

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

FINANCIAL STATEMENTS

June 30, 2011 and June 30, 2010

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

FINANCIAL STATEMENTS
June 30, 2011 and June 30, 2010

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**INTRODUCTORY
SECTION**

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

POLICY BOARD
June 30, 2011

Daniel T. Brown, Mayor of the City of Knoxville

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

Tim Burchett, Knox County Mayor

FINANCIAL SECTION



KPMG LLP
Suite 1000
401 Commerce Street
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, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audit.

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. 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 audit provides 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, 2011 and 2010, 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 16, 2011 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.

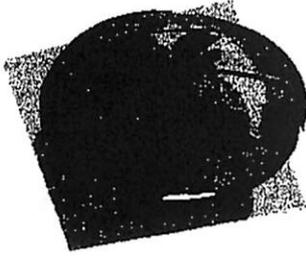
The information in the management's discussion and analysis on pages three through eight is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally 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 Center'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 introductory section and supplementary information have 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 16, 2011



Knoxville, Knox County, K.U.B.
Geographic Information Systems
606 Main Street, Suite 150 Main Place, Knoxville, TN 37902
Keith Stump, Executive Director
Phone: 865-215-2641, Fax: 215-2910

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, 2011 and June 30, 2010. 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 2011

- The assets of the System exceeded its liabilities at the close of the most recent fiscal year by \$3,875,310 (*net assets*). Of this amount, \$1,166,542 is unrestricted. The unrestricted net assets amount is a total of five amounts: \$(33,727) may be used to meet the System's ongoing obligations to citizens and creditors, while \$67,250 is allocated for prior year encumbrances, \$5,411 is allocated for related assets, \$428,696 is allocated for the aerial reserve, and \$698,912 is allocated for the equipment reserve.
- The System's total net assets decreased by \$650,317. The decrease is primarily due to reduced operating revenues and increased operating expenses.
- The System's total liabilities increased by \$108,556. This increase is primarily due to an increase in accounts payable.
- The System's cash and cash equivalents increased by \$88,735. This increase is primarily due to lower accounts receivable.
- The System's total revenue increased \$194,920. This increase is primarily due to increased non-operating revenues.
- The System's expenses increased by \$673,648. The expense increase is primarily due to an increase in supplies and materials expense and depreciation.

Financial Highlights for Fiscal Year 2010

- The assets of the System exceeded its liabilities at the close of the 2010 fiscal year by \$4,525,627 (*net assets*). Of this amount, \$1,270,280 is unrestricted. The unrestricted net assets amount is a total of four amounts: \$431,072 may be used to meet the System's ongoing obligations to citizens and creditors, while \$567 is allocated for prior year encumbrances, \$478,208 is allocated for the aerial reserve, and \$360,433 is allocated for the equipment reserve.
- The System's total net assets decreased by \$171,589. The decrease is primarily due to depreciation and maintenance costs from the System's software upgrade project completed in fiscal year 2009.
- The System's total liabilities decreased by \$56,258. This decrease is primarily due to a decrease in accounts payable.
- The System's cash and cash equivalents decreased by \$385,849. This decrease is primarily due to revenue shortfalls and increased expenses.
- The System's total revenue decreased \$470,480. This decrease is primarily due to decreased non-operating revenues.
- The System's expenses increased by \$602,665. The expense increase is primarily due to an increase in depreciation.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The System's basic financial statements consist of two components: 1) financial statements comprised of the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Fund Net Assets, 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 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 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 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, 2011, the System's assets exceeded its liabilities by \$3,875,310 (*net assets*). At June 30, 2010, the System's assets exceeded its liabilities by \$4,525,627 (*net assets*). At June 30, 2010, 28 percent of the System's net assets reflected its current assets (e.g., cash and cash equivalents, accounts receivable and due from other governments). At June 30, 2011, the current assets (less current liabilities) amount to 30 percent of total net assets. This increase is due to the decrease in invested in capital assets due to the depreciation of certain capital assets during the current year. At June 30, 2011, 70 percent of the System's net assets are invested in capital assets, which compares to 72 percent for the prior year.

As the following table shows, the System reported a decrease in net assets of \$650,317 as of the current fiscal year ended June 30, 2011. As previously noted this decrease is primarily the result of lower operating revenues and increased operating expenses. The depreciation expense charged during the current fiscal year was \$788,407. Additionally, supplies and materials expense increased to \$459,447 as compared to \$71,943 in the 2010 fiscal year.

During the fiscal year ended June 30, 2010, the System reported a decrease in net asset of \$171,589. The decrease was primarily the result of higher depreciation and maintenance costs from the System's software upgrade that was completed in fiscal year 2009. The depreciation expense charged during fiscal year ended June 30, 2010 was \$567,815.

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

	FYB June 30, 2011	FYB June 30, 2010	FYB June 30, 2009
Assets:			
Current and other assets	\$ 1,375,411	\$ 1,370,593	\$ 1,698,920
Capital assets, net	2,708,768	3,255,347	3,154,867
Total assets	\$ 4,084,179	\$ 4,625,940	\$ 4,853,787
Liabilities:			
Long-term liabilities outstanding	\$ 3,496	\$ 3,467	\$ 4,132
Other liabilities	205,373	96,846	152,439
Total liabilities	208,869	100,313	156,571
Net assets:			
Invested in capital assets	2,708,768	3,255,347	3,154,867
Unrestricted:			
Designated prior year encumbrances	67,250	567	17,000
Designated for appropriation	-	-	-
Designated for prepaid items	5,411	-	11,249
Designated aerial reserve	428,696	478,208	671,619
Designated equipment reserve	698,912	360,433	437,196
Undesignated	(3,727)	431,072	405,285
Total net assets	\$ 3,875,310	\$ 4,525,627	\$ 4,697,216
	4,084,179	4,625,940	4,853,787

The next table shows the key elements from ongoing activities that contributed to the decrease in net assets of \$650,317 during the current fiscal year. Operating revenues, comprised mainly of user service fees and operating reimbursements, decreased by \$60,429 in fiscal year 2011, while in fiscal year 2010 they decreased by \$53,645. User service fees decreased by \$62,203 in fiscal year 2011 primarily due to a decrease in revenues from Knoxville, Knox County, and K.U.B. (Knoxville Utilities Board). In fiscal year 2010, user service fees increased by \$202. Miscellaneous revenue which is comprised of viewer licenses, sale of maps, and sale of IDS cd's increased by \$1,774 in fiscal year 2011 compared to a decrease in fiscal year 2010 of \$53,847. This increase was due to increased activities in the revenue accounts listed above that make up the miscellaneous revenue total amount. Additionally, interest earnings in fiscal year 2011 were \$2,740 compared to fiscal year 2010 of \$5,701 resulting in a decrease of \$2,961 from lower rates.

Expenses for fiscal year 2011 increased by \$673,648 primarily due to an increase in depreciation and maintenance costs from the System's software upgrade project completed in fiscal year 2009. During fiscal year 2010, expenses increased by \$602,665 primarily due to an increase in depreciation and maintenance costs from the System's software upgrade project completed in fiscal year 2009.

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

	FYE June 30, 2011	FYE June 30, 2010	FYE June 30, 2009
Revenues:			
Operating revenues:			
User service fees	\$ 778,604	\$ 840,807	\$ 840,605
Miscellaneous revenue	101,846	100,072	153,919
Nonoperating revenues:			
Knox County Subsidy	131,950	74,550	258,342
City of Knoxville Subsidy	104,503	45,393	209,562
Knoxville Utilities Board Subsidy	451,778	309,926	333,391
Metropolitan Planning Commission Subsidy	19,738	19,738	47,261
Knoxville-Knox County Emergency Comm. District Subsidy	1,383	1,435	-
Interest income	2,740	5,701	25,022
Total revenues	<u>1,592,542</u>	<u>1,397,622</u>	<u>1,868,102</u>
Expenses:			
Operating expenses - cost of sales and services			
Personnel services	526,629	536,515	525,753
Employee benefits	150,631	154,075	146,178
Contracted services	250,604	171,672	186,801
Supplies and materials	459,447	71,943	29,898
Rental	64,938	64,937	64,937
Insurance	2,203	2,254	9,305
Depreciation	788,407	567,815	3,674
Total expenses - cost of sales and services	<u>2,242,859</u>	<u>1,569,211</u>	<u>966,546</u>
(Decrease) increase in net assets	<u>(650,317)</u>	<u>(171,589)</u>	<u>901,556</u>
Net assets July 1	<u>4,525,627</u>	<u>4,697,216</u>	<u>3,795,660</u>
Net assets June 30	<u>\$ 3,875,310</u>	<u>\$ 4,525,627</u>	<u>\$ 4,697,216</u>

Budgetary Information

There were some budget amendments for the fiscal year 2011 outside of the planned appropriation of fund balances of \$835,792. Revenues were less than budget by \$1,205,362. Expenses of \$2,242,859 were \$555,045 less than budget of \$2,797,904. This is primarily due to \$279,811 in Equipment Reserve and \$351,000 in Aerial Reserve which were unspent. This was a timing difference, and now as the mapping projects are completed, the spending will occur and the reserves will be used. The Schedules of Revenues and Expenses and Changes in Net Assets - Budget to Actual (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, 2011 amounts to \$2,708,768 (net of accumulated depreciation). This investment in capital assets includes communications and office equipment and computer software. Depreciation on the System's capital assets was \$788,407 for 2011. As of June 30, 2010, the System's investment in capital assets amounted to \$3,255,347 (net of accumulated depreciation). The System's total capital assets during the fiscal year 2010 increased by \$100,480 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 2010. Additional information regarding the System's capital assets can be found in Note 6 to the financial statements.

Long-term Liabilities. At the end of the current fiscal year, the System's long-term liabilities consisted of compensated absences payable of \$3,496 compared to \$3,467 at the end of fiscal year 2010. Additional information regarding the System's long-term liabilities can be found in Note 7 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 ASSETS
June 30, 2011 and June 30, 2010**

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,240,061	\$ 1,151,326
Accounts receivable	129,939	219,267
Prepaid items	5,411	-
Total current assets	1,375,411	1,370,593
 Noncurrent assets:		
Capital assets:		
Communications and office equipment	910,309	892,309
Computer software	3,909,878	3,686,050
	4,820,187	4,578,359
Less: accumulated depreciation	(2,111,419)	(1,323,012)
	2,708,768	3,255,347
 Total capital assets, net	2,708,768	3,255,347
 Total assets	\$ 4,084,179	\$ 4,625,940

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

continued . . .

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

**STATEMENTS OF NET ASSETS (Continued)
June 30, 2011 and June 30, 2010**

	<u>2011</u>	<u>2010</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 154,010	\$ 44,992
Accrued payroll payable	19,898	20,148
Deferred revenue	-	500
Compensated absences payable	31,465	31,206
Total current liabilities	<u>205,373</u>	<u>96,846</u>
Noncurrent Liabilities:		
Compensated absences payable	3,496	3,467
Total liabilities	<u>208,869</u>	<u>100,313</u>
NET ASSETS		
Invested in capital assets	2,708,768	3,255,347
Unrestricted	1,166,542	1,270,280
Total net assets	<u>3,875,310</u>	<u>4,525,627</u>
	<u>\$ 4,084,179</u>	<u>\$ 4,625,940</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 FUND NET ASSETS
For the Years Ended June 30, 2011 and June 30, 2010**

	2011	2010
Operating revenues:		
User service fees	\$ 778,604	\$ 840,807
Miscellaneous revenue	101,846	108,072
Total operating revenues	880,450	940,879
Operating expenses:		
Personnel services	526,629	536,515
Employee benefits	150,631	154,075
Contracted services	250,604	171,672
Supplies and materials	459,447	71,943
Rental	64,938	64,937
Insurance	2,203	2,254
Depreciation	788,407	567,815
Total operating expenses	2,242,859	1,569,211
Operating (loss) income	(1,362,409)	(628,332)
Nonoperating revenues:		
Knox County Subsidy	131,950	74,550
City of Knoxville Subsidy	104,503	45,393
Knoxville Utilities Board Subsidy	451,778	309,926
Metropolitan Planning Commission Subsidy	19,738	19,738
Knoxville - Knox County Emergency Communications District Subsidy	1,383	1,435
Interest income	2,740	5,701
Total nonoperating revenues	712,092	456,743
Change in net assets	(650,317)	(171,589)
Total net assets - beginning	4,525,627	4,697,216
Total net assets - ending	\$ 3,875,310	\$ 4,525,627

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 Years Ended June 30, 2011 and June 30, 2010**

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 969,279	\$ 872,608
Payments to vendors	(673,586)	(352,321)
Payments to employees	(677,222)	(694,584)
Net cash provided (used) by operating activities	<u>(381,529)</u>	<u>(174,297)</u>
Cash Flows from NonCapital Financing Activities		
Knox County Subsidy	131,950	74,550
City of Knoxville Subsidy	104,503	45,393
Knoxville Utilities Board Subsidy	451,778	309,926
Metropolitan Planning Commission Subsidy	19,738	19,738
Knoxville - Knox County Emergency Communications Subsidy	1,383	1,435
Net cash provided by noncapital financing activities	<u>709,352</u>	<u>451,042</u>
Cash Flows used in Capital Financing Activities		
Purchase of fixed assets	(241,828)	(668,295)
Cash Flows from Investing Activities		
Interest received	2,740	5,701
Net change in cash and cash equivalents	<u>88,735</u>	<u>(385,849)</u>
Cash and cash equivalents - beginning of year	<u>1,151,326</u>	<u>1,537,175</u>
Cash and cash equivalents - end of year	<u>\$ 1,240,061</u>	<u>\$ 1,151,326</u>

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

continued . . .

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

**STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended June 30, 2011 and June 30, 2010**

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

	<u>2011</u>	<u>2010</u>
Operating (loss) income	\$ (1,362,409)	\$ (628,332)
Adjustments to reconcile operating (loss) income to net cash provided (used) by operating activities:		
Depreciation and amortization	788,407	567,815
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	89,329	(68,771)
(Increase) decrease in prepaid items	(5,411)	11,249
Increase (decrease) in accounts payable	109,017	(52,764)
Increase (decrease) in accrued payroll payable	(250)	2,652
Increase (decrease) in deferred revenue	(500)	500
Increase (decrease) in compensated absences payable	288	(6,646)
Net cash provided (used) by operating activities	<u>\$ (381,529)</u>	<u>\$ (174,297)</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, 2011 and 2010

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, 2011 and 2010

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, 2011 and 2010

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, 2011 and 2010

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>2011</u>	<u>2010</u>
Dedicated Assets, Beginning of Year	\$ 838,641	\$ 1,108,815
Dedicated Contributions	709,352	451,642
Dedicated Expenses	(705,335)	(740,076)
Interest Earned on Dedicated Assets	597	1,260
Reverse (Reserve) Prior Year Encumbrance	-	<u>17,000</u>
Dedicated Assets, End of Year	<u>\$ 843,255</u>	<u>\$ 838,641</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, 2011 and June 30, 2010, 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, 2011 and 2010

NOTE 4: COMMITMENTS AND CONTINGENCIES

In fiscal year 2010, the System entered into a three year contract extension with Sanborn, Inc. for re-mapping of the County at an approximated cost of \$683,340. Actual payments made to Sanborn, Inc., for fiscal year 2011 were \$198,828, and for fiscal year 2010 were \$304,512.

The following schedule shows the final estimated installment to be made by KGIS over the next fiscal year.

	<u>Estimated Cost:</u>
Fiscal Year 2012	\$ 180,000

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, 2011 and 2010

NOTE 6: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Communications and office equipment	\$ 892,309	\$ 18,000	-	\$ 910,309
Computer software	3,686,050	223,828	-	3,909,878
Total capital assets	4,578,359	241,828	-	4,820,187
Less accumulated depreciation for:				
Communications and office equipment	(742,132)	(30,844)	-	(772,976)
Computer software	(580,880)	(757,563)	-	(1,338,443)
Total accumulated depreciation	(1,323,012)	(788,407)	-	(2,111,419)
Total capital assets, net	\$ 3,255,347	\$ (546,579)	\$ -	\$ 2,708,768

Capital asset activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Work in Progress	\$ 319,353	\$ -	\$ (319,353)	\$ -
Communications and office equipment	742,132	150,177	-	892,309
Computer software	2,848,579	837,471	-	3,686,050
Total capital assets	3,910,064	987,648	(319,353)	4,578,359
Less accumulated depreciation for:				
Communications and office equipment	(741,241)	(891)	-	(742,132)
Computer software	(13,956)	(566,924)	-	(580,880)
Total accumulated depreciation	(755,197)	(567,815)	-	(1,323,012)
Total capital assets, net	\$ 3,154,867	\$ 419,833	\$ (319,353)	\$ 3,255,347

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2011 and 2010

NOTE 7: LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	\$ 34,673	\$ 19,897	\$ 19,609	\$ 34,961	\$ 31,465

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	\$ 41,319	\$ 41,907	\$ 48,553	\$ 34,673	\$ 31,206

NOTE 8: NET ASSETS

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

	2011	2010
Designated for prior year encumbrance	\$ 67,250	\$ 567
Designated for prepaid items	5,411	-
Designated for equipment reserve	698,912	360,433
Designated for aerial reserve	428,696	478,208
Undesignated	(33,727)	431,072
	<u>\$ 1,166,542</u>	<u>\$ 1,270,280</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, 2011 and 2010

NOTE 9: RELATED PARTY TRANSACTIONS

In the 2011, the County provided various administrative functions to the System as an in-kind contribution to the System. The System paid the County \$16,598 for various administrative services for the 2010 year, respectively.

Revenues paid by the County, City, and KUB during the year ending June 30, 2011 were \$355,284, \$352,329, and \$757,782, respectively, representing approximately 92 percent of total revenues for the 2011 year. Revenues paid by the County, City, and KUB during the year ending June 30, 2010 were \$346,754, \$288,662, and \$630,995, respectively, representing approximately 91 percent of total revenues for the 2010 year.

The amounts due to the System from the County, City, and KUB for the fiscal year 2011 are \$0, \$86,790, and \$0 respectively. The amounts due to the System from the City, County, and KUB were \$51,103, \$42,375, and \$121,902 for the fiscal year 2010.

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 2011 fiscal year, the employer and member contributions amounted to \$47,604 and \$48,448, respectively. During the 2010 fiscal year, the employer and member contributions amounted to \$48,448 and \$44,879, 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, 2011.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2011 and 2010.

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 2011 and 2010 fiscal years, no charges or liabilities have been established for the System. Settlements have not exceeded coverage in the past three fiscal years.

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, 2011 and 2010 were \$64,938 and \$64,937, respectively. Rental expense for fiscal year 2012 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**

**SCHEDULES OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS - BUDGET TO ACTUAL (Unaudited)
For the Years Ended June 30, 2011 and June 30, 2010**

	2011				2010				Variances Favorable (Unfavorable)
	Original Budget	Budget Revisions	Revised Budget	Actual	Original Budget	Budget Revisions	Revised Budget	Actual	
Revenues									
Operating									
User Service Fees	\$ 1,521,112	\$ -	\$ 1,521,112	\$ 778,604	\$ 1,171,052	\$ -	\$ 1,171,052	\$ 840,887	\$ (330,245)
Sale of Maps	90,000	-	90,000	101,846	101,435	-	101,435	99,472	(1,963)
Sale of IDS Cdt	-	-	-	-	-	-	-	600	600
Nonoperating									
Knox County Subsidy	84,000	-	84,000	131,950	42,000	-	42,000	74,550	32,550
City of Knoxville Subsidy	38,000	-	38,000	104,503	19,000	-	19,000	45,393	26,393
Knoxville Utilities Board Subsidy	67,635	-	67,635	451,778	54,000	-	54,000	309,926	255,926
Metropolitan Planning Commission Subsidy	-	-	-	19,738	-	-	-	19,738	19,738
Knoxville-Knox County Emergency Comm. Dist	-	-	-	1,383	-	-	-	1,435	1,435
Interest Income	-	-	-	2,740	-	-	-	5,701	5,701
Appropriations from Fund Balance	835,225	567	835,792	-	509,222	-	509,222	-	(909,222)
Appropriations from Designated Fund Balance	161,365	-	161,365	-	17,000	-	17,000	-	(17,000)
Total Revenues	2,797,937	567	2,797,904	1,992,542	1,913,709	-	1,913,709	1,397,622	(516,087)
Expenses									
Operating									
Personnel Services	548,085	-	548,085	526,629	540,047	(3,400)	536,647	536,515	132
Employee Benefits	168,725	-	168,725	180,631	150,113	3,969	154,076	154,075	1
Contracted Services	183,419	-	185,419	130,604	157,433	5,800	163,233	163,137	96
Supplies and Materials	37,559	567	38,126	25,417	16,149	(5,600)	10,349	9,297	1,052
Workshop's Comp	2,500	-	2,500	1,579	2,500	-	2,500	1,663	835
Rental	64,938	-	64,938	64,938	64,938	-	64,938	64,937	1
Depreciation & Insurance	605,270	-	605,270	789,031	341,307	227,707	569,014	568,404	610
Equipment Reserve	-	-	-	-	-	-	-	-	-
Contracted Services	120,000	-	120,000	120,000	150,000	(100,000)	50,000	3,900	46,100
Supplies and Materials	713,841	-	713,841	434,030	376,222	(90,000)	326,222	62,646	263,576
Aerial Reserve	-	-	-	-	-	-	-	-	-
Contracted Services	351,000	-	351,000	-	115,000	(78,270)	36,730	4,635	32,095
Total Expenses	2,797,937	567	2,797,904	2,242,859	1,913,709	-	1,913,709	1,599,211	344,498
(Decrease) Increase in Net Assets	\$ -	\$ -	\$ -	\$ (650,317)	\$ -	\$ -	\$ -	\$ (171,589)	\$ (171,589)

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

SCHEDULES OF DEDICATED ASSETS (Unaudited)
For the Years Ended June 30, 2011 and June 30, 2010

2011

Equipment

	Aerial Photography	General Equipment	Total
Dedicated Assets - July 1	\$ 478,208	\$ 360,433	\$ 838,641
Dedicated Contributions	149,635	559,717	709,352
Dedicated Expenses and Encumbrances	(239,422)	(465,913)	(705,335)
IDS CD's Revenue Contribution	-	-	-
Interest Earned	275	322	597
Reverse Reserve Prior Year Encumbrance	-	-	-
Reserve Prior Year Encumbrance	-	-	-
Dedicated Assets - June 30	<u>\$ 388,696</u>	<u>\$ 454,559</u>	<u>\$ 843,255</u>

2010

Equipment

	Aerial Photography	General Equipment	Total
Dedicated Assets - July 1	\$ 671,619	\$ 437,196	\$ 1,108,815
Dedicated Contributions	115,000	336,642	451,642
Dedicated Expenses and Encumbrances	(309,147)	(430,929)	(740,076)
IDS CD's Revenue Contribution	-	-	-
Interest Earned	736	524	1,260
Reverse Reserve Prior Year Encumbrance	-	17,000	17,000
Reserve Prior Year Encumbrance	-	-	-
Dedicated Assets - June 30	<u>\$ 478,208</u>	<u>\$ 360,433</u>	<u>\$ 838,641</u>

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

SCHEDULES OF RECONCILIATION OF AVAILABLE FUNDS (Unaudited)
June 30, 2011 and June 30, 2010

	<u>June 30, 2011</u>		<u>June 30, 2010</u>
Current Asset Approach:			
Current Assets	\$ 1,375,411		\$ 1,370,593
Current Liabilities	<u>(205,373)</u>		<u>(96,846)</u>
Net Current Assets	1,170,038		1,273,747
<i>Less Reserved Current Assets</i>			
Reserve for Encumbrance Prior Year	(67,250)		(567)
Noncurrent Compensated Absences Designated	(3,496)		(3,467)
Aerial Reserve	(5,411)		-
Equipment Reserve	(428,696)		(478,208)
	<u>(698,912)</u>		<u>(360,433)</u>
	(1,203,765)		(842,675)
"Available" Current Assets (Deficit)	<u>\$ (33,727)</u>		<u>\$ 431,072</u>

	<u>June 30, 2011</u>		<u>June 30, 2010</u>
Equity Approach:			
Total Net Assets	\$ 3,875,310		\$ 4,525,627
<i>Less Specific Reserves:</i>			
Reserve for Encumbrance Prior Year Designated	67,250		567
Aerial Reserve	5,411		-
Equipment Reserve	428,696		478,208
	<u>698,912</u>		<u>360,433</u>
	(1,200,269)		(839,208)
Subtotal	2,675,041		3,686,419
<i>Less "Non-Spendable" Funds:</i>			
Net Assets Invested in Net Fixed Assets	<u>(2,708,768)</u>		<u>(3,255,347)</u>
"Undesignated Fund Balance"	<u>\$ (33,727)</u>		<u>\$ 431,072</u>

**INTERNAL CONTROL
AND COMPLIANCE SECTION**



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Independent Auditors' 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, 2011, and have issued our report thereon dated December 16, 2011. 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

Management of the System is responsible for establishing and maintaining effective 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 16, 2011