



Geographic Information Systems



**Financial Statements
June 30, 2009 and June 30, 2008**

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

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

FINANCIAL STATEMENTS

June 30, 2009 and June 30, 2008

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

FINANCIAL STATEMENTS
June 30, 2009 and June 30, 2008

Contents

	<u>Page Number</u>
Introductory Section	
Policy Board	i
Financial Section	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements:	
Comparative Statements of Net Assets	9-10
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets	11
Comparative Statements of Cash Flows	12-13
Notes to the Financial Statements	14-22
Supplementary Information	
Comparative Schedules of Revenues and Expenses and Changes in Net Assets – Budget to Actual (Unaudited)	23
Comparative Schedules of Dedicated Assets (Unaudited)	24
Comparative Schedules of Reconciliation of Available Funds (Unaudited)	25
Internal Control and Compliance Section	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26-27

**INTRODUCTORY
SECTION**

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

POLICY BOARD

June 30, 2009

Bill Haslam, Mayor of the City of Knoxville

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

Michael Ragsdale, Knox County Mayor

FINANCIAL SECTION



KPMG LLP
401 Commerce Street, Suite 1000
Nashville, TN 37219-2422

Independent Auditor's Report

The Board of Directors
Knoxville, Knox County, K.U.B. Geographic Information Systems:

We have audited the accompanying financial statements of the Knoxville, Knox County, K.U.B. Geographic Information Systems (the System), as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the System's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Knoxville, Knox County, K.U.B. Geographic Information Systems as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2009 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The information in the management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The information in the introductory and supplementary information sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

December 18, 2009

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, 2009 and June 30, 2008. 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 2009

- The assets of the System exceeded its liabilities at the close of the most recent fiscal year by \$4,697,216 (*net assets*). Of this amount, \$1,542,349 is unrestricted. The unrestricted net assets amount is a total of five amounts: \$405,285 may be used to meet the System's ongoing obligations to citizens and creditors, while \$17,000 is designated for prior year encumbrances, \$11,249 is designated for prepaid items, \$671,619 is designated for the aerial reserve, and \$437,196 is designated for the equipment reserve.
- The System's total net assets were increased by \$901,556. The increase is primarily due to capitalizing costs from the System's remapping project.
- The System's total liabilities were increased by \$19,525. This increase is primarily due to an increase in accounts payable.
- The System's cash and cash equivalents increased by \$136,225. This increase is primarily due to the completion of the System's software upgrade project during fiscal year 2009, which led to actual payments made under the contract to decrease as compared to fiscal year 2008.
- The System's total revenue decreased \$367,333. This decrease is primarily due to decreased non-operating revenues.
- The System's expenses were decreased by \$42,104. The expense decrease is primarily due to a decrease in contractual services and depreciation.

POLICY BOARD

Bill Haslam, Mayor, City of Knoxville; **Mintha Roach**, President, KUB; **Mike Ragsdale**, Mayor, Knox County

Financial Highlights for Fiscal Year 2008

- The assets of the System exceeded its liabilities at the close of the most recent fiscal year by \$3,795,660 (*net assets*). Of this amount, \$1,442,205 is unrestricted. The unrestricted net assets amount is a total of six amounts: \$348,555 may be used to meet the System's ongoing obligations to citizens and creditors, while \$429,903 is designated for prior year encumbrances, \$4,046 is designated for appropriation, \$23,401 is designated for prepaid items, \$428,434 is designated for the aerial reserve, and \$207,866 is designated for the equipment reserve.
- The System's total net assets were increased by \$1,226,785. The increase is primarily due to capitalizing costs from the System's remapping project.
- The System's total liabilities were decreased by \$23,292. This decrease is primarily due to a decrease in accounts payable.
- The System's cash and cash equivalents decreased by \$318,083. This decrease is primarily due to payments to the vendors for the System's remapping project.
- The System's total revenue increased \$439,241. This increase is primarily due to increased non-operating revenues from the City of Knoxville Subsidy.
- The System's expenses were increased by \$171,741. The expense increase is primarily due to increases in personnel costs and contractual services.

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

The Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets presents information showing how the System's net assets changed during the last two fiscal years. All changes in net assets 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 Comparative Statements of Cash Flows presents information on the actual cash inflows and outflows resulting from the various operating, financing, capital, and investing activities of the System for the last two fiscal years.

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 14 - 22 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the System's budgetary compliance and variances from the original budget and final amended budget. This supplementary information can be found on pages 23 - 25 of this report.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the System's financial position. As of June 30, 2009, the System's assets exceeded its liabilities by \$4,697,216 (*net assets*). At June 30, 2008, the System's assets exceeded its liabilities by \$3,795,660 (*net assets*). At June 30, 2008, the minority of the System's net assets reflected its current assets (e.g., cash and cash equivalents, accounts receivable and due from other governments). Those current assets (less current liabilities) amounted to 38 percent of total net assets. At June 30, 2009, the current assets (less current liabilities) amount to 33 percent of total net assets. This decrease is due to the increase in capital assets due to the remapping projects in the current year. At June 30, 2009, 67 percent of the System's net assets are invested in capital assets, which compares to 62 percent for the prior year.

The remaining balance of *undesignated net assets* (\$405,285) may be used to meet the System's ongoing obligations to citizens and creditors, which compared to \$348,555 for the prior year.

As the following table shows, the System reported an increase in net assets of \$901,556 as of the current fiscal year ended June 30, 2009. As previously noted this increase is primarily the result of capitalized costs from the System's remapping project, and the reason for the increase in capital assets. The capital assets in work in progress totaling \$319,353 are not being depreciated until the completion of the project. The depreciation expense charged during the current fiscal year was \$3,674.

During the fiscal year ended June 30, 2008, the System reported an increase in net assets of \$1,226,785. This increase was primarily the result of capitalized costs from the System's software upgrade project, and increased deposits into the Equipment Reserve account. The increase in capital assets was due to the System's capitalized costs from the

System's software upgrade. The depreciation expense charged during fiscal year ended June 30, 2008 was \$12,643.

**Knoxville, Knox County, K.U.B.
Geographic Information Systems
Net Assets**

	FYE June 30, 2009	FYE June 30, 2008	FYE June 30, 2007
Assets:			
Current and other assets	\$ 1,698,920	\$ 1,579,251	\$ 1,803,648
Capital assets, net	3,154,867	2,353,455	925,565
Total assets	<u>\$ 4,853,787</u>	<u>\$ 3,932,706</u>	<u>\$ 2,729,213</u>
Liabilities:			
Long-term liabilities outstanding	\$ 4,132	\$ 3,799	\$ 3,141
Other liabilities	152,439	133,247	157,197
Total liabilities	<u>156,571</u>	<u>137,046</u>	<u>160,338</u>
Net assets:			
Invested in capital assets	3,154,867	2,353,455	925,565
Unrestricted:			
Designated prior year encumbrances	17,000	429,903	299,800
Designated for appropriation	-	4,046	-
Designated for prepaid items	11,249	23,401	-
Designated aerial reserve	671,619	428,434	352,334
Designated equipment reserve	437,196	207,866	909,792
Undesignated	405,285	348,555	81,384
Total net assets	<u>4,697,216</u>	<u>3,795,660</u>	<u>2,568,875</u>
	<u>\$ 4,853,787</u>	<u>\$ 3,932,706</u>	<u>\$ 2,729,213</u>

The next table shows the key elements from ongoing activities that contributed to the increase in net assets of \$901,556 during the current fiscal year. Operating revenues, comprised mainly of user service fees and operating reimbursements, decreased by \$98,736 in fiscal year 2009, while in fiscal year 2008 they increased by \$47,463. User service fees decreased by \$106,629 in fiscal year 2009 primarily due to a decrease in revenues from Knoxville, Knox County, and K.U.B (Knoxville Utilities Board). In fiscal year 2008, user service fees increased by \$261,142. Miscellaneous revenue which is comprised of viewer licenses, sale of maps, and sale of IDS cd's increased by \$7,893 in fiscal year 2009 compared to a decrease in fiscal year 2008 of \$213,679. This increase was due to increased activities in the revenue account of sale of maps. Additionally, interest earnings in fiscal year 2009 were \$25,022 compared to fiscal year 2008 of \$80,338 resulting in a decrease of \$55,316 from lower rates.

Expenses for fiscal year 2009 decreased by \$42,104 primarily due to a decrease in contractual services and depreciation. During fiscal year 2008, expenses increased by \$171,741 over fiscal year 2007 primarily due to additional personnel costs and an increase in contractual services.

**Knoxville, Knox County, K.U.B.
Geographic Information Systems
Changes in Net Assets**

	FYE <u>June 30, 2009</u>	FYE <u>June 30, 2008</u>	FYE <u>June 30, 2007</u>
Revenues:			
Operating revenues:			
User service fees	\$ 840,605	\$ 947,234	\$ 686,092
Miscellaneous revenue	153,919	146,026	359,705
Nonoperating revenues:			
Knox County Subsidy	258,342	368,043	246,000
City of Knoxville Subsidy	209,562	367,129	177,000
Knoxville Utilities Board Subsidy	333,391	262,187	237,000
Metropolitan Planning Commission Subsidy	47,261	64,478	-
Interest income	25,022	80,338	90,397
Total revenues	<u>1,868,102</u>	<u>2,235,435</u>	<u>1,796,194</u>
Expenses:			
Operating expenses - cost of sales and services:			
Personnel services	525,753	516,174	491,404
Employee benefits	146,178	136,839	108,500
Contracted services	186,801	249,319	133,082
Supplies and materials	29,898	26,391	24,353
Rental	64,937	64,373	62,742
Insurance	9,305	2,911	2,749
Depreciation	3,674	12,643	14,079
Total expenses - cost of sales and services	<u>966,546</u>	<u>1,008,650</u>	<u>836,909</u>
Increase in net assets	901,556	1,226,785	959,285
Net assets July 1	3,795,660	2,568,875	1,609,590
Net assets June 30	<u>\$ 4,697,216</u>	<u>\$ 3,795,660</u>	<u>\$ 2,568,875</u>

Budgetary Information

There were some budget amendments for the fiscal year 2009 outside of the planned appropriation of fund balances of \$433,949. Revenues were less than budget by \$981,702. Expenses of \$966,546 were \$1,883,258 less than budget of \$2,849,804. This is primarily due to \$729,057 in Equipment Reserve and \$509,937 in Aerial Reserve which were unspent. This is a timing difference, and as the mapping projects progresses, the spending will occur and the reserves will be used. The Comparative Schedules of Revenues and Expenses and Changes in Net Assets – Budget to Actual (Budget Basis) (Unaudited), which is found in the supplementary information section of this report on page 23, details the original budget, budget amendments, amended budget, and actual revenues and expenses, as well as the variances from the final amended budget.

Capital Assets and Debt Administration

Capital Assets. The System's investment in capital assets as of June 30, 2009 amounts to \$3,154,867 (net of accumulated depreciation). This investment in capital assets includes communications and office equipment and computer software and the costs associated with the progress of the mapping projects. Depreciation on the System's capital assets was \$3,674 for 2009. As of June 30, 2008, the System's investment in capital assets amounted to \$2,353,455 (net of accumulated depreciation). The System's total capital assets during the fiscal year 2008 increased by \$1,427,890 due to costs associated with the progress of the mapping projects offset by depreciation. The System's software upgrade project was completed and in service during the fiscal year 2009.

Long-term Liabilities. At the end of the current fiscal year, the System's long-term liabilities consisted of compensated absences payable of \$4,132 compared to \$3,799 at the end of fiscal year 2008.

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**

**COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2009 and June 30, 2008**

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,537,175	\$ 1,400,950
Accounts receivable	150,496	154,900
Prepaid items	11,249	23,401
Total current assets	<u>1,698,920</u>	<u>1,579,251</u>
Noncurrent assets:		
Capital assets:		
Work in progress	<u>319,353</u>	<u>2,348,890</u>
Communications and office equipment	742,132	742,132
Computer software	<u>2,848,579</u>	<u>13,956</u>
	3,590,711	756,088
Less: accumulated depreciation	<u>(755,197)</u>	<u>(751,523)</u>
	<u>2,835,514</u>	<u>4,565</u>
Total capital assets, net	<u>3,154,867</u>	<u>2,353,455</u>
Total assets	<u>\$ 4,853,787</u>	<u>\$ 3,932,706</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**

**COMPARATIVE STATEMENTS OF NET ASSETS (Continued)
June 30, 2009 and June 30, 2008**

	<u>2009</u>	<u>2008</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 97,756	\$ 73,854
Accrued payroll payable	17,496	15,438
Deferred revenue	-	9,768
Compensated absences payable	37,187	34,187
Total current liabilities	<u>152,439</u>	<u>133,247</u>
Noncurrent Liabilities:		
Compensated absences payable	4,132	3,799
Total liabilities	<u>156,571</u>	<u>137,046</u>
NET ASSETS		
Invested in capital assets	3,154,867	2,353,455
Unrestricted	1,542,349	1,442,205
Total net assets	<u>4,697,216</u>	<u>3,795,660</u>
	<u>\$ 4,853,787</u>	<u>\$ 3,932,706</u>

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

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

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
For the Years Ended June 30, 2009 and June 30, 2008**

	<u>2009</u>	<u>2008</u>
Operating revenues:		
User service fees	\$ 840,605	\$ 947,234
Miscellaneous revenue	153,919	146,026
Total operating revenues	<u>994,524</u>	<u>1,093,260</u>
Operating expenses:		
Personnel services	525,753	516,174
Employee benefits	146,178	136,839
Contracted services	186,801	249,319
Supplies and materials	29,898	26,391
Rental	64,937	64,373
Insurance	9,305	2,911
Depreciation	3,674	12,643
Total operating expenses	<u>966,546</u>	<u>1,008,650</u>
Operating gain	<u>27,978</u>	<u>84,610</u>
Nonoperating revenues:		
Knox County Subsidy	258,342	368,043
City of Knoxville Subsidy	209,562	367,129
Knoxville Utilities Board Subsidy	333,391	262,187
Metropolitan Planning Commission Subsidy	47,261	64,478
Interest income	25,022	80,338
Total nonoperating revenues	<u>873,578</u>	<u>1,142,175</u>
Change in net assets	901,556	1,226,785
Total net assets - beginning	<u>3,795,660</u>	<u>2,568,875</u>
Total net assets - ending	<u>\$ 4,697,216</u>	<u>\$ 3,795,660</u>

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

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

**COMPARATIVE STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2009 and June 30, 2008**

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 989,160	\$ 1,027,379
Payments to vendors	(254,887)	(401,921)
Payments to employees	(666,540)	(645,183)
Net cash provided (used) by operating activities	<u>67,733</u>	<u>(19,725)</u>
Cash Flows from NonCapital Financing Activities		
Knox County Subsidy	258,342	368,043
City of Knoxville Subsidy	209,562	367,129
Knoxville Utilities Board Subsidy	333,391	262,187
Metropolitan Planning Commission Subsidy	<u>47,261</u>	<u>64,478</u>
Net cash provided by noncapital financing activities	848,556	1,061,837
Cash Flows used in Capital Financing Activities		
Purchase of fixed assets	<u>(805,086)</u>	<u>(1,440,533)</u>
Cash Flows from Investing Activities		
Interest received	<u>25,022</u>	<u>80,338</u>
Net change in cash and cash equivalents	136,225	(318,083)
Cash and cash equivalents - beginning of year	<u>1,400,950</u>	<u>1,719,033</u>
Cash and cash equivalents - end of year	<u>\$ 1,537,175</u>	<u>\$ 1,400,950</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**

**COMPARATIVE STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended June 30, 2009 and June 30, 2008**

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

	<u>2009</u>	<u>2008</u>
Operating gain	\$ 27,978	\$ 84,610
Adjustments to reconcile operating gain to net cash provided (used) by operating activities:		
Depreciation and amortization	3,674	12,643
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	4,404	(75,649)
(Increase) decrease in prepaid items	12,152	(18,037)
Increase (decrease) in accounts payable	23,902	(40,890)
Increase (decrease) in accrued payroll payable	2,058	1,255
Increase (decrease) in deferred revenue	(9,768)	9,768
Increase (decrease) in compensated absences payable	3,333	6,575
Net cash provided (used) by operating activities	<u>\$ 67,733</u>	<u>\$ (19,725)</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Knoxville, Knox County, Knoxville Utilities Board (K.U.B.) Geographic Information System (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.

The System applies Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The System has elected not to adopt the Financial Accounting Standards Board statements and interpretations issued after November 30, 1989, in accordance with Governmental Accounting Standards Board Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*".

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.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Net Assets

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.

Tennessee Code Annotated Section 5-8-201 requires financial institutions to secure the System's deposits by pledging governmental securities as collateral. The market value of the pledged securities must equal at least 105 percent of the average daily balance of deposits.

2. Receivables and Payables

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

3. Prepaid Items

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

4. Capital Assets

Capital assets, which include computer software and communication and office equipment, are defined as assets with an initial, individual cost of more than \$5,000 (amount not rounded). 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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

4. Capital Assets (Continued)

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.

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.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

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 revenues 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>2009</u>	<u>2008</u>
Dedicated Assets, Beginning of Year	\$ 636,300	\$ 1,262,126
Dedicated Contributions	900,556	1,065,687
Dedicated Expenses	(834,280)	(1,537,027)
Interest Earned on Dedicated Assets	4,375	48,948
Reverse (Reserve) Prior Year Encumbrance	<u>401,864</u>	<u>(203,434)</u>
Dedicated Assets, End of Year	<u>\$ 1,108,815</u>	<u>\$ 636,300</u>

NOTE 3: DEPOSITS AND INVESTMENTS

The System's cash and cash equivalents, pooled and managed by the Trustee of Knox County, at June 30, 2009 and June 30, 2008, 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. 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, 2009 and 2008

NOTE 4: COMMITMENTS AND CONTINGENCIES

In fiscal year 2007, the System entered into a three year contract with Sanborn, Inc. for re-mapping of the County at a cost of \$576,045, with the option to extend to a six-year term at an additional cost of \$587,110. Actual payments made to Sanborn, Inc., for fiscal year 2009 were \$319,353, and for fiscal year 2008 were \$96,494.

The following schedule shows the remaining estimated installments to be made by KGIS over the estimated 3 year period.

	<u>Estimated Cost:</u>
Fiscal Year 2010	236,100
Fiscal Year 2011	171,000
Fiscal Year 2012	<u>180,000</u>
Total remaining estimated cost	<u>\$ 587,100</u>

In fiscal year 2006, the System's Policy Board approved to commit to a five year contract with CH2M Hill to upgrade the current software used by the System to meet the long term needs of Knox County, the City of Knoxville, and the Knoxville Utilities Board. The total estimated cost of this contract is \$2,927,118 with an option to purchase additional software at a flat fee. The contract will be executed on an annual basis.

The following schedule shows the remaining estimated installments to be made by KGIS over the last estimated period:

	<u>Estimated Cost:</u>
Fiscal Year 2010	<u>\$ 157,128</u>

Actual payments made under the CH2M Hill contract during fiscal year 2009 were \$266,624, and for fiscal year 2008 were \$1,436,596.

NOTE 5: DEFERRED COMPENSATION PLAN

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 6: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Work in Progress	\$ 2,348,890	\$ 319,353	\$ (2,348,890)	\$ 319,353
Communications and office equipment	742,132	-	-	742,132
Computer software	13,956	2,834,623	-	2,848,579
Total capital assets	<u>3,104,978</u>	<u>3,153,976</u>	<u>(2,348,890)</u>	<u>3,910,064</u>
Less accumulated depreciation for:				
Communications and office equipment	(737,567)	(3,674)	-	(741,241)
Computer software	(13,956)	-	-	(13,956)
Total accumulated depreciation	<u>(751,523)</u>	<u>(3,674)</u>	<u>-</u>	<u>(755,197)</u>
Total capital assets, net	<u>\$ 2,353,455</u>	<u>\$ 3,150,302</u>	<u>\$ (2,348,890)</u>	<u>\$ 3,154,867</u>

Capital asset activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Work in Progress	\$ 908,357	\$ 1,440,533	\$ -	\$ 2,348,890
Communications and office equipment	742,132	-	-	742,132
Computer software	13,956	-	-	13,956
Total capital assets	<u>1,664,445</u>	<u>1,440,533</u>	<u>-</u>	<u>3,104,978</u>
Less accumulated depreciation for:				
Communications and office equipment	(724,924)	(12,643)	-	(737,567)
Computer software	(13,956)	-	-	(13,956)
Total accumulated depreciation	<u>(738,880)</u>	<u>(12,643)</u>	<u>-</u>	<u>(751,523)</u>
Total capital assets, net	<u>\$ 925,565</u>	<u>\$ 1,427,890</u>	<u>\$ -</u>	<u>\$ 2,353,455</u>

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 7: LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	\$ 37,986	\$ 4,497	\$ 1,164	\$ 41,319	\$ 37,187

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	\$ 31,411	\$ 7,557	\$ 982	\$ 37,986	\$ 34,187

NOTE 8: NET ASSETS

The unrestricted net assets for the year ended June 30, reported on the Comparative Statements of Net Assets are comprised of the following amounts:

	2009	2008
Designated for prior year encumbrance	\$ 17,000	\$ 429,903
Designated for appropriation	-	4,046
Designated for prepaid items	11,249	23,401
Designated for equipment reserve	437,196	207,866
Designated for aerial reserve	671,619	428,434
Undesignated	405,285	348,555
	<u>\$ 1,542,349</u>	<u>\$ 1,442,205</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 9: RELATED PARTY TRANSACTIONS

In the 2009 and 2008 years, the County provided various administrative functions to the System at a direct cost to the System. The System paid the County \$16,598 and \$15,191 for various administrative services for the 2009 and 2008 years, respectively.

Revenues paid by the County, City, and KUB during the year ending June 30, 2009 were \$537,257, \$465,548, and \$638,688, respectively, representing approximately 88 percent of total revenues for the 2009 year. Revenues paid by the County, City, and KUB during the year ending June 30, 2008 were \$627,880, \$681,580 and \$634,420, respectively, representing approximately 87 percent of total revenues for the 2008 year.

The amounts due to the System from the City, County, and KUB for the fiscal year 2009 are \$48,691, \$53,023, and \$47,417 respectively. The amounts due to the System from the City, County, and KUB were \$43,316, \$51,850, and \$57,298 for the fiscal year 2008.

NOTE 10: RETIREMENT PLANS

Certain employees of the System are allowed to individually participate in the Knox County defined contribution plan (asset accumulation plan). The plan covers full-time System employees. Plan benefits depend solely on amounts contributed to the plan plus investment earnings. System employees are eligible to participate from their employment date. Employees may contribute up to fifteen percent of compensation and the System will match these contributions up to six percent of compensation. During the 2009 fiscal year, the employer and member contributions amounted to \$44,879 and \$43,710, respectively. During the 2008 fiscal year, the employer and member contributions amounted to \$43,710 and \$29,424, respectively. The System's contributions to the plan vest at twenty percent per year and are fully vested after five years. A description of the significant accounting policies used in the plan is described in the *Knox County Comprehensive Annual Financial Report (CAFR)* for the fiscal year ended June 30, 2009.

NOTE 11: RISK FINANCING

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The System purchased General Liability, Workers Compensation, and Property Insurance from outside vendors. Liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation and recent claim settlements.

During the 2009 and 2008 fiscal years, no charges or liabilities have been established for the System. Settlements have not exceeded coverage in the past three fiscal years.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 12: LEASES

In fiscal year 2008, 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, 2008 and will terminate May 30, 2013. Rent expense for the years ending June 30, 2009 and 2008 were \$64,937 and \$64,373, respectively. Rental expense for fiscal year 2010 will be \$64,938, 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

COMPARATIVE SCHEDULES OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS - BUDGET TO ACTUAL (Unaudited)
For the Years Ended June 30, 2009 and June 30, 2008

	2009					2008				
	Original Budget	Budget Revisions	Revised Budget	Actual	Variance Favorable (Unfavorable)	Original Budget	Budget Revisions	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues										
Operating:										
User Service Fees	\$ 1,446,529	-	1,446,529	\$ 840,605	\$ (605,924)	\$ 1,601,315	-	1,601,315	\$ 947,234	\$ (654,081)
Viewer License Revenue	-	-	-	-	-	-	-	-	1,356	1,356
Sale of Maps	120,000	-	120,000	151,919	31,919	60,000	-	60,000	139,620	79,620
Sale of IDS Cd's	-	-	-	2,000	2,000	-	-	-	5,050	5,050
Nonoperating:										
Knox County Subsidy	258,342	-	258,342	258,342	-	368,043	-	368,043	368,043	-
City of Knoxville Subsidy	204,340	-	204,340	209,562	5,222	367,129	-	367,129	367,129	-
Knoxville Utilities Board Subsidy	333,391	-	333,391	333,391	-	262,187	-	262,187	262,187	-
Metropolitan Planning Commission Subsidy	22,035	-	22,035	47,261	25,226	89,676	-	89,676	64,478	(25,198)
Interest Income	-	-	-	25,022	25,022	-	-	-	80,338	80,338
Appropriations from Fund Balance	31,218	15,086	46,304	-	(46,304)	549,314	-	549,314	-	(549,314)
Appropriations from Designated Fund Balance	-	418,863	418,863	-	(418,863)	-	299,800	299,800	-	(299,800)
Total Revenues	2,415,855	433,949	2,849,804	1,868,102	(981,702)	3,297,664	299,800	3,597,464	2,235,435	(1,362,029)
Expenses										
Operating:										
Personnel Services	546,224	(9,892)	536,332	525,753	10,579	515,886	414	516,300	516,174	126
Employee Benefits	151,780	-	151,780	146,178	5,602	123,469	13,380	136,849	136,839	10
Contracted Services	151,495	14,202	165,697	157,606	8,091	175,728	(3,191)	172,537	152,825	19,712
Supplies and Materials	30,284	-	30,284	29,898	386	30,476	-	30,476	26,391	4,085
Workman's Comp	2,500	-	2,500	1,873	627	2,500	-	2,500	2,059	441
Rental	64,938	10,776	75,714	64,937	10,777	64,938	62,742	127,680	64,373	63,307
Depreciation & Insurance	619,308	-	619,308	11,106	608,202	837,995	-	837,995	13,495	824,500
Equipment Reserve:										
Contracted Services	609,326	108,926	718,252	29,195	689,057	1,216,672	41,025	1,257,697	-	1,257,697
Supplies and Materials	40,000	-	40,000	-	40,000	80,000	(30,000)	50,000	-	50,000
Aerial Reserve:										
Contracted Services	200,000	309,937	509,937	-	509,937	250,000	215,430	465,430	96,494	368,936
Total Expenses	2,415,855	433,949	2,849,804	966,546	1,883,258	3,297,664	299,800	3,597,464	1,008,650	2,588,814
Increase in Net Assets	\$ -	\$ -	\$ -	\$ 901,556	\$ 901,556	\$ -	\$ -	\$ -	\$ 1,226,785	\$ 1,226,785

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

COMPARATIVE SCHEDULES OF DEDICATED ASSETS (Unaudited)
For the Years Ended June 30, 2009 and June 30, 2008

2009

Equipment

	Aerial Photography	General Equipment	Total
Dedicated Assets - July 1	\$ 428,434	\$ 207,866	\$ 636,300
Dedicated Contributions	250,000	648,556	898,556
Dedicated Expenses and Encumbrances	(319,353)	(514,927)	(834,280)
IDS CD's Revenue Contribution	-	2,000	2,000
Interest Earned	2,601	1,774	4,375
Reverse Reserve Prior Year Encumbrance	309,937	108,927	418,864
Reserve Prior Year Encumbrance	-	(17,000)	(17,000)
Dedicated Assets - June 30	<u>\$ 671,619</u>	<u>\$ 437,196</u>	<u>\$ 1,108,815</u>

2008

Equipment

	Aerial Photography	General Equipment	Total
Dedicated Assets - July 1	\$ 352,334	\$ 909,792	\$ 1,262,126
Dedicated Contributions	250,000	811,837	1,061,837
Dedicated Expenses and Encumbrances	(96,493)	(1,440,534)	(1,537,027)
IDS CD's Revenue Contribution	-	3,850	3,850
Interest Earned	17,100	31,848	48,948
Reverse Reserve Prior Year Encumbrance	215,430	-	215,430
Reserve Prior Year Encumbrance	(309,937)	(108,927)	(418,864)
Dedicated Assets - June 30	<u>\$ 428,434</u>	<u>\$ 207,866</u>	<u>\$ 636,300</u>

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

**COMPARATIVE SCHEDULES OF RECONCILIATION OF AVAILABLE FUNDS (Unaudited)
June 30, 2009 and June 30, 2008**

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Current Asset Approach:		
Current Assets	\$ 1,698,920	\$ 1,579,251
Current Liabilities	<u>(152,439)</u>	<u>(133,247)</u>
Net Current Assets	1,546,481	1,446,004
<i>Less Reserved Current Assets</i>		
Reserve for Encumbrance Prior Year	(17,000)	(429,903)
Noncurrent Compensated Absences	(4,132)	(3,799)
Designated	(11,249)	(27,447)
Aerial Reserve	(671,619)	(428,434)
Equipment Reserve	<u>(437,196)</u>	<u>(207,866)</u>
	(1,141,196)	(1,097,449)
"Available" Current Assets	<u>\$ 405,285</u>	<u>\$ 348,555</u>
<hr/>		
	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Equity Approach:		
Total Net Assets	\$ 4,697,216	\$ 3,795,660
<i>Less Specific Reserves:</i>		
Reserve for Encumbrance Prior Year	17,000	429,903
Designated	11,249	27,447
Aerial Reserve	671,619	428,434
Equipment Reserve	<u>437,196</u>	<u>207,866</u>
	(1,137,064)	(1,093,650)
Subtotal	3,560,152	2,702,010
<i>Less "Non-Spendable" Funds:</i>		
Net Assets invested in Net Fixed Assets	<u>(3,154,867)</u>	<u>(2,353,455)</u>
"Undesignated Fund Balance"	<u>\$ 405,285</u>	<u>\$ 348,555</u>

**INTERNAL CONTROL
AND COMPLIANCE SECTION**



KPMG LLP
401 Commerce Street, Suite 1000
Nashville, TN 37219-2422

**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***

The Board of Directors
Knoxville, Knox County, K.U.B. Geographic Information Systems:

We have audited the financial statements of Knoxville, Knox County, K.U.B. Geographic Information Systems (the System), as of and for the year ended June 30, 2009, and have issued our report thereon dated December 18, 2009. We conducted our audit 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of 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*.



This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 18, 2009