



# Geographic Information Systems

FINANCIAL STATEMENTS

JUNE 30, 2015 and JUNE 30, 2014



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

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

**FINANCIAL STATEMENTS**

**June 30, 2015 and June 30, 2014**

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

FINANCIAL STATEMENTS  
June 30, 2015 and June 30, 2014

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**INTRODUCTORY  
SECTION**

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

POLICY BOARD

June 30, 2015

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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, K.U.B. Geographic Information Systems  
Knoxville, Tennessee

### Report on the Financial Statements

We have audited the accompanying financial statements of Knoxville, Knox County, K.U.B. Geographic Information Systems (the "System") which comprise the statements of net position as of June 30, 2015 and 2014 and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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



## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2015 and 2014 and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The introductory, supplementary information and other information sections are presented for purposes of additional analysis and are not a required part of the financial statements.

The information in the supplementary information section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The information in the introductory and other information sections has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2015, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

*Pugh & Company, P.C.*

Certified Public Accountants  
Knoxville, Tennessee  
December 7, 2015



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

Keith G. Stump  
Director

## Management's Discussion and Analysis

As management of the Knoxville, Knox County, K.U.B. Geographic Information Systems (the System), we offer the readers of the System's financial statements this narrative overview and analysis of the financial activities of the System for the fiscal years ended June 30, 2015 and June 30, 2014. We encourage readers to consider the information presented here in conjunction with the information provided in the financial statements, notes to financial statements and supplementary information when reviewing the System's financial activities and condition.

### Financial Highlights for Fiscal Year 2015

- The assets of the System exceeded its liabilities at the close of the most recent fiscal year by \$358,902 (*net position*). Of this amount, \$324,428 is unrestricted. The unrestricted net position amount is a total of three amounts: \$303,418 may be used to meet the System's ongoing obligations to citizens and creditors, while \$14,156 is allocated for prior year encumbrances.
- The System's total net position decreased by \$119,731. The decrease is primarily due to reduced operating revenues.
- The System's total liabilities decreased by \$5,805. This decrease is primarily due to a decrease in accounts payable.
- The System's cash and cash equivalents increased by \$155,817. This increase is primarily due to lower operating expenses.
- The System's total revenue decreased by \$140,979. This decrease is primarily due to a decrease in user service fees.
- The System's expenses decreased by \$1,039,191. The expense decrease is primarily due to a decrease in contracted services expense and depreciation.

#### POLICY BOARD

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

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## Financial Highlights for Fiscal Year 2014

- The assets of the System exceeded its liabilities at the close of the most recent fiscal year by \$478,633 (*net position*). Of this amount, \$349,069 is unrestricted. The unrestricted net position amount is a total of three amounts: \$298,692 may be used to meet the System's ongoing obligations to citizens and creditors, while \$13,743 is allocated for prior year encumbrances, and \$36,634 is allocated for the equipment reserve.
- The System's total net position decreased by \$1,017,943. The decrease is primarily due to reduced operating revenues and increased operating expenses compared to budgeted amounts.
- The System's total liabilities decreased by \$12,145. This decrease is primarily due to a decrease in accounts payable.
- The System's cash and cash equivalents decreased by \$240,370. This decrease is primarily due to lower non-operating revenues.
- The System's total revenue increased \$98,213. This increase is primarily due to an increase in miscellaneous revenues.
- The System's expenses decreased by \$79,182. The expense decrease is primarily due to a decrease in contracted services expense and depreciation.

## Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The System's basic financial statements consist of two components: 1) financial statements comprised of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows, and 2) Notes to the Financial Statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

**Financial Statements.** The Statements of Net Position presents information on all of the System's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the System is improving or deteriorating.

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

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

The financial statements can be found on pages 9 - 12 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 13 - 21 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the System's budgetary compliance and variances from the original budget and final amended budget. This supplementary information can be found on page 22 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, 2015, the System's assets exceeded its liabilities by \$358,902 (*net position*). At June 30, 2014, the System's assets exceeded its liabilities by \$478,633 (*net position*). At June 30, 2015, the current assets (less current liabilities) amounted to 92 percent of total net position. At June 30, 2014, 73 percent of the System's net position reflected its current assets (e.g., cash and cash equivalents, accounts receivable and due from other governments). At June 30, 2015, 10 percent of the System's net position are invested in capital assets, which compares to 27 percent for the prior year.

As the following table shows, the System reported a decrease in net position of \$119,731 as of the current fiscal year ended June 30, 2015. As previously noted this decrease is primarily the result of lower operating revenues. The depreciation expense charged during the current fiscal year was \$95,089.

During the fiscal year ended June 30, 2014, the System reported a decrease in net position of \$1,017,943. The decrease was primarily the result of lower operating revenues and increased operating expenses. The depreciation expense charged during fiscal year ended June 30, 2014 was \$904,055.



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

	FYE June 30, 2015	FYE June 30, 2014	FYE June 30, 2013
<b>Assets:</b>			
Current and other assets	\$ 402,694	\$ 433,140	\$ 591,226
Capital assets, net	34,474	129,564	1,001,566
Total assets	<u>437,168</u>	<u>562,704</u>	<u>1,592,792</u>
<b>Liabilities:</b>			
Current liabilities	73,618	79,676	93,020
Long-term liabilities outstanding	4,648	4,395	3,196
Total liabilities	<u>78,266</u>	<u>84,071</u>	<u>96,216</u>
Net position:			
Investment in capital assets	34,474	129,564	1,001,566
Unrestricted:			
Designated prior year encumbrances	14,156	13,743	14,173
Designated for prepaid items	6,854	-	-
Designated equipment reserve	-	36,634	158,394
Undesignated	303,418	298,692	322,443
Total net position	<u>\$ 358,902</u>	<u>\$ 478,633</u>	<u>\$ 1,496,576</u>

The next table shows the key elements from ongoing activities that contributed to the decrease in net position of \$119,731 during the current fiscal year. Operating revenues, comprised mainly of user service fees and operating reimbursements, decreased by \$143,441 in fiscal year 2015, while in fiscal year 2014 they increased by \$327,989. User service fees decreased by \$138,428 in fiscal year 2015 primarily due to a decrease in revenues from Knoxville, Knox County, and K.U.B (Knoxville Utilities Board). In fiscal year 2014, user service fees increased by \$310,331. Miscellaneous revenue which is comprised of viewer licenses, sale of maps, and sale of IDS cd's decreased by \$5,013 in fiscal year 2015 compared to an increase in fiscal year 2014 of \$17,658. This decrease was due to decreased activities in the revenue accounts listed above that make up the miscellaneous revenue total amount. Additionally, interest earnings in fiscal year 2015 were \$511 compared to fiscal year 2014 of \$252 resulting in an increase of \$259 from increased cash balance.

Expenses for fiscal year 2015 decreased by \$1,039,191 primarily due to a decrease in depreciation and contracted services. The aerial photography assets were fully depreciated at the end of fiscal year 2014 which lowered the depreciation for fiscal year 2015. During fiscal year 2014, expenses decreased by \$79,182 primarily due to a decrease in depreciation.

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

	FYE June 30, 2015	FYE June 30, 2014	FYE June 30, 2013
Revenues:			
Operating revenues:			
User service fees	\$ 1,157,994	\$ 1,296,422	\$ 986,091
Miscellaneous revenue	83,041	88,054	70,396
Total Operating revenues:	<u>1,241,035</u>	<u>1,384,476</u>	<u>1,056,487</u>
Nonoperating revenues:			
Knox County Subsidy	-	-	38,796
City of Knoxville Subsidy	-	-	66,228
Knoxville Utilities Board Subsidy	-	-	124,846
Metropolitan Planning Commission Subsidy	25,131	22,928	22,515
Knoxville-Knox County Emergency Comm. District Subsidy	1,400	1,400	1,400
Interest income	511	252	571
Total Nonoperating revenues	<u>27,042</u>	<u>24,580</u>	<u>254,356</u>
Total revenues	<u>1,268,077</u>	<u>1,409,056</u>	<u>1,310,843</u>
Expenses:			
Operating expenses:			
Personnel services	506,201	515,342	479,242
Employee benefits	163,572	156,955	144,655
Contracted services	543,753	769,878	348,406
Supplies and materials	17,237	18,089	378,447
Rental	61,333	60,226	64,938
Insurance	623	2,454	2,210
Depreciation	95,089	904,055	1,088,283
Total expenses - cost of sales and services	<u>1,387,808</u>	<u>2,426,999</u>	<u>2,506,181</u>
(Decrease) increase in net position	(119,731)	(1,017,943)	(1,195,338)
Net position July 1	478,633	1,496,576	2,691,914
Net position June 30	<u>\$ 358,902</u>	<u>\$ 478,633</u>	<u>\$ 1,496,576</u>

**Budgetary Information**

There were some budget amendments for the fiscal year 2015 outside of the planned appropriation of fund balances of \$36,635. Revenues were less than budget by \$174,108. Expenses of \$1,387,808 were \$54,377 less than budget of \$1,442,185. This was a timing difference, and now as the mapping projects are completed, the spending will occur and the reserves will be used. The current year expenses include \$95,089 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, amended budget, and actual revenues and expenses, as well as the variances from the final amended budget.



**Capital Assets.** The System's investment in capital assets as of June 30, 2015 amounts to \$34,474 (net of accumulated depreciation). This investment in capital assets includes communications and office equipment and computer software. Depreciation expense was \$95,089 for 2015. As of June 30, 2014, the System's investment in capital assets amounted to \$129,564 (net of accumulated depreciation). Depreciation expense was \$904,055 for 2014. The System's software upgrade project was completed and in service during the fiscal year 2010. Additional information regarding the System's capital assets can be found in Note 4 to the financial statements.

**Long-term Liabilities.** At the end of the current fiscal year, the System's long-term liabilities consisted of compensated absences payable of \$4,648 compared to \$4,395 at the end of fiscal year 2014. Additional information regarding the System's long-term 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 Office of the Executive Director, Knoxville, Knox County, K.U.B. Geographic Information Systems, 606 Main Street, Suite 150 Main Place, Knoxville, TN 37902.

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

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

	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 395,620	\$ 239,803
Accounts receivable	220	193,337
Prepaid items	6,854	-
Total current assets	402,694	433,140
 <b>Noncurrent assets:</b>		
Capital Assets (Net of Accumulated Depreciation)	34,474	129,564
Total assets	437,168	562,704
 <b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts payable	218	12,202
Accrued payroll payable	31,572	27,924
Compensated absences payable	41,828	39,550
Total current liabilities	73,618	79,676
 <b>Noncurrent Liabilities:</b>		
Compensated absences payable	4,648	4,395
Total liabilities	78,266	84,071
 <b>NET POSITION</b>		
Investment in capital assets	34,474	129,564
Unrestricted	324,428	349,069
Total Net Position	\$ 358,902	\$ 478,633

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

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

**STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
For the Years Ended June 30, 2015 and June 30, 2014**

	<b>2015</b>	<b>2014</b>
<b>Operating revenues:</b>		
User service fees	\$ 1,157,994	\$ 1,296,422
Miscellaneous revenue	83,041	88,054
	1,241,035	1,384,476
<b>Operating expenses:</b>		
Personnel services	506,201	515,342
Employee benefits	163,572	156,955
Contracted services	543,753	769,878
Supplies and materials	17,237	18,089
Rental	61,333	60,226
Insurance	623	2,454
Depreciation	95,089	904,055
	1,387,808	2,426,999
Operating (loss) income	(146,773)	(1,042,523)
<b>Nonoperating revenues:</b>		
Metropolitan Planning Commission Subsidy	25,131	22,928
Knoxville - Knox County Emergency Communications District Subsidy	1,400	1,400
Interest income	511	252
	27,042	24,580
Change in net position	(119,731)	(1,017,943)
Total net position - beginning of year	478,633	1,496,576
Total net position - ending of year	\$ 358,902	\$ 478,633

*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 Years Ended June 30, 2015 and June 30, 2014**

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	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities</b>		
Receipts from customers and users	\$ 1,434,152	\$ 1,302,192
Payments to vendors	(641,784)	(878,129)
Payments to employees	(663,593)	(656,960)
	<u>128,775</u>	<u>(232,897)</u>
<b>Cash Flows from NonCapital Financing Activities</b>		
Metropolitan Planning Commission Subsidy	25,131	22,928
Knoxville - Knox County Emergency Communications Subsidy	1,400	1,400
	<u>26,531</u>	<u>24,328</u>
<b>Cash Flows used in Capital Financing Activities</b>		
Purchase of fixed assets	-	(32,053)
<b>Cash Flows from Investing Activities</b>		
Interest received	511	252
Net change in cash and cash equivalents	155,817	(240,370)
Cash and cash equivalents - beginning of year	239,803	480,173
Cash and cash equivalents - end of year	<u>\$ 395,620</u>	<u>\$ 239,803</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 Years Ended June 30, 2015 and June 30, 2014**

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

	<u>2015</u>	<u>2014</u>
Operating (loss) income	\$ (146,773)	\$ (1,042,523)
Adjustments to reconcile operating (loss) income to net cash provided (used) by operating activities:		
Depreciation and amortization	95,089	904,055
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	193,118	(82,284)
(Increase) decrease in prepaid items	(6,854)	-
Increase (decrease) in accounts payable	(11,984)	(27,482)
Increase (decrease) in accrued payroll payable	3,648	3,348
Increase (decrease) in compensated absences payable	2,531	11,989
Net cash provided (used) by operating activities	<u>\$ 128,775</u>	<u>\$ (232,897)</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 (Continued)  
June 30, 2015 and June 30, 2014

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

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

**B. Basis of Accounting**

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

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, 2015 and June 30, 2014

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

**C. Assets, Liabilities, and Net Position**

1. Deposits and Investments

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

2. Receivables and Payables

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

3. Prepaid Items

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

4. Capital Assets

Capital assets, which include computer software and communication and office equipment, are defined as assets with an initial, individual cost of more than \$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, 2015 and June 30, 2014

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

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

5. Compensated Absences

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

Employees may accumulate vacation leave according to the following schedule:

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

6. Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from these estimates.

7. Net Position

Net Position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following three components: net investment in capital assets, restricted net position, and unrestricted net position. Net 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, 2015, and at June 30, 2014. The unrestricted net position category includes all other assets that do not meet the definition of "restricted" or "net investment in capital assets".

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2015 and June 30, 2014

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

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

7. Net Position (Continued)

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

**NOTE 2: BUDGETARY INFORMATION/DEDICATED ACCOUNTS**

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

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

The following represents the dedicated activity:

	Fiscal Year	
	<u>2015</u>	<u>2014</u>
Dedicated Assets, Beginning of Year	\$ 36,634	\$ 158,394
Dedicated Contributions	-	-
Dedicated Expenses	<u>(36,634)</u>	<u>(121,760)</u>
Dedicated Assets, End of Year	<u><u>\$ -</u></u>	<u><u>\$ 36,634</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2015 and June 30, 2014

**NOTE 3: DEPOSITS AND INVESTMENTS**

The System's cash and cash equivalents, pooled and managed by the Trustee of Knox County, at June 30, 2015 and June 30, 2014, were covered by the bank collateral pool administered by the Treasurer of the State of Tennessee. Banks participating in the collateral pool determine the aggregate balance of their public fund accounts for the System. Tennessee Code Annotated (TCA) Section 5-8-201 requires that the amount of collateral required to secure these deposits must equal 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be entirely insured or collateralized.

**NOTE 4: CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Ending Balance
Communications and office equipment	\$ 991,843	\$ -	\$ -	\$ 991,843
Computer software	4,276,477	-	-	4,276,477
Total capital assets	<u>5,268,320</u>	<u>-</u>	<u>-</u>	<u>5,268,320</u>
Less accumulated depreciation for:				
Communications and office equipment	(910,218)	(47,152)	-	(957,370)
Computer software	(4,228,538)	(47,938)	-	(4,276,476)
Total accumulated depreciation	<u>(5,138,756)</u>	<u>(95,090)</u>	<u>-</u>	<u>(5,233,846)</u>
Total capital assets, net	<u>\$ 129,564</u>	<u>\$ (95,090)</u>	<u>\$ -</u>	<u>\$ 34,474</u>



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

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2015 and June 30, 2014

**NOTE 4: CAPITAL ASSETS (Continued)**

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

	Beginning Balance	Increases	Decreases	Ending Balance
Communications and office equipment	\$ 959,790	\$ 32,053	\$ -	\$ 991,843
Computer software	4,276,477	-	-	4,276,477
Total capital assets	5,236,267	32,053	-	5,268,320
Less accumulated depreciation for:				
Communications and office equipment	(863,067)	(47,151)	-	(910,218)
Computer software	(3,371,634)	(856,904)	-	(4,228,538)
Total accumulated depreciation	(4,234,701)	(904,055)	-	(5,138,756)
Total capital assets, net	\$ 1,001,566	\$ (872,002)	\$ -	\$ 129,564

**NOTE 5: LONG-TERM LIABILITIES**

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	\$ 43,945	\$ 44,073	\$ 41,542	\$ 46,476	\$ 41,828

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	\$ 31,956	\$ 97,252	\$ 85,263	\$ 43,945	\$ 39,550

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2015 and June 30, 2014

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**NOTE 6: NET POSITION**

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

	<u>2015</u>	<u>2014</u>
Designated for prior year encumbrance	\$ 14,156	\$ 13,743
Designated for prepaid items	6,854	-
Designated for equipment reserve	-	36,634
Undesignated	<u>303,418</u>	<u>298,692</u>
	<u>\$ 324,428</u>	<u>\$ 349,069</u>

The designated for equipment reserve represents the total dedicated assets described in Note 2.

**NOTE 7: RELATED PARTY TRANSACTIONS**

During the 2015 and 2014 fiscal years, the County provided various administrative functions to the System at a direct cost to the System. The System paid the County \$15,735 each year for various administrative services for the 2015 and 2014 years.

Revenues paid by the County, City, and KUB during the year ending June 30, 2015 were \$352,064, \$302,772, and \$499,833, respectively, representing approximately 91 percent of total revenues for 2015. Revenues paid by the County, City, and KUB during the year ending June 30, 2014 were \$346,742, \$339,847 and \$606,509, respectively, representing approximately 92 percent of total revenues for 2014.

There were no amounts due to the System from the County, City, and KUB at June 30, 2015. The amounts due to the System from the City, County, and KUB were \$0, \$42,680, and \$129,070 at June 30, 2014, respectively.

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

A. Deferred Compensation Plan

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2015 and June 30, 2014

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**NOTE 8: DEFERRED COMPENSATION PLAN and DEFINED CONTRIBUTION PLAN  
(Continued)**

A. Deferred Compensation Plan (Continued)

The Knox County Voluntary 457 plan is an enhancement to the asset accumulation plan effective July 1, 2007. The 457 plan allows pre-tax contributions and employer match over and above the mandatory six percent based on years of county service and up to a dollar limit set by the Internal Revenue Service. Employees choosing to participate with over five years of service receive an equal employer match starting at two percent and staggered up to a maximum additional six percent for those with 15 years or more service.

Employees have the option to select from two other 457 plan vendors, Security Benefits and Nationwide, which also allow for similar employee and employer matching contributions. These other two 457 plan vendors are independent from the Knox County Voluntary 457 plan.

The assets of the deferred compensation plans are held in trust for the exclusive benefit of participants and their beneficiaries and are not reflected as assets or liabilities of the System.

B. Defined Contribution Plan

Certain employees of the System are allowed to individually participate in the Knox County defined contribution plan (asset accumulation plan). The plan covers full-time System employees. Plan benefits depend solely on amounts contributed to the plan plus investment earnings. System employees are eligible to participate from their employment date. Employees may contribute up to fifteen percent of compensation and the System will match these contributions up to six percent of compensation. The System's employer contributions to the plan vests at twenty percent per year and are fully vested after five years.

C. Contributions

During the 2015 fiscal year, the employer and member contributions for the defined contribution and 457 plans amounted to a total of \$53,474 and \$53,103, respectively. During the 2014 fiscal year, the employer and member contributions for the defined contribution and 457 plans amounted to a total of \$49,476 and \$49,115, respectively. A description of the significant accounting policies used in the plans is described in the *Knox County Comprehensive Annual Financial Report (CAFR)* for the fiscal year ended June 30, 2015.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2015 and June 30, 2014

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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 Insurance from outside vendors. The System has had no significant reductions in insurance coverage over the last three years. There have been no settlements in excess of insurance coverage over the last three years.

**NOTE 10: LEASES**

In fiscal year 2013, the System renewed the contract with Ritchie Family Partnership, L.P. (formerly Main Avenue Partnership) for office space rental. The five-year lease term commenced July 1, 2013 and will terminate June 30, 2018. Rent expense for the years ending June 30, 2015 and 2014 were \$61,333 and \$60,226, respectively. Rental expense for fiscal year 2016 is scheduled to be \$61,333, and will be adjusted in years (2) through (5) by the Consumer Price Index.

**SUPPLEMENTARY  
INFORMATION**

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

SCHEDULES OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION - BUDGET TO ACTUAL  
For the Years Ended June 30, 2015 and June 30, 2014

	2015					2014				
	Original Budget	Budget Revisions	Revised Budget	Actual	Variance With Final Budget	Original Budget	Budget Revisions	Revised Budget	Actual	Variance With Final Budget
<b>Revenues</b>										
Operating:										
User Service Fees	\$ 1,290,276	\$ -	\$ 1,290,276	\$ 1,157,994	\$ (132,282)	\$ 1,294,952	\$ -	\$ 1,294,952	\$ 1,296,422	\$ 1,470
Sale of Maps	75,000	-	75,000	83,041	8,041	70,000	-	70,000	88,054	18,054
Nonoperating:										
Metropolitan Planning Commission Subsidy	25,131	-	25,131	25,131	-	-	-	-	22,928	22,928
Emergency Communications District Subsidy	1,400	-	1,400	1,400	-	-	-	-	1,400	1,400
Interest Income	-	-	-	511	511	-	-	-	252	252
Appropriations from Fund Balance	36,635	-	36,635	-	(36,635)	137,239	-	137,239	-	(137,239)
Appropriations from Reserved Fund Balance	-	13,743	13,743	-	(13,743)	-	14,173	14,173	-	(14,173)
<b>Total Revenues</b>	<b>1,428,442</b>	<b>13,743</b>	<b>1,442,185</b>	<b>1,268,077</b>	<b>(174,108)</b>	<b>1,502,191</b>	<b>14,173</b>	<b>1,516,364</b>	<b>1,409,056</b>	<b>(107,308)</b>
<b>Expenses</b>										
Operating:										
Personnel Services	502,377	-	502,377	506,201	(3,824)	503,402	-	503,402	515,341	(11,939)
Employee Benefits	169,582	-	169,582	163,572	6,010	152,804	-	152,804	156,955	(4,151)
Contracted Services	672,000	13,743	685,743	543,753	141,990	718,406	13,343	731,749	753,678	(21,929)
Supplies and Materials	10,400	-	10,400	10,364	36	20,699	-	20,699	13,155	7,544
Workman's Comp	2,000	-	2,000	-	2,000	2,000	-	2,000	1,760	240
Rental	61,333	-	61,333	61,333	-	60,130	-	60,130	60,226	(96)
Depreciation & Insurance	750	-	750	95,712	(94,962)	750	-	750	904,749	(903,999)
Equipment Reserve:										
Contracted Services	-	-	-	-	-	-	-	-	16,200	(16,200)
Supplies and Materials	-	-	-	6,873	(6,873)	-	830	830	4,935	(4,105)
Capital Outlay	10,000	-	10,000	-	10,000	44,000	-	44,000	-	44,000
<b>Total Expenses</b>	<b>1,428,442</b>	<b>13,743</b>	<b>1,442,185</b>	<b>1,387,808</b>	<b>54,377</b>	<b>1,502,191</b>	<b>14,173</b>	<b>1,516,364</b>	<b>2,426,999</b>	<b>(910,635)</b>
<b>(Decrease) Increase in Net Position</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (119,731)</b>	<b>\$ (119,731)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,017,943)</b>	<b>\$ (1,017,943)</b>

## **OTHER INFORMATION**



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

SCHEDULES OF DEDICATED ASSETS (Unaudited)  
For the Years Ended June 30, 2015 and June 30, 2014

2015

Equipment

	Aerial Photography	General Equipment		Total
Dedicated Assets - July 1	\$ -	\$ 36,634	\$	36,634
Dedicated Contributions	-	-		-
Dedicated Expenses and Encumbrances	-	(36,634)		(36,634)
Dedicated Assets - June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$</u>	<u>-</u>

2014

Equipment

	Aerial Photography	General Equipment		Total
Dedicated Assets - July 1	\$ -	\$ 158,394	\$	158,394
Dedicated Contributions	-	-		-
Dedicated Expenses and Encumbrances	-	(121,760)		(121,760)
Dedicated Assets - June 30	<u>\$ -</u>	<u>\$ 36,634</u>	<u>\$</u>	<u>36,634</u>

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

**SCHEDULES OF RECONCILIATION OF AVAILABLE FUNDS (Unaudited)  
June 30, 2015 and June 30, 2014**

	<u>June 30, 2015</u>		<u>June 30, 2014</u>
<b>Current Asset Approach:</b>			
Current Assets	\$ 402,694		\$ 433,140
Current Liabilities	<u>(73,618)</u>		<u>(79,676)</u>
Net Current Assets	329,076		353,464
<i>Less Reserved Current Assets</i>			
Reserve for Encumbrance Prior Year	(14,156)		(13,743)
Noncurrent Compensated Absences Designated	(4,648)		(4,395)
Equipment Reserve	(6,854)		-
	<u>-</u>		<u>(36,634)</u>
	(25,658)		(54,772)
"Available" Current Assets (Deficit)	<u>\$ 303,418</u>		<u>\$ 298,692</u>

	<u>June 30, 2015</u>		<u>June 30, 2014</u>
<b>Equity Approach:</b>			
Total Net Position	\$ 358,902		\$ 478,633
<i>Less Specific Reserves:</i>			
Reserve for Encumbrance Prior Year	14,156		13,743
Designated	6,854		-
Equipment Reserve	<u>-</u>		<u>36,634</u>
	(21,010)		(50,377)
Subtotal	337,892		428,256
<i>Less "Non-Spendable" Funds:</i>			
Net Position invested in Net Fixed Assets	<u>(34,474)</u>		<u>(129,564)</u>
"Undesignated Fund Balance"	<u>\$ 303,418</u>		<u>\$ 298,692</u>

**INTERNAL CONTROL  
AND COMPLIANCE SECTION**

KNOXVILLE OFFICE:  
315 NORTH CEDAR BLUFF ROAD – SUITE  
KNOXVILLE, TENNESSEE 37923  
TELEPHONE 865-769-0660



OAK RIDGE OFFICE:  
800 OAK RIDGE TURNPIKE – SUITE A404  
OAK RIDGE, TENNESSEE 37830  
TELEPHONE 865-769-1657

PUGH & COMPANY, P.C.  
www.pughcpas.com

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Knoxville, Knox County, K.U.B. Geographic Information Systems which comprise the statements of net position as of June 30, 2015 and June 30, 2014, 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 7, 2015.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Knoxville, Knox County, K.U.B. Geographic Information 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 Knoxville, Knox County, K.U.B. Geographic Information System's internal control. Accordingly, we do not express an opinion on the effectiveness of Knoxville, Knox County, K.U.B. Geographic Information System's internal control.

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

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



### **Compliance and Other Matters**

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

### **The Entity's Response to Finding**

The Knoxville, Knox County, K.U.B. Geographic Information System's response to our finding identified in our audit is described in the accompanying schedule of findings and responses. The entity's response was not subject 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 7, 2015

Knoxville, Knox County, K.U.B. Geographic Information System's

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2015

**2015-001 Internal Controls over the Receipting of Funds by the GIS Office**

**Criteria or Specific Requirement** - Receipts were not consistently issued for map sales. Receipts were only issued for cash sales and not for payments made by check. Deposits were not reconciled to receipts issued and monies collected. There was no supervisory review or approval of collections. In addition, cash received was periodically used to replenish the petty cash fund.

**Condition** - This situation creates a lack of accounting for the receipting of map sales. Also there is a lack of segregation of duties where one individual receives the monies, issues receipts and prepares the deposit ticket. In addition, by periodically replenishing petty cash with cash collections there is a lack of accounting for the uses of the petty cash fund.

**Cause and Effect** - There is a lack of segregation of duties and review and supervision of the receipting process with an inadequate accounting for revenues collected and uses of the petty cash fund.

**Recommendation** - We recommend that (a) receipts are issued for all map sales, (b) a daily reconciliation of the total cash and checks collected be compared to the deposit ticket prepared, and (c) that there is supervisory review and approval of the daily reconciliation. In addition, we recommend that the petty cash fund should be replenished after a detail accounting of vendor invoices and receipts has been submitted to the Knox County Finance Department with proper approval for the recording of expenditures.

**Management's Response** - We concur with the auditor's recommendations and has consulted with the Knox County Finance Department regarding their immediate implementation. As of November 18, 2015, KGIS office procedures have been adapted to incorporate each of the above recommendations, including the daily review of receipt logs and cash balances.