
Total nonoperating revenues	<u>24,781</u>	<u>26,643</u>	<u>14,702</u>
Total revenues	<u>1,697,169</u>	<u>1,607,725</u>	<u>1,658,522</u>
Expenses:			
Operating expenses:			
Personnel services	614,147	569,351	555,096
Employee benefits	190,369	192,777	188,913
Contracted services	628,301	552,018	514,927
Supplies and materials	13,256	26,853	34,074
Office rent	63,972	62,841	64,237
Insurance	2,252	2,308	2,667
Depreciation	86,310	166,320	184,591
Total operating expenses	<u>1,598,607</u>	<u>1,572,468</u>	<u>1,544,505</u>
Change in net position	98,562	35,257	114,017
Net Position, Beginning of Year	910,829	875,572	761,555
Net Position, End of Year	<u>\$ 1,009,391</u>	<u>\$ 910,829</u>	<u>\$ 875,572</u>

Budgetary Information

Revenues exceeded budgeted amounts by \$1,226 during fiscal year 2020. Expenses of \$1,598,607 were \$112,598 less than budget of \$1,711,205. The current year expenses include \$86,310 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, 2020 amounts to \$87,556 (net of accumulated depreciation). Depreciation expense was \$86,310 for 2020. As of June 30, 2019, and 2018, the System's investment in capital assets amounted to \$110,728 and \$251,971, respectively (net of accumulated depreciation). Depreciation expense was \$166,320 for 2019 and \$184,591 for 2018. 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 \$21,700 compared to \$5,115 at the end of fiscal year 2019. 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, 2020 and 2019**

	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,001,052	\$ 862,421
Accounts receivable	-	15
Prepaid items	5,336	6,137
Total current assets	<u>1,006,388</u>	<u>868,573</u>
Noncurrent assets:		
Capital assets (net of accumulated depreciation)	87,556	110,728
Total assets	<u>1,093,944</u>	<u>979,301</u>
LIABILITIES		
Current liabilities:		
Accounts payable	100	9,336
Accrued payroll payable	19,058	15,137
Compensated absences payable	43,695	38,884
Total current liabilities	<u>62,853</u>	<u>63,357</u>
Noncurrent liabilities:		
Compensated absences payable	21,700	5,115
Total liabilities	<u>84,553</u>	<u>68,472</u>
NET POSITION		
Investment in capital assets	87,556	110,728
Unrestricted	921,835	800,101
Total Net Position	<u>\$ 1,009,391</u>	<u>\$ 910,829</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, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Operating revenues:		
User service fees	\$ 1,509,443	\$ 1,421,836
Aerial map sales	162,945	159,246
Total operating revenues	<u>1,672,388</u>	<u>1,581,082</u>
Operating expenses:		
Personnel services	614,147	569,351
Employee benefits	190,369	192,777
Contracted services	628,301	552,018
Supplies and materials	13,256	26,853
Office rent	63,972	62,841
Insurance	2,252	2,308
Depreciation	86,310	166,320
Total operating expenses	<u>1,598,607</u>	<u>1,572,468</u>
Operating income (loss)	<u>73,781</u>	<u>8,614</u>
Nonoperating revenues:		
Interest income	24,781	26,643
Change in net position	98,562	35,257
Total net position - beginning of year	<u>910,829</u>	<u>875,572</u>
Total net position - end of year	<u>\$ 1,009,391</u>	<u>\$ 910,829</u>

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 Fiscal Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 1,672,403	\$ 1,588,289
Payments to vendors	(716,216)	(635,914)
Payments to employees	(779,199)	(755,516)
	<u>176,988</u>	<u>196,859</u>
Cash Flows used in Capital Financing Activities		
Purchase of fixed assets	(63,138)	(25,077)
Cash Flows from Investing Activities		
Interest received	24,781	26,643
Net change in cash and cash equivalents	138,631	198,425
Cash and cash equivalents - beginning of year	862,421	663,996
Cash and cash equivalents - end of year	<u>\$ 1,001,052</u>	<u>\$ 862,421</u>

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 Fiscal Years Ended June 30, 2020 and 2019**

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

	<u>2020</u>	<u>2019</u>
Operating income (loss)	\$ 73,781	\$ 8,614
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	86,310	166,320
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	15	7,207
(Increase) decrease in prepaid items	801	(900)
Increase (decrease) in accounts payable	(9,236)	9,006
Increase (decrease) in accrued payroll payable	3,921	479
Increase (decrease) in compensated absences payable	21,396	6,133
Net cash provided (used) by operating activities	<u>\$ 176,988</u>	<u>\$ 196,859</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
June 30, 2020 and 2019

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.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2020 and 2019

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.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2020 and 2019

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, 2020, and 2019. 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.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2020 and 2019

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, 2020, and June 30, 2019, 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, 2020 and 2019

NOTE 4: CAPITAL ASSETS

Capital asset activity for the fiscal years ended June 30, 2020 and 2019, was as follows:

<u>2020</u>	Beginning Balance	Increases	Decreases & Reclassification	Ending Balance
Communications and Office Equipment	\$ 1,045,964	\$ -	\$ -	\$ 1,045,964
Computer Software	4,793,591	-	-	4,793,591
Work in Progress	-	63,138	-	63,138
Total Capital Assets	<u>5,839,555</u>	<u>63,138</u>	<u>-</u>	<u>5,902,693</u>
Less Accumulated Depreciation for:				
Communications and Office Equipment	(1,010,721)	(10,825)	-	(1,021,546)
Computer Software	(4,718,106)	(75,485)	-	(4,793,591)
Total Accumulated Depreciation	<u>(5,728,827)</u>	<u>(86,310)</u>	<u>-</u>	<u>(5,815,137)</u>
Total Capital Assets, Net	<u>\$ 110,728</u>	<u>\$ (23,172)</u>	<u>\$ -</u>	<u>\$ 87,556</u>
<u>2019</u>				
Communications and Office Equipment	\$ 1,020,887	\$ 25,077	\$ -	\$ 1,045,964
Computer Software	4,793,591	-	-	4,793,591
Total Capital Assets	<u>5,814,478</u>	<u>25,077</u>	<u>-</u>	<u>5,839,555</u>
Less Accumulated Depreciation for:				
Communications and Office Equipment	(999,897)	(10,824)	-	(1,010,721)
Computer Software	(4,562,610)	(155,496)	-	(4,718,106)
Total Accumulated Depreciation	<u>(5,562,507)</u>	<u>(166,320)</u>	<u>-</u>	<u>(5,728,827)</u>
Total Capital Assets, Net	<u>\$ 251,971</u>	<u>\$ (141,243)</u>	<u>\$ -</u>	<u>\$ 110,728</u>

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2020 and 2019

NOTE 5: COMPENSATED ABSENCES

Compensated absences for the fiscal years ended June 30, 2020 and 2019, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
2020	\$ 43,999	\$ 63,912	\$ (42,516)	\$ 65,395	\$ 43,695
2019	\$ 37,866	\$ 52,755	\$ (46,622)	\$ 43,999	\$ 38,884

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:

	2020	2019
Designated for equipment reserve	\$ 462,918	\$ 340,957
Designated for aerial reserve	63,295	20,918
Undesignated	395,622	438,226
Total	\$ 921,835	\$ 800,101

NOTE 7: RELATED PARTY TRANSACTIONS

During the 2020 and 2019 fiscal years, the County provided various administrative functions to the System at direct cost. The System paid the County \$17,791 and \$15,169 for various administrative services for the 2020 and 2019 years, respectively.

Revenues received from the County, City, and KUB during the year ending June 30, 2020 were \$424,504, \$400,803, and \$655,542, respectively, representing approximately 89 percent of total operating revenues for 2020. Revenues received from the County, City, and KUB during the year ending June 30, 2019 were \$406,643, \$394,047, and \$592,552, respectively, representing approximately 88 percent of total revenues for 2019.

There were no amounts due to the System from the City, County, and KUB at June 30, 2020 and June 30, 2019.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2020 and 2019

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, 2020, and 2019, 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, 2020, and 2019, there were 7 active plan members.

C. Contributions

During the 2020 fiscal year, the employer and member contributions for the defined contribution and 457 plans amounted to a total of \$68,641 and \$69,949, respectively. During the 2019 fiscal year, the employer and member contributions for the defined contribution and 457 plans amounted to a total of \$62,606 and \$64,009, 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, 2020.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2020 and 2019

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, 2020 and 2019 was \$63,972 and \$62,841, respectively. The minimum future lease payments as of June 30, 2020 are as follows:

Fiscal Year Ending June 30,	Amount
2021	\$ 63,972
2022	\$ 63,972
2023	\$ 63,972

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, 2020 and 2019**

	2020					2019				
	Original Budget	Budget Revisions	Final Budget	Actual	Variance With Final Budget	Original Budget	Budget Revisions	Final Budget	Actual	Variance With Final Budget
Revenues										
Operating:										
User Service Fees	\$ 1,509,443	\$ -	\$ 1,509,443	\$ 1,509,443	\$ -	\$ 1,421,836	\$ -	\$ 1,421,836	\$ 1,421,836	\$ -
Aerial Map Sales	186,500	-	186,500	162,945	(23,555)	45,500	-	45,500	159,246	113,746
Nonoperating:										
Interest Income	-	-	-	24,781	24,781	-	-	-	26,643	26,643
Total Revenues	1,695,943	-	1,695,943	1,697,169	1,226	1,467,336	-	1,467,336	1,607,725	140,389
Expenses										
Operating:										
Personnel Services	591,414	-	591,414	614,147	(22,733)	564,116	-	564,116	569,351	(5,235)
Employee Benefits	201,738	-	201,738	190,369	11,369	193,481	-	193,481	192,777	704
Contracted Services	765,626	15,262	780,888	628,301	152,587	576,274	14,817	591,091	552,018	39,073
Supplies and Materials	12,510	-	12,510	4,445	8,065	22,319	-	22,319	18,042	4,277
Office Rent	64,255	-	64,255	63,972	283	62,841	-	62,841	62,841	-
Depreciation	-	-	-	86,310	(86,310)	-	-	-	166,320	(166,320)
Insurance	2,900	-	2,900	2,252	648	2,805	-	2,805	2,308	497
Equipment Reserve:										
Supplies and Materials	6,500	-	6,500	8,811	(2,311)	12,500	-	12,500	8,811	3,689
Capital Outlay	51,000	-	51,000	-	51,000	33,000	-	33,000	-	33,000
Total Expenses	1,695,943	15,262	1,711,205	1,598,607	112,598	1,467,336	14,817	1,482,153	1,572,468	(90,315)
(Decrease) Increase in Net Position	\$ -	\$ (15,262)	\$ (15,262)	\$ 98,562	\$ 113,824	\$ -	\$ (14,817)	\$ (14,817)	\$ 35,257	\$ 50,074

OTHER INFORMATION

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

**SCHEDULES OF DEDICATED ASSETS (Unaudited)
For the Fiscal Years Ended June 30, 2020 and 2019**

2020

Equipment

	Aerial Photography	General Equipment	Total
Dedicated Assets - July 1	\$ 20,918	\$ 340,957	\$ 361,875
Dedicated Contributions	105,515	172,285	277,800
Dedicated Expenses	(63,138)	(50,324)	(113,462)
Dedicated Assets - June 30	<u>\$ 63,295</u>	<u>\$ 462,918</u>	<u>\$ 526,213</u>

2019

Equipment

	Aerial Photography	General Equipment	Total
Dedicated Assets - July 1	\$ 20,918	\$ 215,598	\$ 236,516
Dedicated Contributions	-	159,246	159,246
Dedicated Expenses	-	(33,887)	(33,887)
Dedicated Assets - June 30	<u>\$ 20,918</u>	<u>\$ 340,957</u>	<u>\$ 361,875</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, 2020 and June 30, 2019, 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 17, 2020.

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) as a basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2020-001 that we consider to be a material weakness.



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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 financial statements. 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*.

Knoxville, Knox County, K.U.B. Geographic Information Systems' Response to Findings

The System's response to the finding identified in our audit is described in the accompanying schedule of findings and responses and the management's corrective action plan. The System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 17, 2020

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

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2020

2020-001: Vendor Management

Criteria or Specific Requirement – Properly maintaining and confirming vendor payment information is essential to controls of processing cash disbursements.

Condition – During the audit it was noted that a vendor had been the target of a hacker email phishing scheme. The hacker was able to replicate detailed information from legitimate vendor emails and invoices. Consequently, the hacker was able to request that the System change the vendor's bank account information and that payment be made to an account not belonging to the vendor. The System erroneously paid \$68,000 to this account that is unrecoverable.

Cause and Effect – A change in vendor payment information was not independently verified resulting in an unrecoverable disbursement of \$68,000.

Recommendations – We recommend that any vendor request for a change in payment information be verified independently from the original source of communication. This would include calling the vendor directly with verified contact information and requesting confirmation of account ownership from the bank.

Management's Response – We concur with the finding and recommendations. Management identified the erroneous payment shortly after disbursement and has implemented the recommendations.

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

SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended June 30, 2020

There were no findings reported in the prior year.

Knoxville ♦ Knox County ♦ Knoxville Utilities Board
Geographic Information Systems

Keith G. Stump
Executive Director / GIO

MANAGEMENT'S CORRECTIVE ACTION PLAN

For the Year Ended June 30, 2020

2020-001: Vendor Management

Contact Person Responsible for Corrective Action: Keith G. Stump, Executive Director

Corrective Action Planned: Any vendor request for a change in payment information will be verified independently from the original source of communication. This will include calling the vendor directly with verified contact information and requesting confirmation of account ownership from the bank.

Anticipated Completion Date: Management implemented the corrective action during the 2020 fiscal year.

Signature:



POLICY BOARD

Indya Kincannon, Mayor, City of Knoxville; **Gabriel Bolas**, President/CEO, KUB; **Glenn Jacobs**, Mayor, Knox County

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