

KNOXVILLE, KNOX COUNTY, AND KNOXVILLE UTILITIES BOARD GEOGRAPHIC INFORMATION SYSTEMS

Report to the Policy Board
For the Year Ended June 30, 2023





PUGH & COMPANY, P.C.
315 NORTH CEDAR BLUFF ROAD, SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
FAX 865-769-1660
www.pughcpas.com

December 18, 2023

Policy Board of the
Knoxville, Knox County, and Knoxville Utilities Board Geographic Information Systems
Knoxville, Tennessee

We are pleased to present this report related to our audit of the financial statements of Knoxville, Knox County, and Knoxville Utilities Board Geographic Information Systems (the "System") as of and for the year ended June 30, 2023. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the System's financial and compliance reporting process.

This report is intended solely for the information and use of the Policy Board and management and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to Knoxville, Knox County, and Knoxville Utilities Board Geographic Information Systems.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee



An independently owned member
RSM US Alliance



TSCPA
Members of the Tennessee Society
Of Certified Public Accountants

RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International.

TABLE OF CONTENTS

Required Communications	1-2
Exhibits	
Exhibit A—Significant Accounting Estimates	3
Exhibit B—Significant Written Communications Between Management and Our Firm	
• Representation Letter (Draft)	4-6

REQUIRED COMMUNICATIONS

Auditing standards generally accepted in the United States of America (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Our Responsibilities With Regard to the Financial Statement Audit

Our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described to you in our contract dated April 10, 2023. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication regarding the planned scope and timing of our audit and identified significant risks.

Accounting Policies and Practices

Preferability of Accounting Policies and Practices

Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the System. The following is a description of significant accounting policies that were adopted during the year:

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*

Significant Accounting Policies

We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Unusual Transactions

We did not identify any significant unusual transactions.

Management's Judgments and Accounting Estimates

Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Exhibit A - Summary of Significant Accounting Estimates.

Audit Adjustments and Uncorrected Misstatements

There were no audit adjustments made to the original trial balance presented to us to begin our audit. We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

Observations About the Audit Process

Disagreements With Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

Consultations With Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed With Management

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

Shared Responsibilities for Independence

Independence is a joint responsibility and is managed most effectively when management, audit committees (or their equivalents), and audit firms work together in considering compliance with American Institute of Certified Public Accountants (AICPA) and *Government Accountability Office* (GAO) independence rules. For Pugh CPAs (Pugh) to fulfill its professional responsibility to maintain and monitor independence, management, the Board of Directors, and Pugh each play an important role.

Our Responsibilities

- AICPA and GAO rules require independence both of mind and in appearance when providing audit and other attestation services. Pugh is to ensure that the AICPA and GAO's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
- Maintain a system of quality management over compliance with independence rules and firm policies.

The System's Responsibilities

- Timely inform Pugh, before the effective date of transactions or other business changes, of the following:
 - New affiliates, directors, or officers.
 - Changes in the organizational structure or the reporting entity impacting affiliates such as partnerships, related entities, investments, joint ventures, component units, or jointly governed organizations.
- Provide necessary affiliate information such as new or updated structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
- Understand and conclude on the permissibility, prior to the System and its affiliates, officers, directors, or persons in a decision-making capacity, engaging in business relationships with Pugh.
- Not entering into arrangements of nonaudit services resulting in Pugh being involved in making management decisions on behalf of the System.

Not entering into relationships resulting in close family members of Pugh covered persons, temporarily or permanently acting as an officer, director, or person in an accounting, financial reporting or compliance oversight role at the System.

Internal Control Matters

We have separately communicated any significant deficiencies and material weaknesses in internal control over financial reporting as well as noncompliance or other matters identified during our audit of the financial statements, including follow up on any prior findings, as required by *Government Auditing Standards*. This communication is included in the bound financial statements.

Significant Written Communications Between Management and Our Firm

Copies of significant written communications between our firm and the management of the System, including the draft representation letter to be provided to us by management, are attached as Exhibit B.

EXHIBIT A

Summary of Significant Accounting Estimates

EXHIBIT A – Summary of Significant Accounting Estimates

Year Ended June 30, 2023

SIGNIFICANT ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following summarizes the significant accounting estimates reflected in the System's June 30, 2023 financial statements.

Significant Accounting Estimates

Depreciation of Capital Assets

Accounting policy	Depreciation is calculated using the straight-line method.
Management's estimation process	Estimated depreciable lives are based upon prior experience and use of the asset.
Basis for our conclusion on the reasonableness of the estimate	We have reviewed the estimated useful lives used by management and compared them to industry standards for similar assets.

Discount Rates for Operating Lease Liabilities

Accounting policy	Interest is computed over the term of each lease based on a discount rate, as determined by management.
Management's estimation process	Management uses the risk-free rate for a period comparable to the lease's term as the discount rate.
Basis for our conclusion on the reasonableness of the estimate	We agreed each discount rate to the risk-free rate for a period comparable to each lease's term.

Discount Rates for Subscription Based IT Arrangement (SBITA) Liabilities

Accounting policy	Interest is computed over the term of each SBITA based on a discount rate, as determined by management.
Management's estimation process	Management uses the risk-free rate for a period comparable to the SBITA's term as the discount rate.
Basis for our conclusion on the reasonableness of the estimate	We agreed each discount rate to the risk-free rate for a period comparable to each SBITA's term.

EXHIBIT B

Significant Written Communications Between Management and Our Firm

Draft of Management Representation Letter

Pugh & Company, P.C.
315 N. Cedar Bluff Road
Suite 200
Knoxville, Tennessee 37923-4548

This representation letter is provided in connection with your audits of the financial statements of Knoxville, Knox County, Knoxville Utilities Board (KUB) Geographic Information Systems (the "System") which comprise the statements of net position as of June 30, 2023 and 2022, and the related statements of revenues, expenses, and changes in net position, and cash flows, and the related notes to the financial statements for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, through the date of this letter, the following representations made to you during your audits:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit contract dated April 10, 2023, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of controls to prevent and detect fraud.
4. The methods, data, and significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement, or disclosure that is reasonable in the context of U.S. GAAP, and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party relationships and transactions, including those with Knox County, City of Knoxville, KUB, Knox County Emergency Communications District, Knox County Schools, and Knox County Metropolitan Planning Commission, and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements and guarantees, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements, and for which U.S. GAAP requires adjustment or disclosure, have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
8. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with GASB Statement No.10.
9. Capital assets, including infrastructure, intangible assets, and right of use assets are properly capitalized, reported and, if applicable, depreciated.
10. Components of net position (net investment in capital assets, restricted, and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
11. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private, that is not disclosed in the financial statements.
12. We have complied with all aspects of laws, regulations and provisions of contracts and agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act and OMB Uniform Guidance, because we have not received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of these audits.

13. We have no knowledge of any uncorrected misstatements in the financial statements.
14. The System has satisfactory title to all owned assets.
15. We have no knowledge of any uncorrected misstatements in the financial statements.
16. Management has followed applicable laws and regulations in adopting, approving, and amending budgets.
17. All events subsequent to the date of the financial statements, and for which U.S. GAAP requires adjustment or disclosure, have been adjusted or disclosed.
18. We have requested an unsecured electronic copy of the auditor's report and agree that the auditor's report will not be modified in any manner.

Information Provided

19. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
 - b. Additional information that you have requested from us for the purpose of the audits;
 - c. Unrestricted access to persons within the System from whom you determined it necessary to obtain audit evidence;
 - d. Minutes of the meetings of the governing board and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
20. All transactions have been recorded in the accounting records and are reflected in the financial statements.
21. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
22. It is our responsibility to establish and maintain internal control over financial reporting. One of the components of an entity's system of internal control is risk assessment. We hereby represent that our risk assessment process includes identification and assessment of risks of material misstatement due to fraud. We have shared with you our fraud risk assessment, including a description of the risks, our assessment of the magnitude and likelihood of misstatements arising from those risks, and the controls that we have designed and implemented in response to those risks.
23. We have no knowledge of allegations of fraud or suspected fraud affecting the System's financial statements involving:
 - a. Management.
 - b. Employees who have significant roles in the internal control.
 - c. Others where the fraud could have a material effect on the financial statements.
24. We have no knowledge of any allegations of fraud or suspected fraud affecting the System's financial statements received in communications from employees, former employees, analysts, regulators, or others.
25. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations.
26. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
27. We have disclosed to you the identity of the System's related parties and all the related-party relationships and transactions of which we are aware.
28. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the System's ability to record, process, summarize and report financial data.
29. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
30. During the course of your audits, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Supplementary Information

31. With respect to supplementary information presented in relation to the financial statements as a whole:
 - a. We acknowledge our responsibility for the presentation of such information.
 - b. We believe such information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. When supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.
32. With respect to Management's Discussion and Analysis presented as required by Governmental Accounting Standards Board to supplement the basic financial statements:
 - a. We acknowledge our responsibility for the presentation of such required supplementary information.
 - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by accounting principles generally accepted in the United States of America.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.

Compliance Considerations

In connection with your audit, conducted in accordance with *Government Auditing Standards*, we confirm that management:

33. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
34. Is responsible for compliance with the laws, regulations and provisions of contracts and grant agreements applicable to the auditee.
35. Has identified and disclosed to the auditor all instances of identified and suspected fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements.
36. Is responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
37. Acknowledges its responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.
38. Has taken timely and appropriate steps to remedy identified or suspected fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements that the auditor reports, if applicable.
39. Has a process to track the status of audit findings and recommendations, if applicable.
40. Has identified for the auditor previous audits, attestation engagements and other studies related to the objectives of the audits and whether related recommendations have been implemented, if applicable.
41. Has provided views on the auditor's reported findings, conclusions and recommendations, as well as management's planned corrective actions, for the report, if applicable.

Knoxville, Knox County, KUB Geographic Information Systems

Keith G. Stump, Director

Jennifer Bodie, Accountant, Knox County
Department of Finance