



Geographic Information Systems

FINANCIAL STATEMENTS

JUNE 30, 2012 and JUNE 30, 2011



Prepared By:
Knox County Department of Finance

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

FINANCIAL STATEMENTS

June 30, 2012 and June 30, 2011

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

FINANCIAL STATEMENTS
June 30, 2012 and June 30, 2011

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**INTRODUCTORY
SECTION**

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

POLICY BOARD

June 30, 2012

Madeline Rogero, Mayor of the City of Knoxville

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

Tim Burchett, Knox County Mayor

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of net assets of the Knoxville, Knox County, K.U.B Geographic Information Systems (the System) as of June 30, 2012, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. 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 audit. The financial statements of the System as of and for the year ended June 30, 2011, were audited by other auditors whose report dated December 16, 2011, expressed an unqualified opinion on those statements.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 2012 financial statements referred to previously present fairly, in all material respects, the financial position of the Knoxville, Knox County, K.U.B Geographic Information Systems as of June 30, 2012, and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's financial statements. The schedule of revenues and expenses and changes in net assets - budget to actual is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenues and expenses and changes in net assets - budget to actual is fairly stated in all material respects in relation to the 2012 financial statements as a whole. The financial statements as of June 30, 2011 and for the year then ended, were audited by other auditors in accordance with auditing standards generally accepted in the United States of America whose report dated December 16, 2011 expressed an unqualified opinion on the 2011 financial statements. The 2011 auditor's report did not express an opinion on the supplementary information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The introductory section and the supplementary schedules of dedicated assets and reconciliation of available funds are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 14, 2012

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, 2012 and June 30, 2011. 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 2012

- The assets of the System exceeded its liabilities at the close of the most recent fiscal year by \$2,691,914 (*net assets*). Of this amount, \$772,610 is unrestricted. The unrestricted net assets amount is a total of five amounts: \$54,823 may be used to meet the System's ongoing obligations to citizens and creditors, while \$7,179 is allocated for prior year encumbrances, \$8,936 is allocated for related assets, \$407,806 is allocated for the aerial reserve, and \$293,866 is allocated for the equipment reserve.
- The System's total net assets decreased by \$1,183,396. The decrease is primarily due to reduced operating revenues and increased operating expenses.
- The System's total liabilities decreased by \$58,671. This decrease is primarily due to a decrease in accounts payable.
- The System's cash and cash equivalents decreased by \$439,779. This decrease is primarily due to lower non-operating revenues.
- The System's total revenue decreased \$378,669. This decrease is primarily due to decrease non-operating revenues as mentioned above.
- The System's expenses increased by \$154,410. The expense increase is primarily due to an increase in supplies and materials expense and depreciation.

POLICY BOARD

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

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.

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 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 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, 2012, the System's assets exceeded its liabilities by \$2,691,914 (*net assets*). At June 30, 2011, the System's assets exceeded its liabilities by \$3,875,310 (*net assets*). At June 30, 2011, 30 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, 2012, the current assets (less current liabilities) amounted to 29 percent of total net assets. At June 30, 2012, 71 percent of the System's net assets are invested in capital assets, which compares to 70 percent for the prior year.

As the following table shows, the System reported a decrease in net assets of \$1,183,396 as of the current fiscal year ended June 30, 2012. 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 \$1,034,999. Additionally, supplies and materials expense increased to \$510,308 as compared to \$459,447 in the 2011 fiscal year.

During the fiscal year ended June 30, 2011, the System reported a decrease in net asset of \$650,317. The decrease was primarily the result of lower operating revenues and increased operating expenses. The depreciation expense charged during fiscal year ended June 30, 2011 was \$788,407.

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

	FYE June 30, 2012	FYE June 30, 2011	FYE June 30, 2010
Assets:			
Current and other assets	\$ 922,808	\$ 1,375,411	\$ 1,370,593
Capital assets, net	1,919,304	2,708,768	3,255,347
Total assets	<u>2,842,112</u>	<u>4,084,179</u>	<u>4,625,940</u>
Liabilities:			
Long-term liabilities outstanding	3,732	3,496	3,467
Other liabilities	146,466	205,373	96,846
Total liabilities	<u>150,198</u>	<u>208,869</u>	<u>100,313</u>
Net assets:			
Invested in capital assets	1,919,304	2,708,768	3,255,347
Unrestricted:			
Designated prior year encumbrances	7,179	67,250	567
Designated for appropriation	-	-	-
Designated for prepaid items	8,936	5,411	-
Designated aerial reserve	407,806	428,696	478,208
Designated equipment reserve	293,866	698,912	360,433
Undesignated	54,823	(33,727)	431,072
Total net assets	<u>\$ 2,691,914</u>	<u>\$ 3,875,310</u>	<u>\$ 4,525,627</u>

The next table shows the key elements from ongoing activities that contributed to the decrease in net assets of \$1,183,396 during the current fiscal year. Operating revenues, comprised mainly of user service fees and operating reimbursements, decreased by \$21,782 in fiscal year 2012, while in fiscal year 2011 they decreased by \$60,429. User service fees increased by \$41,183 in fiscal year 2012 primarily due to an increase in revenues from Knoxville, Knox County, and K.U.B (Knoxville Utilities Board). In fiscal year 2011, user service fees decreased by \$62,203. Miscellaneous revenue which is comprised of viewer licenses, sale of maps, and sale of IDS cd's decreased by \$62,965 in fiscal year 2012 compared to an increase in fiscal year 2011 of \$1,774. This decrease was due to decreased activities in the revenue accounts listed above that make up the miscellaneous revenue total amount. Additionally, interest earnings in fiscal year 2012 were \$1,096 compared to fiscal year 2011 of \$2,740 resulting in a decrease of \$1,644 from lower rates.

Expenses for fiscal year 2012 increased by \$154,410 primarily due to an increase in depreciation and maintenance costs. During fiscal year 2011, expenses increased by \$673,648 primarily due to an increase in depreciation and maintenance costs from the System's software upgrade project.

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

	FYE <u>June 30, 2012</u>	FYE <u>June 30, 2011</u>	FYE <u>June 30, 2010</u>
Revenues:			
Operating revenues:			
User service fees	\$ 819,787	\$ 778,604	\$ 840,807
Miscellaneous revenue	38,881	101,846	100,072
Nonoperating revenues:			
Knox County Subsidy	55,857	131,950	74,550
City of Knoxville Subsidy	26,503	104,503	45,393
Knoxville Utilities Board Subsidy	250,576	451,778	309,926
Metropolitan Planning Commission Subsidy	19,738	19,738	19,738
Knoxville-Knox County Emergency Comm. District Subsidy	1,435	1,383	1,435
Interest income	1,096	2,740	5,701
Total revenues	<u>1,213,873</u>	<u>1,592,542</u>	<u>1,397,622</u>
Expenses:			
Operating expenses - cost of sales and services			
Personnel services	476,220	526,629	536,515
Employee benefits	137,048	150,631	154,075
Contracted services	173,018	250,604	171,672
Supplies and materials	510,308	459,447	71,943
Rental	64,938	64,938	64,937
Insurance	738	2,203	2,254
Depreciation	1,034,999	788,407	567,815
Total expenses - cost of sales and services	<u>2,397,269</u>	<u>2,242,859</u>	<u>1,569,211</u>
(Decrease) increase in net assets	(1,183,396)	(650,317)	(171,589)
Net assets July 1	<u>3,875,310</u>	<u>4,525,627</u>	<u>4,697,216</u>
Net assets June 30	<u>\$ 2,691,914</u>	<u>\$ 3,875,310</u>	<u>\$ 4,525,627</u>

Budgetary Information

There were some budget amendments for the fiscal year 2012 outside of the planned appropriation of fund balances of \$19,518. Revenues were less than budget by \$1,183,735. Expenses of \$2,397,269 were \$339 less than budget of \$2,397,608. 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, 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, 2012 amounts to \$1,919,304 (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 \$1,034,999 for 2012. As of June 30, 2011, the System's investment in capital assets amounted to \$2,708,768 (net of accumulated depreciation). The System's total capital assets during the fiscal year 2012 increased by \$245,535 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 \$3,732 compared to \$3,496 at the end of fiscal year 2011. 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, 2012 and June 30, 2011**

ASSETS	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 800,282	\$ 1,240,061
Accounts receivable	113,590	129,939
Prepaid items	8,936	5,411
Total current assets	<u>922,808</u>	<u>1,375,411</u>
Noncurrent assets:		
Capital assets:		
Communications and office equipment	933,059	910,309
Computer software	4,132,663	3,909,878
	<u>5,065,722</u>	<u>4,820,187</u>
Less: accumulated depreciation	<u>(3,146,418)</u>	<u>(2,111,419)</u>
Total capital assets, net	<u>1,919,304</u>	<u>2,708,768</u>
Total assets	<u>\$ 2,842,112</u>	<u>\$ 4,084,179</u>

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

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

**STATEMENTS OF NET ASSETS (Continued)
June 30, 2012 and June 30, 2011**

	<u>2012</u>	<u>2011</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 58,967	\$ 154,010
Accrued payroll payable	23,912	19,898
Deferred revenue	30,000	-
Compensated absences payable	33,587	31,465
Total current liabilities	<u>146,466</u>	<u>205,373</u>
Noncurrent Liabilities:		
Compensated absences payable	3,732	3,496
Total liabilities	<u>150,198</u>	<u>208,869</u>
NET ASSETS		
Invested in capital assets	1,919,304	2,708,768
Unrestricted	772,610	1,166,542
Total Net Assets	<u>\$ 2,691,914</u>	<u>\$ 3,875,310</u>

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

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

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
For the Years Ended June 30, 2012 and June 30, 2011**

	2012	2011
Operating revenues:		
User service fees	\$ 819,787	\$ 778,604
Miscellaneous revenue	38,881	101,846
	858,668	880,450
Operating expenses:		
Personnel services	476,220	526,629
Employee benefits	137,048	150,631
Contracted services	173,018	250,604
Supplies and materials	510,308	459,447
Rental	64,938	64,938
Insurance	738	2,203
Depreciation	1,034,999	788,407
	2,397,269	2,242,859
Operating (loss) income	(1,538,601)	(1,362,409)
Nonoperating revenues:		
Knox County Subsidy	55,857	131,950
City of Knoxville Subsidy	26,503	104,503
Knoxville Utilities Board Subsidy	250,576	451,778
Metropolitan Planning Commission Subsidy	19,738	19,738
Knoxville - Knox County Emergency Communications District Subsidy	1,435	1,383
Interest income	1,096	2,740
	355,205	712,092
Change in net assets	(1,183,396)	(650,317)
Total net assets - beginning of year	3,875,310	4,525,627
Total net assets - ending of year	\$ 2,691,914	\$ 3,875,310

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, 2012 and June 30, 2011**

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 875,017	\$ 969,279
Payments to vendors	(817,570)	(673,586)
Payments to employees	(606,896)	(677,222)
Net cash provided (used) by operating activities	<u>(549,449)</u>	<u>(381,529)</u>
Cash Flows from NonCapital Financing Activities		
Knox County Subsidy	55,857	131,950
City of Knoxville Subsidy	26,503	104,503
Knoxville Utilities Board Subsidy	250,576	451,778
Metropolitan Planning Commission Subsidy	19,738	19,738
Knoxville - Knox County Emergency Communications Subsidy	1,435	1,383
Net cash provided by noncapital financing activities	<u>354,109</u>	<u>709,352</u>
Cash Flows used in Capital Financing Activities		
Purchase of fixed assets	<u>(245,535)</u>	<u>(241,828)</u>
Cash Flows from Investing Activities		
Interest received	<u>1,096</u>	<u>2,740</u>
Net change in cash and cash equivalents	(439,779)	88,735
Cash and cash equivalents - beginning of year	<u>1,240,061</u>	<u>1,151,326</u>
Cash and cash equivalents - end of year	<u>\$ 800,282</u>	<u>\$ 1,240,061</u>

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

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

**STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended June 30, 2012 and June 30, 2011**

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

	<u>2012</u>	<u>2011</u>
Operating (loss) income	\$ (1,538,601)	\$ (1,362,409)
Adjustments to reconcile operating (loss) income to net cash provided (used) by operating activities:		
Depreciation and amortization	1,034,999	788,407
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	16,349	89,329
(Increase) decrease in prepaid items	(3,525)	(5,411)
Increase (decrease) in accounts payable	(95,043)	109,017
Increase (decrease) in accrued payroll payable	4,014	(250)
Increase (decrease) in deferred revenue	30,000	(500)
Increase (decrease) in compensated absences payable	2,358	288
Net cash provided (used) by operating activities	<u>\$ (549,449)</u>	<u>\$ (381,529)</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, 2012 and June 30, 2011

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.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2012 and June 30, 2011

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.

2. Receivables and Payables

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

3. Prepaid Items

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

4. Capital Assets

Capital assets, which include computer software and communication and office equipment, are defined as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. These capital assets are depreciated using the straight-line method over the following estimated useful lives of the assets.

<u>Assets</u>	<u>Years</u>
Communications and Office Equipment	5-10
Computer Software	5

Maintenance and repairs are charged to operations as incurred; major renewals and betterments are capitalized. When property or equipment is sold, the related costs and accumulated depreciation are removed from the respective accounts, and any gain or loss is charged or credited to operations.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2012 and June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

5. Compensated Absences

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

Employees may accumulate vacation leave according to the following schedule:

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

6. Estimates

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

7. Net Assets

Net Assets comprise the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net assets are classified in the following three components: invested in capital assets, restricted net assets, and unrestricted net assets. Invested in capital assets includes all capital assets, net of accumulated depreciation.

The restricted net assets category includes net assets whose use is subject to externally imposed stipulations that can be fulfilled by actions of the System pursuant to those stipulations or that expire by the passage of time. The System has no restricted assets as of June 30, 2012, and at June 30, 2011. The unrestricted net assets category includes all other assets that do not meet the definition of "restricted" or "invested in capital assets".

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2012 and June 30, 2011

NOTE 2: BUDGETARY INFORMATION/DEDICATED ACCOUNTS

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

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

The following represents the dedicated activity:

	Fiscal Year	
	<u>2012</u>	<u>2011</u>
Dedicated Assets, Beginning of Year	\$ 843,255	\$ 838,641
Dedicated Contributions	354,111	709,352
Dedicated Expenses	(495,933)	(705,335)
Interest Earned on Dedicated Assets	239	597
Reverse (Reserve) Prior Year Encumbrance	<u>-</u>	<u>-</u>
Dedicated Assets, End of Year	<u>\$ 701,672</u>	<u>\$ 843,255</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, 2012 and June 30, 2011, were covered by the bank collateral pool administered by the Treasurer of the State of Tennessee. Banks participating in the collateral pool determine the aggregate balance of their public fund accounts for the System. Tennessee Code Annotated (TCA) Section 5-8-201 requires that the amount of collateral required to secure these deposits must equal 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be entirely insured or collateralized.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2012 and June 30, 2011

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 2012 were \$222,785 and for fiscal year 2011 were \$198,828. This contract ends December 2012 and will be bid on in fiscal year 2013.

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

	<u>Amount:</u>
Fiscal Year 2013	<u>\$ 145,711</u>

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.

An enhancement to the asset accumulation plan is the Knox County Voluntary 457 plan added effective July 1, 2007 which allows pre-tax contributions and employer match over and above the mandatory six percent based on years of county service and up to a dollar limit set by the Internal Revenue Service.

Employees choosing to participate with over five years of service receive an equal employer match starting at two percent and staggered up to a maximum additional six percent for those with 15 years or more service. Two other 457 plans, Security Benefits and Nationwide, also allow for similar employee contributions and employer match.

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, 2012 and June 30, 2011

NOTE 6: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Communications and office equipment	\$ 910,309	\$ 22,750	\$ -	\$ 933,059
Computer software	3,909,878	222,785	-	4,132,663
Total capital assets	<u>4,820,187</u>	<u>245,535</u>	<u>-</u>	<u>5,065,722</u>
Less accumulated depreciation for:				
Communications and office equipment	(772,976)	(35,394)	-	(808,370)
Computer software	(1,338,443)	(999,605)	-	(2,338,048)
Total accumulated depreciation	<u>(2,111,419)</u>	<u>(1,034,999)</u>	<u>-</u>	<u>(3,146,418)</u>
Total capital assets, net	<u>\$ 2,708,768</u>	<u>\$ (789,464)</u>	<u>\$ -</u>	<u>\$ 1,919,304</u>

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	<u>4,578,359</u>	<u>241,828</u>	<u>-</u>	<u>4,820,187</u>
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	<u>(1,323,012)</u>	<u>(788,407)</u>	<u>-</u>	<u>(2,111,419)</u>
Total capital assets, net	<u>\$ 3,255,347</u>	<u>\$ (546,579)</u>	<u>\$ -</u>	<u>\$ 2,708,768</u>

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2012 and June 30, 2011

NOTE 7: LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	\$ 34,961	\$ 57,268	\$ 54,910	\$ 37,319	\$ 33,587

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

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:

	2012	2011
Designated for prior year encumbrance	\$ 7,179	\$ 67,250
Designated for prepaid items	8,936	5,411
Designated for equipment reserve	293,866	698,912
Designated for aerial reserve	407,806	428,696
Undesignated	54,823	(33,727)
	<u>\$ 772,610</u>	<u>\$ 1,166,542</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, 2012 and June 30, 2011

NOTE 9: RELATED PARTY TRANSACTIONS

In the 2012, the County provided various administrative functions to the System at a direct cost to the System for \$17,168. In the 2011, the County provided these administrative functions as an in-kind contribution for the System.

Revenues paid by the County, City, and KUB during the year ending June 30, 2012 were \$355,284, \$262,090, and \$533,797, respectively, representing approximately 95 percent of total revenues for 2012. 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 2011.

The amounts due to the System from the County, City, and KUB for the fiscal year 2012 are \$30,405, \$38,911, and \$43,438 respectively. The amounts due to the System from the City, County, and KUB were \$0, \$86,790, and \$0 for the fiscal year 2011.

NOTE 10: RETIREMENT PLAN

Certain employees of the System are allowed to individually participate in the Knox County defined contribution plan (asset accumulation plan). The plan covers full-time System employees. Plan benefits depend solely on amounts contributed to the plan plus investment earnings. System employees are eligible to participate from their employment date. Employees may contribute up to fifteen percent of compensation and the System will match these contributions up to six percent of compensation. During the 2012 fiscal year, the employer and member contributions for the defined contribution and 457 plans amounted to a total of \$45,378 and \$47,604, respectively. During the 2011 fiscal year, the employer and member contributions for the defined contribution and 457 plans amounted to a total of \$47,604 and \$48,448, respectively. The System's employer contributions to the plans 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, 2012.

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 commercial General Liability, Workers Compensation, and Property Insurance from outside vendors. The System has had no significant reductions in insurance coverage over the last three years. There have been no settlements in excess of insurance coverage over the last three years.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2012 and June 30, 2011

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, 2012 and 2011 were \$64,938 and \$64,938, respectively. The system is currently in negotiations for a new lease in fiscal year 2013 and the amount is unknown at this time.

**SUPPLEMENTARY
INFORMATION**

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

SCHEDULES OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS - BUDGET TO ACTUAL
For the Years Ended June 30, 2012 and June 30, 2011

	2012					2011				
	Original Budget	Budget Revisions	Revised Budget	Actual	Variance With Final Budget	Original Budget	Budget Revisions	Revised Budget	Actual	Variance With Final Budget
Revenues										
Operating:										
User Service Fees	\$ 875,444	\$ -	\$ 875,444	\$ 819,787	\$ (55,657)	\$ 1,521,112	\$ -	\$ 1,521,112	\$ 778,604	\$ (742,508)
Sale of Maps	71,435	19,518	90,953	85,290	(5,663)	90,000	-	90,000	101,846	11,846
Sale of IDS Cd's	-	-	-	600	600	-	-	-	-	-
Nonoperating:										
Knox County Subsidy	60,772	-	60,772	55,857	(4,915)	84,000	-	84,000	131,950	47,950
City of Knoxville Subsidy	56,503	-	56,503	26,503	(30,000)	38,000	-	38,000	104,503	66,503
Knoxville Utilities Board Subsidy	220,391	-	220,391	250,576	30,185	67,635	-	67,635	451,778	384,143
Metropolitan Planning Commission Subsidy	-	-	-	19,738	19,738	-	-	-	19,738	19,738
Knoxville-Knox County Emergency Comm. District Subsidy	-	-	-	1,435	1,435	-	-	-	1,383	1,383
Interest Income	-	-	-	1,096	1,096	-	-	-	2,740	2,740
Appropriations from Fund Balance	19,518	(19,518)	-	-	-	835,225	567	835,792	-	(835,792)
Appropriations from Reserved Fund Balance	-	61,838	61,838	-	(61,838)	-	-	-	-	-
Appropriations from Designated Fund Balance	617,207	414,500	1,031,707	(47,009)	(1,078,716)	161,365	-	161,365	-	(161,365)
Total Revenues	1,921,270	476,338	2,397,608	1,213,873	(1,183,735)	2,797,337	567,000	2,797,904	1,592,542	(1,205,362)
Expenses										
Operating:										
Personnel Services	476,534	-	476,534	476,220	314	548,085	-	548,085	526,629	21,456
Employee Benefits	172,484	-	172,484	137,048	35,436	168,725	-	168,725	150,631	18,094
Contracted Services	219,259	7,723	226,982	165,056	61,926	185,419	-	185,419	130,604	54,815
Supplies and Materials	32,934	-	32,934	22,337	10,597	37,559	567	38,126	25,417	12,709
Workman's Comp	2,500	-	2,500	82	2,418	2,500	-	2,500	1,579	921
Rental	64,938	54,115	119,053	64,938	54,115	64,938	-	64,938	64,938	-
Depreciation & Insurance	335,414	414,500	749,914	1,035,655	(285,741)	605,270	-	605,270	789,031	(183,761)
Equipment Reserve:										
Contracted Services	10,000	-	10,000	7,962	2,038	120,000	-	120,000	120,000	-
Supplies and Materials	456,707	40,000	496,707	482,976	13,731	713,841	-	713,841	434,030	279,811
Capital Outlay	150,500	(40,000)	110,500	4,995	105,505	-	-	-	-	-
Aerial Reserve:										
Contracted Services	-	-	-	-	-	351,000	-	351,000	-	351,000
Total Expenses	1,921,270	476,338	2,397,608	2,397,269	339	2,797,337	567	2,797,904	2,242,859	555,045
(Decrease) Increase in Net Assets	\$ -	\$ -	\$ -	\$ (1,183,396)	\$ (1,183,396)	\$ -	\$ -	\$ -	\$ (650,317)	\$ (650,317)

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

SCHEDULES OF DEDICATED ASSETS (Unaudited)
For the Years Ended June 30, 2012 and June 30, 2011

2012

Equipment

	Aerial Photography	General Equipment	Total
Dedicated Assets - July 1	\$ 388,696	\$ 454,559	\$ 843,255
Dedicated Contributions	19,000	335,111	354,111
Dedicated Expenses and Encumbrances	-	(495,933)	(495,933)
Interest Earned	110	129	239
Dedicated Assets - June 30	<u>\$ 407,806</u>	<u>\$ 293,866</u>	<u>\$ 701,672</u>

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)
Interest Earned	275	322	597
Dedicated Assets - June 30	<u>\$ 388,696</u>	<u>\$ 454,559</u>	<u>\$ 843,255</u>

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

**SCHEDULES OF RECONCILIATION OF AVAILABLE FUNDS (Unaudited)
For the Years Ended June 30, 2012 and June 30, 2011**

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Current Asset Approach:		
Current Assets	\$ 922,808	\$ 1,375,411
Current Liabilities	<u>(146,466)</u>	<u>(205,373)</u>
Net Current Assets	776,342	1,170,038
<i>Less Reserved Current Assets</i>		
Reserve for Encumbrance Prior Year	(7,179)	(67,250)
Noncurrent Compensated Absences	(3,732)	(3,496)
Designated	(8,936)	(5,411)
Aerial Reserve	(407,806)	(428,696)
Equipment Reserve	<u>(293,866)</u>	<u>(698,912)</u>
	<u>(721,519)</u>	<u>(1,203,765)</u>
"Available" Current Assets (Deficit)	<u><u>\$ 54,823</u></u>	<u><u>\$ (33,727)</u></u>
<hr/>		
	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Equity Approach:		
Total Net Assets	\$ 2,691,914	\$ 3,875,310
<i>Less Specific Reserves:</i>		
Reserve for Encumbrance Prior Year	7,179	67,250
Designated	8,936	5,411
Aerial Reserve	407,806	428,696
Equipment Reserve	<u>293,866</u>	<u>698,912</u>
	<u>(717,787)</u>	<u>(1,200,269)</u>
Subtotal	1,974,127	2,675,041
<i>Less "Non-Spendable" Funds:</i>		
Net Assets invested in Net Fixed Assets	<u>(1,919,304)</u>	<u>(2,708,768)</u>
"Undesignated Fund Balance"	<u><u>\$ 54,823</u></u>	<u><u>\$ (33,727)</u></u>

**INTERNAL CONTROL
AND COMPLIANCE SECTION**

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
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100 E. TENNESSEE AVENUE
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KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

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

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

We have audited the financial statements of the Knoxville, Knox County, K.U.B. Geographic Information Systems (the System) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 14, 2012. 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* 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, 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 previously.

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 Policy Board and various governmental agencies and is not intended to be and should not be used by anyone other than these specified parties.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 14, 2012