



Geographic Information Systems

ANNUAL FINANCIAL STATEMENTS

For the Fiscal Years Ended
JUNE 30, 2016 and 2015



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, 2016 and 2015**

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, 2016

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, 2016 and 2015 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

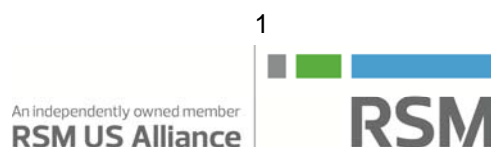
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and 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.



TSCPA
Members of the Tennessee Society
Of Certified Public Accountants

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, 2016 and 2015 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 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 21 2016, 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 21, 2016

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, 2016, 2015 and 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 2016

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

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 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 undesignated net position amount is \$324,428 which may be used to meet the System's ongoing obligations to citizens and creditors.
- 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 operating expenses decreased by \$1,039,191. The expense decrease is primarily due to a decrease in contracted services expense and depreciation.

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 undesignated net position amount is a total of two amounts: \$312,435 may be used to meet the System's ongoing obligations to citizens and creditors, and \$36,634 is designated 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 operating 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 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.

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, 2016, the System's assets exceeded its liabilities by \$678,339 (*net position*). At 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, 2016, the current assets (less current liabilities) amounted to 64 percent of total net position. At June 30, 2015, 92 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, 2014, 73 percent of the System's net position reflected its net current assets. At June 30, 2016, 36 percent of the System's net position are invested in capital assets, which compares to 10 percent for the prior year.

As the following table shows, the System reported an increase in net position of \$319,437 as of the current fiscal year ended June 30, 2016. As previously noted this increase is primarily the result of higher nonoperating revenues. The depreciation expense charged during the current fiscal year was \$33,182.

During the fiscal year ended June 30, 2015, the System reported a decrease in net position of \$119,731. The decrease was primarily the result of lower operating revenues and increased operating expenses. The depreciation expense charged during fiscal year ended June 30, 2015 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.

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

	FYE June 30, 2016	FYE June 30, 2015	FYE June 30, 2014
Assets:			
Current assets	\$ 556,900	\$ 402,694	\$ 433,140
Capital assets, net	245,212	34,474	129,564
Total assets	<u>802,112</u>	<u>437,168</u>	<u>562,704</u>
Liabilities:			
Current liabilities	119,513	73,618	79,676
Long-term liabilities outstanding	4,260	4,648	4,395
Total liabilities	<u>123,773</u>	<u>78,266</u>	<u>84,071</u>
Net position:			
Investment in capital assets	245,212	34,474	129,564
Unrestricted:			
Designated aerial reserve	75,776	-	-
Designated equipment reserve	74,124	-	36,634
Undesignated	283,227	324,428	312,435
Total net position	<u>\$ 678,339</u>	<u>\$ 358,902</u>	<u>\$ 478,633</u>

The next table shows the key elements from ongoing activities that contributed to the increase in net position of \$319,437 during the current fiscal year. Operating revenues, comprised mainly of user service fees and operating reimbursements, increased by \$262,003 in fiscal year 2016, while in fiscal year 2015 they decreased by \$141,238 and in fiscal year 2014 they increased by \$352,317. User service fees increased (decreased) by \$211,449, \$(136,225), and \$334,659 during FY 2016, 2015, and 2014, respectively. The increases and decreases are due to the revenues received from Knoxville, Knox County, and K.U.B. (Knoxville Utilities Board) which is based on the projects for the fiscal year.

Miscellaneous revenue which is comprised of viewer licenses, sale of maps, and sale of IDS cd's increased by \$50,554 in fiscal year 2016 compared to a decrease in fiscal year 2015 of \$5,013, compared to an increase in fiscal year 2014 of \$17,658. The overall increase in the last three fiscal years is due to increased activities in the revenue accounts listed above that make up the miscellaneous revenue total amount. Additionally, interest earnings in fiscal year 2016 were \$2,071 compared to fiscal year 2015 of \$511 resulting in an increase of \$1,560 from increased cash balance.

Expenses for fiscal year 2016 increased by \$8,418 primarily due to an increase in supplies and materials and insurance. 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 2015 and 2014, expenses decreased by \$1,039,191 and \$79,182, respectively, 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, 2016	FYE June 30, 2015	FYE June 30, 2014
Revenues:			
Operating revenues:			
User service fees	\$ 1,395,974	\$ 1,184,525	\$ 1,320,750
Miscellaneous revenue	133,595	83,041	88,054
Total Operating revenues:	<u>1,529,569</u>	<u>1,267,566</u>	<u>1,408,804</u>
Nonoperating revenues:			
Knox County Subsidy	55,860	-	-
City of Knoxville Subsidy	25,270	-	-
Knoxville Utilities Board Subsidy	102,893	-	-
Interest income	2,071	511	252
Total Nonoperating revenues	<u>186,094</u>	<u>511</u>	<u>252</u>
Total revenues	<u>1,715,663</u>	<u>1,268,077</u>	<u>1,409,056</u>
Expenses:			
Operating expenses:			
Personnel services	523,100	506,201	515,342
Employee benefits	177,617	163,572	156,955
Contracted services	519,171	543,753	769,878
Supplies and materials	77,700	17,237	18,089
Office Rent	61,333	61,333	60,226
Insurance	4,123	623	2,454
Depreciation	33,182	95,089	904,055
Total operating expenses	<u>1,396,226</u>	<u>1,387,808</u>	<u>2,426,999</u>
Change in net position	319,437	(119,731)	(1,017,943)
Net Position, Beginning of Year	<u>358,902</u>	<u>478,633</u>	<u>1,496,576</u>
Net Position, End of Year	<u>\$ 678,339</u>	<u>\$ 358,902</u>	<u>\$ 478,633</u>

Budgetary Information

Revenues were more than budget by \$260,189 during fiscal year 2016. Expenses of \$1,396,226 were \$73,404 less than budget of \$1,469,630. 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 \$33,182 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, 2016 amounts to \$245,212 (net of accumulated depreciation). This investment in capital assets includes purchases of communications and office equipment and computer software of \$243,920 during FY 2016. Depreciation expense was \$33,182 for 2016. As of June 30, 2015 and 2014, the System's investment in capital assets amounted to \$34,474 and \$129,564, respectively (net of accumulated depreciation). Depreciation expense was \$95,089 for 2015 and \$904,055 for 2014. 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 \$4,260 compared to \$4,648 at the end of fiscal year 2015. 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 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, 2016 and 2015**

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 463,918	\$ 395,620
Accounts receivable	25,285	220
Prepaid items	67,697	6,854
Total current assets	<u>556,900</u>	<u>402,694</u>
Noncurrent assets:		
Capital Assets (Net of Accumulated Depreciation)	<u>245,212</u>	<u>34,474</u>
Total assets	<u>802,112</u>	<u>437,168</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	20,667	218
Accrued payroll payable	38,006	31,572
Deferred revenue	22,500	-
Compensated absences payable	38,340	41,828
Total current liabilities	<u>119,513</u>	<u>73,618</u>
Noncurrent Liabilities:		
Compensated absences payable	<u>4,260</u>	<u>4,648</u>
Total liabilities	<u>123,773</u>	<u>78,266</u>
NET POSITION		
Investment in capital assets	245,212	34,474
Unrestricted	433,127	324,428
Total Net Position	<u>\$ 678,339</u>	<u>\$ 358,902</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, 2016 and 2015**

	2016	2015
Operating revenues:		
User service fees	\$ 1,395,974	\$ 1,184,525
Miscellaneous revenue	133,595	83,041
	1,529,569	1,267,566
Operating expenses:		
Personnel services	523,100	506,201
Employee benefits	177,617	163,572
Contracted services	519,171	543,753
Supplies and materials	77,700	17,237
Office rent	61,333	61,333
Insurance	4,123	623
Depreciation	33,182	95,089
	1,396,226	1,387,808
Operating income (loss)	133,343	(120,242)
Nonoperating revenues:		
Knox County Subsidy	55,860	-
City of Knoxville Subsidy	25,270	-
Knoxville Utilities Board Subsidy	102,893	-
Interest income	2,071	511
	186,094	511
Change in net position	319,437	(119,731)
Total net position - beginning of year	358,902	478,633
Total net position - end of year	\$ 678,339	\$ 358,902

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, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 1,504,504	\$ 1,460,683
Payments to vendors	(680,221)	(641,784)
Payments to employees	(698,159)	(663,593)
	<u>126,124</u>	<u>155,306</u>
Net cash provided (used) by operating activities		
Cash Flows from NonCapital Financing Activities		
Knox County Subsidy	55,860	-
City of Knoxville Subsidy	25,270	-
Knoxville Utilities Board Subsidy	102,893	-
	<u>184,023</u>	<u>-</u>
Net cash provided by noncapital financing activities		
Cash Flows used in Capital Financing Activities		
Purchase of fixed assets	(243,920)	-
	<u>-</u>	<u>-</u>
Cash Flows from Investing Activities		
Interest received	2,071	511
	<u>2,071</u>	<u>511</u>
Net change in cash and cash equivalents	68,298	155,817
Cash and cash equivalents - beginning of year	395,620	239,803
	<u>395,620</u>	<u>239,803</u>
Cash and cash equivalents - end of year	<u>\$ 463,918</u>	<u>\$ 395,620</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, 2016 and 2015**

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

	<u>2016</u>	<u>2015</u>
Operating income (loss)	\$ 133,343	\$ (120,242)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	33,182	95,089
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(25,065)	193,118
(Increase) decrease in prepaid items	(60,843)	(6,854)
Increase (decrease) in accounts payable	20,449	(11,984)
Increase (decrease) in accrued payroll payable	6,434	3,648
Increase (decrease) in deferred revenue	22,500	-
Increase (decrease) in compensated absences payable	(3,876)	2,531
Net cash provided (used) by operating activities	<u>\$ 126,124</u>	<u>\$ 155,306</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2016 and June 30, 2015

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, Knox County, and the Knoxville Utilities Board 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 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. 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, 2016 and June 30, 2015

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, 2016 and June 30, 2015

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 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

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: 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, 2016, and 2015. The unrestricted net position category includes all other assets that do not meet the definition of "restricted" or "net 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, 2016 and June 30, 2015

NOTE 2: BUDGETARY INFORMATION

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 budget is 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 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.

Accounting principles used in developing data on a budgetary basis differ from those used in preparing 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.

NOTE 3: DEPOSITS

The System's cash and cash equivalents, pooled and managed by the Trustee of Knox County, at June 30, 2016 and June 30, 2015, 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, 2016 and June 30, 2015

NOTE 4: CAPITAL ASSETS

Capital asset activity for the fiscal years ended June 30, 2016 and 2015, was as follows:

<u>2016</u>	Beginning Balance	Increases	Decreases	Ending Balance
Communications and Office Equipment	\$ 991,843	\$ -	\$ -	\$ 991,843
Computer Software	4,276,477	50,626	-	4,327,103
Work in Progress	-	193,294	-	193,294
Total Capital Assets	5,268,320	243,920	-	5,512,240
Less Accumulated Depreciation for:				
Communications and Office Equipment	(957,370)	(16,306)	-	(973,676)
Computer Software	(4,276,476)	(16,876)	-	(4,293,352)
Total Accumulated Depreciation	(5,233,846)	(33,182)	-	(5,267,028)
Total Capital Assets, Net	\$ 34,474	\$ 210,738	\$ -	\$ 245,212
<u>2015</u>				
Communications and Office Equipment	\$ 991,843	\$ -	\$ -	\$ 991,843
Computer Software	4,276,477	-	-	4,276,477
Total Capital Assets	5,268,320	-	-	5,268,320
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	(5,138,756)	(95,090)	-	(5,233,846)
Total Capital Assets, Net	\$ 129,564	\$ (95,090)	\$ -	\$ 34,474

Total outstanding contractual commitments related to the aerial photography as of June 30, 2016, for the Atlantic Group, LLC. is \$176,843.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2016 and June 30, 2015

NOTE 5: COMPENSATED ABSENCES

Compensated absences for the fiscal years ended June 30, 2016 and 2015, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
2016	\$ 46,476	\$ 47,989	\$ 51,865	\$ 42,600	\$ 38,340
2015	\$ 43,945	\$ 44,073	\$ 41,542	\$ 46,476	\$ 41,828

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:

	2016	2015
Designated for equipment reserve	\$ 74,124	\$ -
Designated for aerial reserve	75,776	-
Undesignated	283,227	324,428
Total	\$ 433,127	\$ 324,428

NOTE 7: RELATED PARTY TRANSACTIONS

During the 2016 and 2015 fiscal years, the County provided various administrative functions to the System at a direct cost to the System. The System paid the County \$16,930 and \$15,735 for various administrative services for the 2016 and 2015 years, respectively.

Revenues received from the County, City, and KUB during the year ending June 30, 2016 were \$430,190, \$394,715, and \$727,661, respectively, representing approximately 91 percent of total revenues for 2016. Revenues received from 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.

The amounts due to the System from the City, County, and KUB were \$25,270, \$0, and \$0 at June 30, 2016, respectively. There were no amounts due to the System from the County, City, and KUB at June 30, 2015.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2016 and June 30, 2015

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. 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 match 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 match starting at 2% and staggered up to a maximum additional 6% for those with 15 years or more service.

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.

C. Contributions

As of June 30, 2016, there were seven active plan members employed by the System. During the 2016 fiscal year, the employer and member contributions for the defined contribution and 457 plans amounted to a total of \$57,317 and \$56,752, respectively. 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.

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, 2016.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2016 and June 30, 2015

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 2013, 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, 2013 and will terminate June 30, 2018. Rent expense for the years ending June 30, 2016 and 2015 was \$61,333 and \$61,333, respectively. Rental expense for fiscal year 2017 is scheduled to be \$62,366.

**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, 2016 and 2015**

	2016					2015				
	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	\$ 1,395,974	\$ -	\$ 1,395,974	\$ 1,395,974	\$ -	\$ 1,316,807	\$ -	\$ 1,316,807	\$ 1,184,525	\$ (132,282)
Sale of Maps	59,500	-	59,500	133,595	74,095	75,000	-	75,000	83,041	8,041
Nonoperating:										
Knox County Subsidy	-	-	-	55,860	55,860	-	-	-	-	-
City of Knoxville Subsidy	-	-	-	25,270	25,270	-	-	-	-	-
Knoxville Utilities Board Subsidy	-	-	-	102,893	102,893	-	-	-	-	-
Interest Income	-	-	-	2,071	2,071	-	-	-	511	511
Appropriations from Fund Balance	-	-	-	-	-	36,635	-	36,635	-	(36,635)
Appropriations from Reserved Fund Balance	-	-	-	-	-	-	13,743	13,743	-	(13,743)
Total Revenues	1,455,474	-	1,455,474	1,715,663	260,189	1,428,442	13,743	1,442,185	1,268,077	(174,108)
Expenses										
Operating:										
Personnel Services	517,963	-	517,963	523,100	(5,137)	502,377	-	502,377	506,201	(3,824)
Employee Benefits	181,205	-	181,205	177,617	3,588	169,582	-	169,582	163,572	6,010
Contracted Services	609,571	14,156	623,727	519,171	104,556	672,000	13,743	685,743	543,753	141,990
Supplies and Materials	21,312	-	21,312	18,229	3,083	10,400	-	10,400	10,364	36
Workman's Comp	2,000	-	2,000	3,336	(1,336)	2,000	-	2,000	-	2,000
Office Rent	63,173	-	63,173	61,333	1,840	61,333	-	61,333	61,333	-
Depreciation	-	-	-	33,182	(33,182)	-	-	-	95,089	(95,089)
Insurance	750	-	750	787	(37)	750	-	750	623	127
Equipment Reserve:										
Supplies and Materials	-	-	-	59,471	(59,471)	-	-	-	6,873	(6,873)
Capital Outlay	59,500	-	59,500	-	59,500	10,000	-	10,000	-	10,000
Total Expenses	1,455,474	14,156	1,469,630	1,396,226	73,404	1,428,442	13,743	1,442,185	1,387,808	54,377
(Decrease) Increase in Net Position	\$ -	\$ (14,156)	\$ (14,156)	\$ 319,437	\$ 333,593	\$ -	\$ -	\$ -	\$ (119,731)	\$ (119,731)

OTHER INFORMATION

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

**SCHEDULES OF DEDICATED ASSETS (Unaudited)
For the Years Ended June 30, 2016 and 2015**

2016

Equipment

	Aerial Photography	General Equipment	Total
Dedicated Assets - July 1	\$ -	\$ -	\$ -
Dedicated Contributions	269,070	133,595	402,665
Dedicated Expenses	(193,294)	(59,471)	(252,765)
Dedicated Assets - June 30	<u>\$ 75,776</u>	<u>\$ 74,124</u>	<u>\$ 149,900</u>

2015

Equipment

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

**INTERNAL CONTROL
AND COMPLIANCE SECTION**

KNOXVILLE OFFICE:
315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660



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

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 (the "System") which comprise the statements of net position as of June 30, 2016 and June 30, 2015, 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 21, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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 2016-001 that we consider to be a significant deficiency.



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Compliance and Other Matters

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

The System's Response to Finding

The 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 it.

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 21, 2016

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

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2016

2016-001 Internal Controls over the Approval of Expenditures and Vendor Invoices

Criteria or Specific Requirement - During FY 2016, the Executive Director delegated approval of all expenditures and vendors invoices, except for travel and e-card purchases, to the Office Manager.

Condition - This process creates a situation where one person has the authority to (a) initiate a request for vendor payment and (b) approve expenditures for payment without supervisory review and approval.

Cause and Effect - There is a lack of segregation of duties and review and supervision of the approval of expenditures of vendor invoices for payment.

Recommendation - We recommend that two different personnel be involved in (a) the initiation and request for vendor payment and (b) the review and approval for payment of all expenditures including vendor invoices submitted to the Knox County Finance Department for payment.

Management's Response - We concur with the auditor's recommendations and have consulted with the Knox County Finance Department regarding their immediate implementation. As of December 15, 2016, KGIS office procedures have been adapted to incorporate each of the above recommendations, including the review and approval of all expenditures and requests for vendor payments by the Executive Director, or, when necessary, by the Deputy to the Executive Director. Such review and approval shall be accompanied by signature on each Check Request Form that is submitted to Knox County Finance.

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

SCHEDULE OF DISPOSITION OF PRIOR YEAR FINDINGS

For the Year Ended June 30, 2016

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

Current Year Status – This finding has been corrected during the fiscal year ended June 30, 2016.