Terry Sweat

From: [illegible] O'Connor, CPA <koconnor@pughcpas.com>
Sent: Wednesday, July 8, 2026 11:20 AM
To: Terry Sweat
Cc: Ted Hotz, CPA
Subject: LUB Agreed Upon Procedures Engagement Letter
Attachments: City of LaFollette 48520000 0526 el AUP.pdf

Good morning, Terry –

Attached is our engagement letter and outlined procedures we plan to perform per the City's request.

Please review and make sure everything looks good. We will need to get your signature and a representative from LUB's signature as well once everything is agreed upon. From there we will send to the comptroller for their approval.

As discussed, I will plan to perform these procedures the week of July 27.

Please do not hesitate to reach out with questions.

Thanks!

PUGH CPAs

Keith O'Connor, CPA
Vice President | Pugh CPAs

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July 8, 2026

To the Mayor, City Council, and Senior Management
City of LaFollette
LaFollette, Tennessee

This letter sets forth Pugh & Company, P.C. ("the Firm", "we", "us", or "our") understanding for applying agreed-upon procedures to selected financial management, cash, billing, collections, disbursement, budgeting, and related process areas of City of LaFollette – Board of Public Utilities – Electric Department and Water Department's (the "Utilities Board" or "LUB") as of or for the period July 1, 2025 through May 31, 2026.

The City of LaFollette (the "City") is the engaging party and intended user of our agreed-upon procedures report. The procedures will be performed on the records, systems, processes, and information of LUB. LUB is the responsible party for the subject matter because LUB is responsible for the financial records, processes, policies, internal controls, and underlying transactions that are the subject of the agreed-upon procedures.

This engagement is solely for the purpose of reporting our findings regarding the results of the procedures performed as compared to the criteria and documentation identified in Appendix A. The intended purpose is to assist the City Council and City management in understanding selected matters related to LUB cash and liquidity, billing and collections, disbursements, payroll, budgeting, transfers, debt service, restricted cash, capital spending, governance documentation, and related financial management processes. This engagement is not designed to determine all causes of LUB financial condition or cash shortages and will not provide an opinion, conclusion, or assurance.

The report is intended for use by the City of LaFollette, including City Council and City management. Because the engagement involves a Tennessee governmental entity and may be subject to public records or other governmental reporting requirements, it is not expected that our report will include restricted-use language.

However, the procedures performed may not be suitable for any purpose other than the intended purpose described above, and other users are responsible for determining whether the procedures performed are appropriate for their purposes.

Prior to the completion of the engagement, the City agrees to provide us with written agreement and acknowledgment that the procedures performed are appropriate for the intended purpose of the engagement as noted above. Written representations and acknowledgment of responsibility may also be requested from LUB as the responsible party.

Our Responsibilities

The objective of our engagement is to:

- Apply the specific procedures listed in Appendix A to selected financial management, cash, billing, collections, disbursement, budgeting, and related process areas of LUB (the "subject matter"). LUB is responsible for the subject matter.
- Issue a written report that describes the procedures applied and our findings without providing an opinion or conclusion on the subject matter.
- Communicate further as required by professional standards applicable to an agreed-upon procedures engagement.

We will apply the procedures included in Appendix A. The procedures may be modified only by mutual written agreement. If any modifications, including additions or subtractions, are made to the procedures, the City will agree to the procedures performed and acknowledge that such procedures are appropriate for the intended purpose of the engagement.

We will conduct our engagement in accordance with attestation standards for agreed-upon procedures engagements established by the AICPA and, if applicable or required, standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States. We are responsible for carrying out the procedures and reporting findings in accordance with these standards.

We are not engaged to, and will not, conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the subject matter. Accordingly, we will not express an opinion or conclusion. We have no responsibility to determine the differences between the procedures to be performed and the procedures that we would have determined to be necessary had we been engaged to perform another form of attestation engagement. The procedures that we perform pursuant to this agreed-upon procedures engagement may be more or less extensive than the procedures that we would determine to be necessary had we been engaged to perform another form of engagement.

Your Responsibilities - City of LaFollette

The engagement to be performed will be conducted on the basis that the City acknowledges and understands that our role is to perform an agreed-upon procedures engagement in accordance with attestation standards established by the AICPA and that the City acknowledges and understands that it has responsibility to:

- Agree to and acknowledge that the procedures described in Appendix A are appropriate for the intended purpose of assisting the City Council and City management in understanding selected factual findings related to LUB financial management, cash, billing, collections, disbursements, budgeting, and related process areas.
- Provide us, prior to the completion of the engagement, with a letter that confirms certain representations made to us during the course of the engagement, including the City's agreement to the procedures and acknowledgment that such procedures are appropriate for the intended purpose of the engagement.
- Determine whether any findings reported by us require corrective action, additional inquiry, legal consultation, communication with regulators, or other action by the City.
- Ensure that the engagement has been properly authorized by the appropriate governing body or authorized official in accordance with applicable Tennessee law, the City charter, applicable purchasing policies, budgetary authority, and any applicable Tennessee Comptroller requirements.
- Identify the City officials and other individuals authorized to receive communications, provide direction regarding the engagement, and receive the final report.

Responsibilities of the Utilities Board as Responsible Party

Because the procedures will be performed on the records, systems, processes, and information of LUB, we will request that LUB acknowledge responsibility for the subject matter and provide written representations, as appropriate. LUB responsibilities include:

- Responsibility for the accuracy and completeness of the records, documents, schedules, reports, explanations, and other information provided to us.
- Responsibility for maintaining internal control over financial reporting, cash receipts, billing, collections, disbursements, payroll, budgeting, compliance, and related process areas.
- Providing unrestricted access to records, personnel, bank information, accounting systems, billing systems, minutes, contracts, policies, budgets, debt documents, and other information necessary to perform the procedures in Appendix A.
- Designating an individual with suitable skill, knowledge, and experience to oversee LUB's participation in the engagement.
- Disclosing known fraud, suspected fraud, allegations, noncompliance, legal matters, regulatory matters, or other significant matters relevant to the procedures.

Our Report

Upon completion of our engagement, we will issue a written report. Our report will list the procedures performed and our findings without providing an opinion or conclusion on the subject matter. Our report will be addressed to the City of LaFollette and will be intended for use by the City of LaFollette, including City Council and City management.

Our report will state the intended purpose of the engagement and will include a statement that the City agreed to and acknowledged that the procedures are appropriate to meet the intended purpose of the engagement. The report will state that it may not be suitable for any other purpose.

Our report will include a statement that the procedures performed may not address all items of interest to users of the report and may not meet the needs of all users of the report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

Should we have any reservations with respect to the subject matter or the procedures, we will discuss them with you before the report is issued. We have no responsibility to update our report for events and circumstances occurring after the date of our report.

As part of our engagement, we will request from City management and, when appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the agreed-upon procedures. Written representations may also be requested from LUB as the responsible party. The City agrees to provide such confirmation and to assist in obtaining necessary representations from LUB.

Other Matters

During the course of the engagement, we may communicate with you, LUB personnel, or other authorized individuals via fax, e-mail, portal, or other electronic means. You should be aware that communication in these mediums contains a risk of misdirected or intercepted communications.

Professional standards prohibit us from being the sole host and/or the sole storage for your financial and non-financial data. It is the responsibility of the City and LUB, as applicable, to maintain original data and records. We cannot be responsible to maintain such original information. By signing this engagement letter, the City affirms that it and/or LUB will maintain the data and records required to make applicable books and records complete.

We will maintain the confidentiality of information in accordance with applicable professional standards. However, because this engagement involves governmental entities, certain documents, reports, communications, or other information may be subject to public records laws. The City, LUB, and legal counsel are responsible for determining the applicability of public records laws and any permitted exemptions.

The attest documentation for this engagement is the property of Pugh CPAs and constitutes confidential information. However, we may be requested or required to make certain attest documentation available to regulators, peer reviewers, the Tennessee Comptroller of the Treasury, or other parties pursuant to authority given by law, regulation, contract, or professional standards. If requested, access to such attest documentation will be provided under the supervision of Pugh CPAs personnel. Furthermore, upon request, we may provide copies of selected attest documentation to such parties, who may intend or decide to distribute the copies or information contained therein to others, including other governmental agencies.

We agree to retain our attest documentation or work papers for a period consistent with our firm record retention policies and applicable legal, regulatory, and professional requirements.

Timing

The timing of our engagement will be scheduled for performance and completion with LUB management.

Engagement Partner

Keith O'Connor is the engagement partner for the services specified in this letter. The engagement partner's responsibilities include supervising Pugh CPAs services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the agreed-upon procedures report.

Fees

Our fees are based on the amount of time required at various levels of responsibility, plus actual out-of-pocket expenses. Invoices will be rendered periodically and are payable upon presentation. We estimate that our fee for the engagement will be approximately $25,000. We will notify you promptly of any circumstances we encounter that could significantly affect this initial fee estimate, including incomplete or unreconciled records, lack of access, changes in scope, additional requested procedures, significant irregularities, or delays in receiving requested information.

Nonattest Services

We are not engaged under this letter to perform nonattest services such as bookkeeping, account reconciliations, posting journal entries, preparation of financial statements, preparation of accounting records, design or implementation of internal controls, management decision-making, forensic investigation, legal analysis, or fraud examination. We may provide limited advice and recommendations related to findings identified during the engagement; however, we will not assume management responsibilities on behalf of the City or LUB.

Management of the City and LUB, as applicable, is responsible for making all management decisions and performing all management functions; assigning competent individuals to oversee services; evaluating the adequacy of services performed; evaluating and accepting responsibility for the results of services performed; and establishing and maintaining internal controls, including monitoring ongoing activities. Our firm, in its sole professional judgment, reserves the right to refuse to perform any procedure or take any action that could be construed as making management decisions or assuming management responsibilities.

Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our engagement, including our respective responsibilities. If you have any questions, please let us know.

We appreciate the opportunity to be of service to the City of LaFollette.

Pugh & Company, P.C.:

Keith O'Connor

Keith O'Connor
Vice President

RESPONSE:

This letter correctly sets forth our understanding.

Acknowledged and agreed on behalf of City of LaFollette by:

Signature: ______________________________________

Name: ______________________________________

Title: ______________________________________

Acknowledgment by LaFollette Utilities Board as Responsible Party:

LaFollette Utilities Board acknowledges that it is the responsible party for the subject matter described in this letter and agrees to provide access to records, systems, personnel, and information necessary for Pugh CPAs to perform the procedures described in Appendix A LUB also acknowledges that written representations may be requested from LUB in connection with this engagement.

Signature: ____________________________________

Name: ____

Title: ____

Appendix A - Agreed-Upon Procedures

I. Cash and Liquidity

1. Obtain a listing of all bank and investment accounts maintained by LUB as of May 31, 2026 and compare the listing to bank statements provided by LUB.
2. Obtain three months bank statements and reconciliations for each account for the period July 1, 2025 through May 31, 2026 and perform the following procedures:
   - Compare monthly ending cash balances per bank statements to the general ledger for the same periods.
   - Obtain bank reconciliations for each account for the period July 1, 2025 through May 31, 2026 and report whether reconciliations were prepared, dated, reviewed, and approved.
3. Obtain a listing of restricted cash, reserve accounts, bond accounts, customer deposits, or other legally or contractually restricted accounts and compare to supporting bank statements and documentation provided by LUB for the period July 1, 2025 through May 31, 2026.

II. Cash Receipts, Billing, and Collections

1. Obtain an understanding of the cash receipt, billing and collection cycle through inquiry and observation of personnel. Review policies and procedures for content, board approval and adequacy.
2. Obtain three monthly cash receipts reports for the period July 1, 2025 through May 31, 2026 and compare total receipts per the billing system to deposits per bank statements, reporting any unusual differences and deposits not made within three business days.
3. Select three deposits from bank statements and compare each deposit to supporting cash receipts records, daily collection reports, or other documentation provided by LUB.
4. Obtain accounts receivable aging reports as of May 31, 2026 and perform the following procedures:
   - Identify accounts greater than 90 days past due and greater than $5,000 and report the number of accounts and total dollar amount.
   - Obtain policies related to collections, cutoffs, reconnects, penalties, adjustments, and write-offs and report whether such policies were provided.
   - Select five customer account adjustments or write-offs and compare to documentation of approval.
   - Select five customer accounts from the billing register and compare billing activity to payment history and account status.

III. Disbursements and Accounts Payable

1. Obtain an understanding of the cash disbursement and accounts payable cycle through inquiry and observation of personnel. Review policies and procedures for content, board approval and adequacy.
2. Obtain accounts payable aging reports as of May 31, 2026 and note any unusual activity or large delinquent items.
3. Select 5 disbursements during the period July 1, 2025 through May 31, 2026 and compare each item to invoice, purchase order, approval, check or electronic payment support, and general ledger coding.
4. For those same 5 disbursement payments, report whether the payment was approved in accordance with documented policies provided by LUB.
5. Obtain three monthly credit card statements for the period July 1, 2025 through May 31, 2026, if applicable, and select ten transactions to compare to receipts and evidence of review/approval.

IV. Payroll

1. Obtain an understanding of the payroll cycle through inquiry and observation of personnel. Review policies and procedures for content, board approval and adequacy.

2. Obtain three payroll registers during the period July 1, 2025 through May 31, 2026 perform the following procedures:

    - Compare total payroll per payroll registers to general ledger payroll expense for selected months and report unusual differences.
    - Select one employees from each register and compare pay rates per payroll records to approved pay rates or personnel documentation provided by LUB.
    - Select three employees with overtime payments and compare to documentation of approval.

V. Budgeting, Financial Reporting, and Cash Flow

1. Obtain three monthly financial statements or budget-to-actual reports for during the period July 1, 2025 through May 31, 2026 and perform the following procedures:

    - Report on whether such reports were prepared and presented to management or governance.
    - Compare actual revenues and expenses to budget for months selected and identify line items with unfavorable variances and evaluate management comments.

2. Obtain or prepare three monthly cash rollforwards during the period July 1, 2025 through May 31, 2026 showing beginning cash, cash receipts, disbursements, transfers, and ending cash.

3. Identify months with negativeF operating cash flow and summarize the amounts for the period July 1, 2025 through May 31, 2026.

4. Obtain documentation of transfers to or from the City of LaFollette or other funds/entities during the period July 1, 2025 through May 31, 2026 and compare selected transfers to approval documentation.

5. Obtain debt service schedules, bond documents, loan agreements, and reserve requirements provided by LUB and compare scheduled payments to payments recorded in the general ledger for the period July 1, 2025 through May 31, 2026.

6. Obtain LUB adopted budgets, budget amendments, budget ordinances or resolutions, and related approval documentation for the period July 1, 2025 through May 31, 2026 and report whether the documentation identifies approval by the appropriate governing body.

VI. Use of Public Equipment and Materials

1. Obtain policies, procedures, personnel manuals, Board actions, or other documentation related to use of LUB equipment, vehicles, fuel, tools, inventory, supplies, or materials by employees, officials, or other individuals, including any policy addressing personal use, reimbursement, approval, or prohibition of such use.

2. Inquire of LUB management and City personnel regarding known instances, allegations, complaints, or investigations involving personal use of LUB equipment, vehicles, fuel, tools, inventory, supplies, or materials during the period July 1, 2025 through May 31, 2026 and summarize responses provided.

VII. Pay-in-Lieu-of-Taxes to the City

1. Obtain LUB pay-in-lieu-of-taxes calculations, payment schedules, related ordinances, resolutions, statutory or policy criteria identified by the City or LUB, and supporting documentation for the period July 1, 2025 through May 31, 2026 or the most recent completed calculation period.

2. Compare the inputs used in the pay-in-lieu-of-taxes calculation to supporting documentation provided by LUB, such as general ledger balances, prior audited financial statements, fixed asset records, revenue records, or other supporting schedules identified by management.

3. Recalculate the mathematical accuracy of the pay-in-lieu-of-taxes calculation using the formula and criteria provided by the City, LUB, or legal counsel and report mathematical differences greater than $1,000.

4. Compare pay-in-lieu-of-taxes amounts recorded by LUB and amounts paid to the City to the recalculated amount and report differences greater than $1,000.

5. If LUB did not provide a pay-in-lieu-of-taxes calculation or supporting criteria, report that the calculation or criteria was not provided.

VIII. Utility Charges to the City of LaFollette

1. Obtain a listing of City of LaFollette electric and water accounts billed by LUB during the period July 1, 2025 through May 31, 2026, including account numbers, service addresses, meter numbers, rate classifications, and customer status.

2. Obtain approved LUB rate schedules, ordinances, resolutions, service agreements, franchise agreements, or other documentation identified by the City or LUB as establishing electric and water rates or billing arrangements applicable to City accounts.

3. Select three monthly billing periods and compare City electric and water bills to the applicable rate schedules or billing criteria provided. Report accounts with zero charges, no billing activity, nonstandard rate classifications, discounts, credits, adjustments, or rate deviations based on the documentation provided.

4. For any accounts or billing periods with zero charges, no billing activity, nonstandard rates, discounts, credits, adjustments, or rate deviations, obtain LUB management explanations and supporting authorization, if available, and summarize the explanations and supporting documentation provided.

5. Compare amounts billed to the City for the selected billing periods to payments received or receivables recorded by LUB and report differences greater than $1,000.