



# Consolidated

## Financial Statements and Supplemental Information June 30, 2024 and 2023

### KUB Board of Commissioners

**Adrienne Simpson-Brown**, Chair    **Claudia Caballero**    **Kathy Hamilton**    **Dr. Craig Pickett, Jr.**  
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**Mark Walker**

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**Jamie Davis**

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**Susan Edwards**

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Senior Vice President and Chief Customer Officer

**John Williams**

Senior Vice President and Chief Infrastructure and Compliance Officer

**John Gresham**

Senior Vice President and Chief Engineering and Operations Officer



# Knoxville Utilities Board

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June 30, 2024 and 2023

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## Independent Auditor's Report

Board of Commissioners  
Knoxville Utilities Board  
Knoxville, Tennessee

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of the Knoxville Utilities Board (KUB), a component unit of the City of Knoxville, Tennessee, as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements as listed in the index.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of KUB as of June 30, 2024 and 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of KUB and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about KUB's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Board of Commissioners  
Knoxville Utilities Board  
Knoxville, Tennessee

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of KUB's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about KUB's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 27 and the required supplementary information on pages 74 through 78 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Board of Commissioners  
Knoxville Utilities Board  
Knoxville, Tennessee

***Supplemental Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise KUB's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Information***

Management is responsible for the other information. The other information comprises the statistical information but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2024, on our consideration of KUB'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KUB's internal control over financial reporting and compliance.

*Coulter & Justus, P.C.*

Knoxville, Tennessee  
October 23, 2024

# **Knoxville Utilities Board**

## **Management's Discussion and Analysis**

### **June 30, 2024 and 2023**

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Knoxville Utilities Board (KUB), comprised of the Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions, including setting rates. KUB's accounts are maintained in conformity with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC), the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners (NARUC), and the Governmental Accounting Standards Board (GASB), as applicable.

This discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of KUB's financial activity, (c) identify major changes in KUB's financial position, and (d) identify any financial concerns.

The Management Discussion and Analysis (MD&A) focuses on the fiscal year ended June 30, 2024, activities, resulting changes, and current known facts, and should be read in conjunction with KUB's consolidated financial statements.

## **Consolidated Highlights**

### **System Highlights**

KUB experienced normal operations this fiscal year as supply chain issues have subsided and projects progressed according to schedules. Progress continues on the construction of the fiber network as well as at the Mark B. Whitaker Water Treatment Plant where redundancy is being built into KUB's water treatment process.

The Knoxville area continues to grow, and customers are being added across all divisions. As of June 30, 2024, KUB served 501,315 customers. KUB added 15,102 new customers to these systems in fiscal year 2024, representing growth of three percent.

In December 2023, KUB energized a new substation at Western Avenue, adding electric system capacity of 330 megavolt-amperes (MVAs).

In January 2024, KUB's electric system set a new record peak in demand of 1,350.5 megawatt hours. The natural gas system's record peak in demand remains 169,458 dekatherms, set in December 2022.

In April 2023, KUB launched Knoxville's first community solar program in partnership with the City of Knoxville and the Tennessee Valley Authority. KUB invested \$1.4 million to build the 1 megawatt array, which is located at the City of Knoxville's Public Works Complex. KUB Community Solar allows customers to subscribe to clean, locally generated renewable energy and access the benefits of a shared solar array. As of the end of the fiscal year, the program was 95 percent subscribed.

In September 2023, KUB elected to participate in TVA's Power Supply Expanded Flexibility Program which will allow KUB to produce up to 5 percent of KUB's electric energy supply. The goals of this program include achieving a significant power cost savings, advancing the goal to generate 400 megawatt of renewable energy by 2030, and demonstrating KUB's commitment to a cleaner environment. The first project will commence in fiscal year 2025.

During fiscal year 2024, KUB sold \$75 million in revenue bonds for the purpose of funding system expenditures.



# **Knoxville Utilities Board**

## **Management's Discussion and Analysis**

### **June 30, 2024 and 2023**

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KUB's electric system maintains a Diamond Level designation by the American Public Power Association's (APPA) Reliable Public Power Provider (RP3) program, the highest level of recognition of the program.

KUB's natural gas system was named to the American Public Gas Association's (APGA) System Operational Achievement Recognition (SOAR) Program in 2018, reflecting KUB's focus on system integrity, continuous improvement, safety, and employee development. KUB is a Gold Level winner and remains a member of the program through 2024. KUB was recognized as a Safety Contest Winner for calendar year 2023 by APGA. KUB received the 2023 APGA Communications & Marketing Award for its natural gas growth efforts.

KUB's treatment plants continue to meet high standards of operation. KUB was awarded the National Association of Clean Water Agencies (NACWA) Peak Performance recognition for all Wastewater Treatment Plants in calendar year 2023. Fourth Creek, Kuwahee, and Loves Creek Wastewater Treatment Plants won gold awards, while Eastbridge won silver.

KUB was named a National Association of Clean Water Agencies' (NACWA) National Environmental Achievement Awards 2024 honoree. These awards recognize individuals and NACWA member agencies that have made outstanding contributions to environmental protection and the clean water community. In 2024, KUB received two awards. The first award recognizes KUB's Biologically Enhanced High-Rate Clarifier in the Operations & Environmental Performance category. The second award recognizes KUB's Utility Apprentice Program in the Workforce Development category.

In 2023, KUB obtained Diamond Certification with the National Biosolids Partnership. Diamond certification is a new, advanced level of the program. Biosolids are nutrient-rich organic matter produced by wastewater treatment and is a registered fertilizer with the Tennessee Department of Agriculture.

## **Century II Infrastructure Program**

Century II is KUB's proactive long-range program to improve and maintain the electric, natural gas, water, and wastewater systems for its customers. It includes maintenance and asset replacement strategies for each system and establishes sustainable replacement cycles. Century II moves KUB into its second century of service by improving each system through sound planning, resource allocation, and continued investment.

In September 2021, the Board approved electric rate increases to support both the Century II program and expanded fiber network. The three approved 3 percent electric rate increases went into effect April 2022, April 2023, and April 2024 generating \$16.7 million, \$17.4 million, and \$18 million in additional annual Electric Division revenue, respectively.

In June 2022, the Board approved water and wastewater rate increases to support the Century II program. The first two of three approved 5 percent water rate increases went into effect July 2022 and July 2023, generating \$3.4 million of additional annual Water Division revenue each. The remaining rate increase is effective July 2024 and is expected to provide an additional \$3.6 million in annual Water Division revenue. The first two of three approved 4 percent wastewater rate increases went into effect July 2022 and July 2023, generating \$3.9 million and \$4 million of additional annual Wastewater Division revenue, respectively. The remaining rate increases is effective July 2024 and is expected to provide an additional \$4.2 million in annual Wastewater Division revenue.

In June 2024, as part of KUB's Inflation Response Plan, the Board approved the next phase of electric, gas, water, and wastewater rate increases to support the Century II program and the expanded fiber network. The three approved electric rate increases are effective April 2025, April 2026, and April 2027 and are expected to provide an additional \$26 million, \$20.3 million, and \$13.4 million in additional annual Electric Division revenue, respectively. The three approved 3 percent gas rate increases are effective

# **Knoxville Utilities Board**

## **Management's Discussion and Analysis**

### **June 30, 2024 and 2023**

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October 2024, October 2025, and October 2026 and are expected to provide an additional \$4.1 million, \$4.2 million, and \$4.3 million in additional annual Gas Division revenue, respectively. The three approved 6 percent water rate increases are effective July 2025, July 2026, and July 2027 and are expected to provide an additional \$4.5 million, \$4.8 million, and \$5.1 million in additional annual Water Division revenue, respectively. The three approved wastewater rate increases are effective July 2025, July 2026, and July 2027 and are expected to provide an additional \$2.3 million, \$2.4 million, and \$2.4 million in additional annual Wastewater Division revenue, respectively.

KUB is currently in the process of implementing a Water Plant Redundancy initiative to ensure that high quality, reliable water service will be provided to customers over the long term. KUB maintains a single water treatment plant for its system. In lieu of building a second treatment facility to ensure capacity will be available to meet the needs of current and future water customers, KUB will invest approximately \$161 million in various redundant facilities at the site of its existing Mark B. Whitaker Water Treatment Plant over a 16-year period that began in fiscal year 2017. Construction of a new generator building with three 2,500 kW diesel generators and associated switchgear was completed in fiscal year 2022 at the Mark B. Whitaker Water Treatment Plant. Construction of the new water filter project commenced in October 2022 and is projected to be completed by June 2025.

Knox County has committed \$2.6 million in a Tennessee Department of Environment and Conservation (TDEC) non-competitive grant and \$10 million in direct American Rescue Plan Act (ARPA) funding, and the City of Knoxville has committed \$7.5 million in a TDEC non-competitive grant and \$5 million in direct ARPA funding for a total of \$25.1 million in grant money. The grants will be used to help fund KUB's new water filter project at its Mark B. Whitaker Water Treatment Plant. Approximately \$14.9 million of the \$25.1 million has been received by KUB.

For the fiscal year, KUB stayed on track with its overall Century II capital budget and production goals. The electric system replaced 6.7 miles of transmission lines and 5.8 miles of underground cable. In the natural gas system, 7 miles of gas steel main were replaced. In the water system, 3.4 miles of galvanized water main and 4.9 miles of cast iron water main were replaced. In the wastewater system, 13 miles of main were rehabilitated or replaced.

### **Fiber Network**

During fiscal year 2021, KUB developed a Fiber to the Home Business Plan for the provision of broadband services to customers within its electric system service territory. In accordance with state law and KUB's wholesale power supply contract with TVA, the Business Plan was submitted to the Office of the Comptroller of the Treasury for Tennessee and TVA for review. The Office of the Comptroller found KUB's Business Plan to be financially feasible and TVA approved the Business Plan, finding no cross-subsidization exists between the proposed Fiber Division and the Electric Division.

After gaining the required approvals from TVA, the State of Tennessee, KUB's Board, and City Council, KUB launched its new Fiber Division. Broadband services will be provided by a high-speed fiber optic network that will be owned and maintained by the Electric Division. The Fiber Division will share in the cost to build and operate the Fiber network by paying the Electric Division an annual access fee based on the year-end value of those assets and the related expenses. The Fiber Division will also pay the Electric Division an annual utilization fee based on attachments to the network. In addition to providing broadband services, the fiber network will allow KUB to implement new advanced technologies to improve the reliability of its electric system.

As a component of the Fiber Division's start-up financing plan, approved by KUB's Board and TVA, the Electric Division will provide \$55 million of interdivisional loans. The first \$10 million was provided in October 2021, an additional \$7 million was provided in August 2022, \$13 million was provided in February 2023, and \$5 million was provided in May 2024, all maturing in June 2030. In May 2024, an additional

# **Knoxville Utilities Board**

## **Management's Discussion and Analysis**

### **June 30, 2024 and 2023**

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interdivisional loan of \$2 million was provided to the Fiber Division by the Electric Division, maturing in June 2032.

In fiscal year 2022, KUB began the seven-year buildout on extending fiber infrastructure to make broadband service available to electric customers. KUB commenced a pilot customer program in June 2022, and the first broadband customers began receiving service in September 2022.

As of June 30, 2024, the Fiber Division had 10,759 customers.

The Tennessee Emergency Broadband Fund selected KUB for a grant of \$15.3 million to assist in the provision of broadband access to Grainger, Jefferson, Sevier, and Union Counties. As of June 30, 2024, KUB has received \$8.3 million in reimbursements.

In August 2022, the Board approved KUB's entrance into an Interlocal Cooperation Agreement with Knox County for the purpose of providing funding for KUB's Community Low-Income Internet Program for eligible low-income student households receiving KUB internet service located within the jurisdictional limits of Knox County and outside of the jurisdictional limits of the City of Knoxville. KUB's ConnectED program provides eligible households \$80 monthly toward fiber-related charges.

The fiber network is an integral component of a \$702 million ten-year Enhanced Grid Modernization effort for the Electric Division. The program will be funded by a combination of electric rate increases, new bonds, grant funds, and projected payments from the Fiber Division.

## **Financial Highlights**

### ***Fiscal Year 2024 Compared to Fiscal Year 2023***

KUB's consolidated Change in Net Position increased \$96.2 million in fiscal year 2024. Comparatively, net position increased by \$69.5 million in fiscal year 2023.

Operating revenue decreased \$21.1 million, the net result of the flow through of lower energy costs in KUB's rates, along with rate increases in the Electric, Water, and Wastewater Divisions. Purchased energy expense (power and natural gas) decreased \$62.1 million or 11.2 percent, the combined effect of a \$28.5 million decrease in purchased power cost and a \$33.6 million decrease in purchased gas cost. Margin from sales (operating revenue less purchased energy expense) increased \$41.1 million or 9.8 percent compared with the prior fiscal year.

Operating expenses (excluding purchased power and purchased gas expense) increased \$19.2 million. Operating and maintenance (O&M) expenses were \$12.9 million higher than the previous year, due to an increase in outside contractor and consultant expenses, materials and chemicals, labor-related expenses, and vegetation management expenses. Depreciation and amortization expense increased \$4.1 million or 4.3 percent. Taxes and tax equivalents increased \$2.3 million or 5.9 percent.

Interest income was \$3.5 million higher than the prior fiscal year, due to higher interest rates throughout the fiscal year. Interest expense increased \$2.4 million or 5.7 percent, reflecting interest expense from new revenue bonds sold during fiscal year 2024.

Capital contributions decreased \$1.8 million, the result of a lower level of assets contributed by developers.

Total capital assets (net) increased \$156.1 million or 6.6 percent over the last fiscal year.

# **Knoxville Utilities Board**

## **Management's Discussion and Analysis**

### **June 30, 2024 and 2023**

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Long-term debt represented 42.5 percent of KUB's consolidated capital structure, compared to 43.4 percent last fiscal year. Capital structure equals long-term debt (including the current and long-term portion of revenue bonds), plus net position.

#### ***Fiscal Year 2023 Compared to Fiscal Year 2022***

KUB's consolidated Change in Net Position increased \$69.5 million in fiscal year 2023. Comparatively, net position increased by \$77.7 million in fiscal year 2022.

Operating revenue increased \$66.8 million as a result of the flow through of higher energy costs in KUB's rates, along with rate increases in the Electric, Water, and Wastewater Divisions. Purchased energy expense (power and natural gas) increased \$41.3 million or 8.1 percent, the combined effect of a \$36.2 million increase in purchased power cost and a \$5.1 million increase in purchased gas cost. Margin from sales (operating revenue less purchased energy expense) increased \$25.5 million or 6.5 percent compared with the prior fiscal year.

Operating expenses (excluding purchased power and purchased gas expense) increased \$51.1 million. Operating and maintenance (O&M) expenses were \$44 million higher than the previous year, due to higher labor-related expenses driven by higher pension expenses, and outside contractor and consultant expenses. Depreciation and amortization expense increased \$5.8 million or 6.6 percent. Taxes and tax equivalents increased \$1.3 million or 3.4 percent.

Interest income was \$8 million higher than the prior fiscal year, due to rising interest rates throughout the fiscal year. Interest expense increased \$2.4 million or six percent, reflecting interest expense from new revenue bonds sold during fiscal year 2023.

Capital contributions increased \$2.7 million, the result of a higher level of assets contributed by developers. Total capital assets (net) increased \$102.9 million or 4.6 percent over the last fiscal year.

Long-term debt represented 43.4 percent of KUB's consolidated capital structure, compared to 43.6 percent last fiscal year. Capital structure equals long-term debt (including the current and long-term portion of revenue bonds), plus net position.

## **Knoxville Utilities Board Consolidated Financial Statements**

KUB's financial performance is reported under three basic consolidated financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows.

KUB's basic financial statements were expanded to meet the requirement of GASB Statement No. 84. The fiduciary activities of KUB include the Knoxville Utilities Board Pension Plan and the Knoxville Utilities Board Other Post-Employment Benefits Trust and are included on Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position.

### **Statement of Net Position**

KUB reports its assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position in the Statement of Net Position. Assets are classified as current, restricted, plant in service, intangible, or other assets.

# **Knoxville Utilities Board**

## **Management's Discussion and Analysis**

### **June 30, 2024 and 2023**

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Liabilities are classified as current, other, or long-term debt. Net position is classified as net investment in capital assets, restricted, or unrestricted. Net position tells the user what KUB has done with its accumulated earnings, not just the balance.

Net investment in capital assets reflects the book value of all capital assets and intangible assets, less lease and subscription liabilities and the outstanding balances of debt used to acquire, construct, or improve those assets.

Restricted net position includes assets that have been limited to specific uses by KUB's bond covenants or through resolutions passed by the KUB Board.

Unrestricted net position is a residual classification; the amount remaining after reporting net position as either invested in capital or restricted is reported there.

### **Statement of Revenues, Expenses and Changes in Net Position**

KUB reports its revenues and expenses (both operating and non-operating) on the Statement of Revenues, Expenses and Changes in Net Position. In addition, any capital contributions or assets donated by developers are reported on this statement.

Total revenue less total expense equals the change in net position for the reporting period. Net position at the beginning of the period is increased or decreased, as applicable, by the change in net position for the reporting period.

The change in net position for the reporting period is added to the net position segment of the Statement of Net Position.

### **Statement of Cash Flows**

KUB reports cash flows from operating activities, capital and related financing activities, non-capital and related financing activities, and investing activities on the Statement of Cash Flows. This statement tells the user the sources and uses of cash during the reporting period.

The statement indicates the beginning cash balance and ending cash balance and how it was either increased or decreased during the reporting period.

The statement also reconciles cash flow to operating income as it appears on the Statement of Revenues, Expenses and Changes in Net Position.

**Knoxville Utilities Board**  
**Management's Discussion and Analysis**  
**June 30, 2024 and 2023**

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**Condensed Financial Statements**

**Statement of Net Position**

The following table reflects the condensed consolidated Statement of Net Position for KUB compared to the prior two fiscal years.

**Statements of Net Position**  
**As of June 30**

<i>(in thousands of dollars)</i>	<b>2024</b>	<b>2023</b>	<b>2022</b> <b>as restated</b>
Current, restricted, intangible, and other assets	\$ 450,473	\$ 460,223	\$ 510,710
Capital assets, net	2,511,915	2,355,801	2,252,920
Deferred outflows of resources	43,938	67,744	27,740
Total assets and deferred outflows of resources	<u>3,006,326</u>	<u>2,883,768</u>	<u>2,791,370</u>
Current and other liabilities	271,665	277,812	257,650
Long-term debt outstanding	1,193,277	1,167,157	1,124,918
Deferred inflows of resources	12,337	5,939	45,474
Total liabilities and deferred inflows of resources	<u>1,477,279</u>	<u>1,450,908</u>	<u>1,428,042</u>
Net position			
Net investment in capital assets	1,280,751	1,154,845	1,098,790
Restricted	25,949	23,818	22,343
Unrestricted	<u>222,347</u>	<u>254,197</u>	<u>242,195</u>
Total net position	<u>\$ 1,529,047</u>	<u>\$ 1,432,860</u>	<u>\$ 1,363,328</u>

**Normal Impacts on Statement of Net Position**

The following is a description of activities which will normally impact the comparability of the Statement of Net Position presentation:

- Change in net position (from Statement of Revenues, Expenses and Changes in Net Position): impacts (increase/decrease) current and other assets and/or capital and intangible assets and unrestricted net position.
- Issuing debt for capital: increases deferred outflows of resources and long-term debt.
- Spending debt proceeds on new capital: reduces current assets and increases capital assets.
- Spending of non-debt related current assets on new capital: (a) reduces current assets and increases capital assets, and (b) reduces unrestricted net position and increases net investment in capital assets.
- Principal payment on debt: (a) reduces current and other assets and reduces long-term debt, and (b) reduces unrestricted net position and increases net investment in capital assets.
- Reduction of capital assets through depreciation: reduces capital assets and net investment in capital assets.

# **Knoxville Utilities Board**

## **Management's Discussion and Analysis**

### **June 30, 2024 and 2023**

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## **Impacts and Analysis**

### **Current, Restricted, Intangible, and Other Assets**

#### ***Fiscal Year 2024 Compared to Fiscal Year 2023***

Current, restricted, intangible, and other assets decreased \$9.8 million or 2.1 percent, due to a decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) of \$38.3 million offset by an increase in accounts receivable of \$14.2 million, an increase in under recovered purchased power cost of \$5.1 million, an increase in lease receivable of \$5 million, and an increase in inventories of \$3.8 million.

KUB under recovered \$5.1 million in wholesale power costs from its customers in fiscal year 2024, as compared to a \$3.5 million over recovery in fiscal year 2023. This under recovery of costs will be charged to KUB's electric customers during the next fiscal year through adjustments to rates via the Purchased Power Adjustment. KUB under recovered \$1.1 million in wholesale gas costs from its customers in fiscal year 2024, as compared to a \$4.4 million over recovery in fiscal year 2023. This under recovery of costs will be charged to KUB's gas customers during the next fiscal year through adjustments to rates via the Purchased Gas Adjustment.

#### ***Fiscal Year 2023 Compared to Fiscal Year 2022***

Current, restricted, intangible, and other assets decreased \$50.5 million or 9.9 percent, due to a decrease in the actuarially determined net pension asset of \$64.1 million offset by an increase in inventories of \$8.8 million and an increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) of \$6 million.

### **Capital Assets**

#### ***Fiscal Year 2024 Compared to Fiscal Year 2023***

Capital assets (net) increased \$156.1 million or 6.6 percent. Major capital expenditures (reflected in both plant additions and work in progress) in fiscal year 2024 included \$67.7 million for fiber network buildout, \$32.3 million for various electric distribution system improvements, \$21 million related to wastewater Century II projects, \$17.6 million for electric services and extensions, \$11.2 million for water plant redundancy, \$9.1 million for water main replacements, \$7.7 million for gas service extensions, and \$7.3 million for pole replacements for the electric system. System assets of \$36.7 million were retired during fiscal year 2024.

#### ***Fiscal Year 2023 Compared to Fiscal Year 2022***

Capital assets (net) increased \$102.9 million or 4.6 percent. Major capital expenditures (reflected in both plant additions and work in progress) in fiscal year 2023 included \$46 million for fiber network buildout, \$30.5 million for various electric distribution system improvements, \$20.4 million related to wastewater Century II projects, \$13.9 million for electric services and extensions, \$9.6 million for water main replacements, \$7.4 million for gas service extensions, \$6.6 million for pole replacements for the electric system, and \$6.4 million for water plant redundancy. System assets of \$17.9 million were retired during fiscal year 2023.

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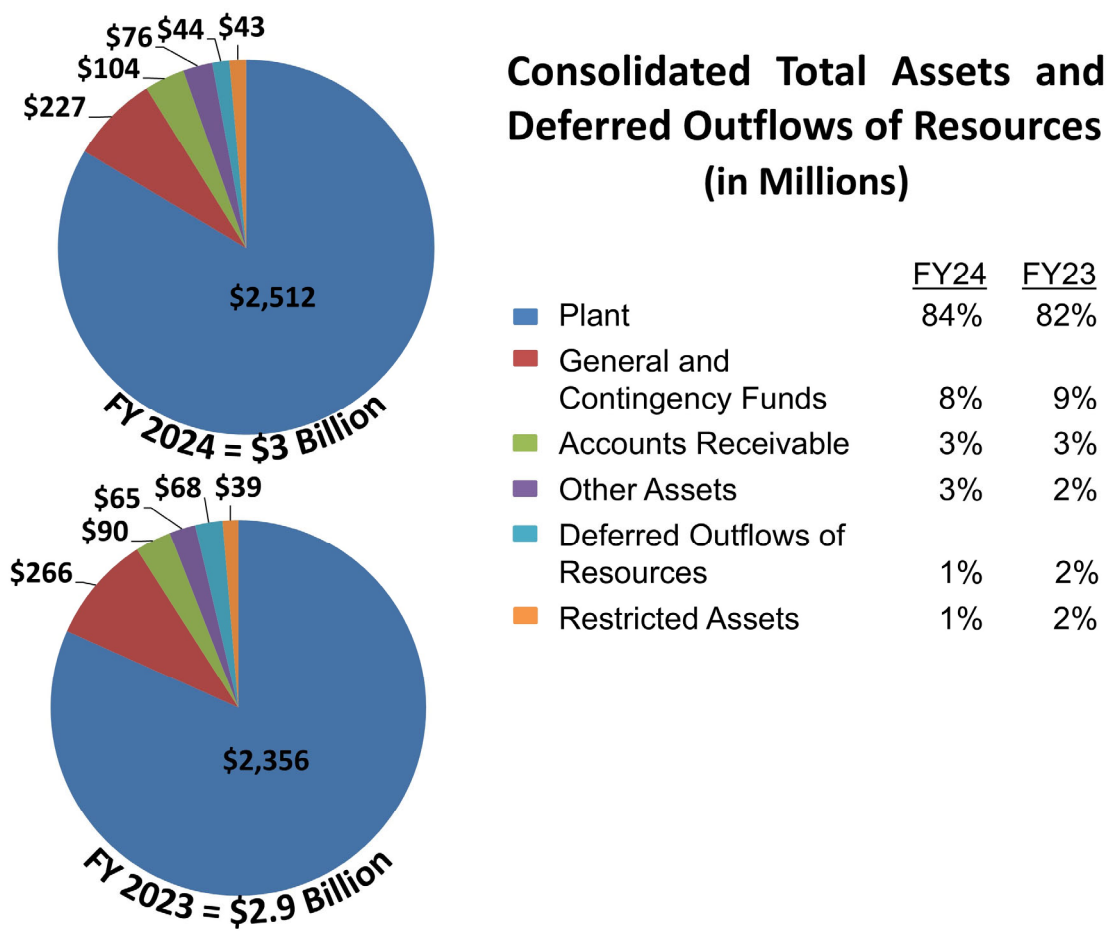
**Deferred Outflows of Resources**

***Fiscal Year 2024 Compared to Fiscal Year 2023***

Deferred outflows of resources decreased \$23.8 million compared to the prior year, due to a decrease in pension outflow of \$20.3 million, a decrease in OPEB outflow of \$2.6 million, and a decrease in unamortized bond refunding costs of \$0.9 million when compared to the prior fiscal year.

***Fiscal Year 2023 Compared to Fiscal Year 2022***

Deferred outflows of resources increased \$40 million compared to the prior year, primarily due to an increase in pension outflow of \$40.7 million when compared to the prior fiscal year.



**Current and Other Liabilities**

***Fiscal Year 2024 Compared to Fiscal Year 2023***

Current and other liabilities decreased \$6.1 million, or 2.2 percent, compared to the prior fiscal year. This reflects a decrease of \$14.8 million in the actuarially determined net pension liability, a decrease of \$4.4 million in over recovered purchased gas cost, a \$3.6 million decrease in the actuarially determined net



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OPEB liability, and a decrease of \$3.5 million over recovered purchased power cost. These decreases were offset by an increase of \$13.5 million in payables, an increase of \$2.8 million in the current portion of revenue bonds, an increase of \$2.6 million in accrued expenses, and an increase of \$1.3 million in customer deposits.

#### ***Fiscal Year 2023 Compared to Fiscal Year 2022***

Current and other liabilities increased \$20.2 million, or 7.8 percent, compared to the prior fiscal year. This reflects an increase of \$22.2 million in the actuarially determined net pension liability, an increase of \$2.6 million in accrued interest on revenue bonds, an increase of \$1.7 million in the actuarially determined net OPEB liability, and an increase of \$1.4 million in the current portion of revenue bonds offset by a decrease of \$8.4 in accrued expenses and a decrease of \$3 million in payables.

KUB over recovered \$3.5 million in wholesale power costs from its customers in fiscal year 2023, as compared to a \$2.4 million under recovery in fiscal year 2022. This over recovery of costs will be credited to KUB's electric customers during the next fiscal year through adjustments to rates via the Purchased Power Adjustment. KUB over recovered \$4.4 million in wholesale gas costs from its customers in fiscal year 2023, as compared to a \$4.2 million over recovery in fiscal year 2022. This over recovery of costs will be credited to KUB's gas customers during the next fiscal year through adjustments to rates via the Purchased Gas Adjustment.

## **Long-term Debt**

#### ***Fiscal Year 2024 Compared to Fiscal Year 2023***

Long-term debt increased \$26.1 million or 2.2 percent. The increase is due in part to the net impact of the scheduled repayment of debt and \$75 million in electric and water system revenue bonds sold in November 2023.

#### ***Fiscal Year 2023 Compared to Fiscal Year 2022***

Long-term debt increased \$42.2 million or 3.8 percent. The increase is due in part to the net impact of the scheduled repayment of debt and \$89 million in electric and wastewater system revenue bonds sold in November 2022.

## **Deferred Inflows of Resources**

#### ***Fiscal Year 2024 Compared to Fiscal Year 2023***

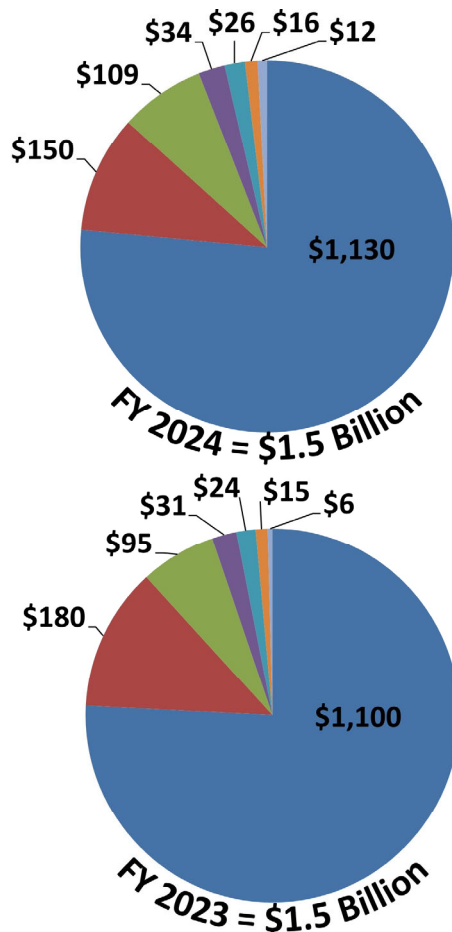
Deferred inflows increased \$6.4 million compared to the prior fiscal year, primarily due to a \$4.8 million increase in lease inflow and a \$1.8 million increase in OPEB inflow.

#### ***Fiscal Year 2023 Compared to Fiscal Year 2022***

Deferred inflows decreased \$39.5 million compared to the prior fiscal year, due to a \$39.3 million decrease in pension inflow and a \$0.2 million decrease in lease inflow.

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**Consolidated Total Liabilities and  
Deferred Inflows of Resources  
(in Millions)**

	<u>FY24</u>	<u>FY23</u>
■ Bond Debt	76%	76%
■ Other Liabilities	10%	12%
■ Payables	7%	7%
■ Misc Current	3%	2%
■ Customer Deposits	2%	2%
■ Interest Accrued	1%	1%
■ Deferred Inflows of Resources	1%	<1%

**Net Position**

***Fiscal Year 2024 Compared to Fiscal Year 2023***

Total net position increased \$96.2 million or 6.7 percent. Net investment in capital assets increased \$125.9 million or 10.9 percent, the result of an increase of \$156.1 million in net plant additions offset by a \$30.6 million increase in the current and long-term portions of revenue bonds. Restricted net position increased \$2.1 million compared to the prior year. Unrestricted net position decreased \$31.8 million or 12.5 percent compared to the previous fiscal year, primarily due to a decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) of \$38.3 million.

***Fiscal Year 2023 Compared to Fiscal Year 2022***

Total net position increased \$69.5 million or 5.1 percent. Net investment in capital assets increased \$56 million or 5.1 percent, the result of an increase of \$102.9 million in net plant additions offset by a \$46.2 million increase in the current and long-term portions of revenue bonds. Restricted net position increased \$1.5 million compared to the prior year. Unrestricted net position increased \$12 million, or 5 percent, compared to the previous fiscal year, due to an \$8.8 million increase in inventories and a \$6 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) offset by a \$3 million decrease in payables.

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**Statement of Revenues, Expenses and Changes in Net Position**

The following table reflects the condensed consolidated Statement of Revenues, Expenses and Changes in Net Position for KUB compared to the prior two fiscal years.

**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended June 30**

<i>(in thousands of dollars)</i>	<b>2024</b>	<b>2023</b>	<b>2022 as restated</b>
Operating revenues	\$ 951,461	\$ 972,519	\$ 905,714
Less: Purchased energy expense	<u>491,481</u>	<u>553,595</u>	<u>512,342</u>
Margin from sales	<u>459,980</u>	<u>418,924</u>	<u>393,372</u>
Operating expenses			
Treatment	21,663	20,707	18,999
Fiber products and promotions	5,313	3,142	854
Distribution and collection	92,564	86,742	77,355
Customer service	10,708	15,659	15,200
Administrative and general	74,556	65,698	35,524
Depreciation and amortization	97,979	93,928	88,121
Taxes and tax equivalents	<u>41,562</u>	<u>39,260</u>	<u>37,964</u>
Total operating expenses	<u>344,345</u>	<u>325,136</u>	<u>274,017</u>
Operating income	115,635	93,788	119,355
Interest income	12,606	9,122	1,107
Interest expense	(45,086)	(42,674)	(40,276)
Other income/(expense)	<u>10,502</u>	<u>4,971</u>	<u>(4,141)</u>
Change in net position before capital contributions	<u>93,657</u>	<u>65,207</u>	<u>76,045</u>
Capital contributions	<u>2,530</u>	<u>4,325</u>	<u>1,638</u>
Change in net position	<u>\$ 96,187</u>	<u>\$ 69,532</u>	<u>\$ 77,683</u>

**Normal Impacts on Statement of Revenues, Expenses and Changes in Net Position**

The following is a description of activities which will normally impact the comparability of the Statement of Revenues, Expenses and Changes in Net Position presentation:

- Operating revenue is largely determined by volume of sales for the fiscal year. Any change (increase/decrease) in retail rates would also be a cause of change in operating revenue.
- Purchased energy expense is determined by volume of power purchases from TVA and volume of natural gas purchases for the fiscal year. Also, any change (increase/decrease) in wholesale power and/or gas rates would result in a change in purchased energy expense.
- Operating expenses (distribution, customer service, administrative and general) are normally impacted by changes in areas including, but not limited to, labor cost (staffing, wage rates), active employee and retiree medical expenses, and system maintenance.
- Depreciation and amortization expense is impacted by intangible assets, plant additions and retirements during the fiscal year.

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- Taxes and equivalents are impacted by plant additions/retirements, changes in property tax rates, and gross margin levels.
- Interest income is impacted by level of interest rates and investments.
- Interest expense on debt is impacted by level of outstanding debt and the interest rate(s) on the outstanding debt.
- Other income/(expense) is impacted by miscellaneous non-operating revenues and expenses.
- Capital contributions are impacted by a donation of facilities/infrastructure to KUB by developers and governmental agencies. The contributions are recognized as revenue and recorded as plant in service based on the fair market value of the asset(s).

## **Impacts and Analysis**

### **Change in Net Position**

#### ***Fiscal Year 2024 Compared to Fiscal Year 2023***

KUB's consolidated Change in Net Position increased \$96.2 million in fiscal year 2024. Comparatively, net position increased \$69.5 million in fiscal year 2023.

#### ***Fiscal Year 2023 Compared to Fiscal Year 2022***

KUB's consolidated Change in Net Position increased \$69.5 million in fiscal year 2023. Comparatively, net position increased \$77.7 million in fiscal year 2022.

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## **Margin from Sales**

### ***Fiscal Year 2024 Compared to Fiscal Year 2023***

Operating revenue was \$21.1 million lower than the previous fiscal year. Both electric and natural gas experienced decreases in wholesale energy prices. Electric Division operating revenue decreased \$4.9 million, the net result of a 0.6 percent increase in billed sales volumes, additional revenue from the April 2024 rate increase, and lower wholesale energy costs. Fiber Division operating revenue increased \$5.5 million due to the addition of fiber customers this fiscal year. Gas Division revenue decreased \$31.9 million for the fiscal year, the net result of a 1.7 percent increase in billed sales volumes and lower natural gas prices. Water Division revenue increased \$4 million, reflecting a 1.8 percent increase in billed sales volumes and additional revenue from the July 2023 rate increase. Wastewater Division revenue was \$6.2 million higher than the previous year, reflecting a 2.2 percent increase in billable wastewater flows and additional revenue from the July 2023 rate increase.

Wholesale energy expense decreased \$62.1 million or 11.2 percent. Purchased power expense decreased \$28.5 million compared to last year, due to the flow through of lower wholesale power costs. KUB received \$9.7 million in wholesale power rate credits during the fiscal year as part of KUB's Long-Term Partnership Agreement with TVA, which decreased power expenses in the current fiscal year. Purchased gas expense was \$33.6 million lower than the prior year, reflecting lower natural gas prices for the fiscal year.

Margin from sales (operating revenue less purchased energy expense) increased \$41.1 million compared to the previous year.

### ***Fiscal Year 2023 Compared to Fiscal Year 2022***

Operating revenue was \$66.8 million higher than the previous fiscal year. Both electric and natural gas experienced increases in wholesale energy prices. Electric Division operating revenue increased \$51.7 million, the net result of a one percent decrease in billed sales volumes, additional revenue from the April 2023 rate increase, and higher wholesale energy costs. Fiber Division reported \$0.9 million in revenue this fiscal year. Gas Division revenue increased \$4.6 million for the fiscal year, the net result of a 2.2 percent decrease in billed sales volumes and higher natural gas prices. Water Division revenue increased \$4.2 million, reflecting a 2.8 percent increase in billed sales volumes and additional revenue from the July 2022 rate increase. Wastewater Division revenue was \$5.4 million higher than the previous year, reflecting a 2.3 percent increase in billable wastewater flows and additional revenue from the July 2022 rate increase.

Wholesale energy expense increased \$41.3 million or 8.1 percent. Purchased power expense increased \$36.2 million compared to last year, due to the flow through of higher wholesale power costs. KUB received \$9.1 million in wholesale power rate credits during the fiscal year as part of KUB's Long-Term Partnership Agreement with TVA, which decreased power expenses in the current fiscal year. Purchased gas expense was \$5.1 million higher than the prior year, reflecting higher natural gas prices for the fiscal year.

Margin from sales (operating revenue less purchased energy expense) increased \$25.5 million compared to the previous year.

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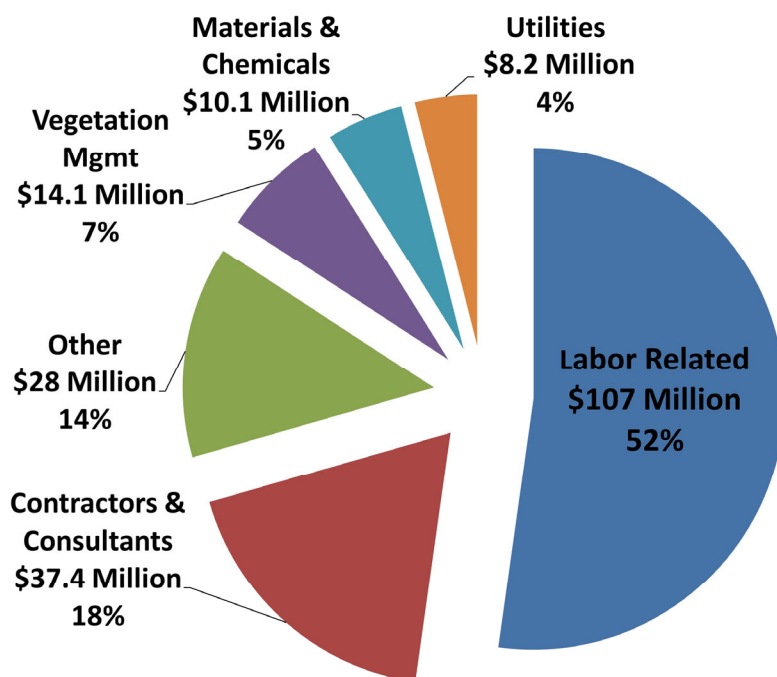
**Operating Expenses**

***Fiscal Year 2024 Compared to Fiscal Year 2023***

Operating expenses (excluding wholesale purchased energy expense) increased \$19.2 million compared to fiscal year 2023. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as treatment, fiber products and promotions, distribution and collection, customer service, and administrative and general.

- Treatment expenses increased \$1 million, primarily due to higher labor-related expenses and chemical expenses.
- Fiber products and promotions increased \$2.2 million, primarily due to materials, corporate advertising, and labor-related expenses.
- Distribution and collection expenses increased \$5.8 million or 6.7 percent, primarily due to outside contractor and consultant expenses, labor-related expenses, and vegetation management circuit work.
- Customer service expenses decreased \$5 million, primarily due to a change in methodology for technology-related costs that resulted in an offsetting increase in administration and general expenses.
- Administrative and general expenses increased \$8.9 million, primarily due to a change in methodology for technology-related costs that resulted in an offsetting decrease in customer service expenses and increased insurance costs.

**FY 2024 Consolidated O&M Expense = \$204.8 Million**



## **Knoxville Utilities Board Management's Discussion and Analysis June 30, 2024 and 2023**

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- Depreciation and amortization expense increased \$4.1 million or 4.3 percent. KUB added \$290.3 million in assets during fiscal year 2024. A partial year of depreciation expense was recorded on these capital investments and a full year of depreciation expense was incurred on \$137.4 million in assets placed in service during fiscal year 2023. In addition, \$36.7 million of assets were retired during fiscal year 2024.
- Taxes and tax equivalents increased \$2.3 million or 5.9 percent, primarily due to increased plant in service levels and employer Federal Insurance Contributions Act (FICA) taxes.

### ***Fiscal Year 2023 Compared to Fiscal Year 2022***

Operating expenses (excluding wholesale purchased energy expense) increased \$51.1 million compared to fiscal year 2022. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as treatment, fiber products and promotions, distribution and collection, customer service, and administrative and general.

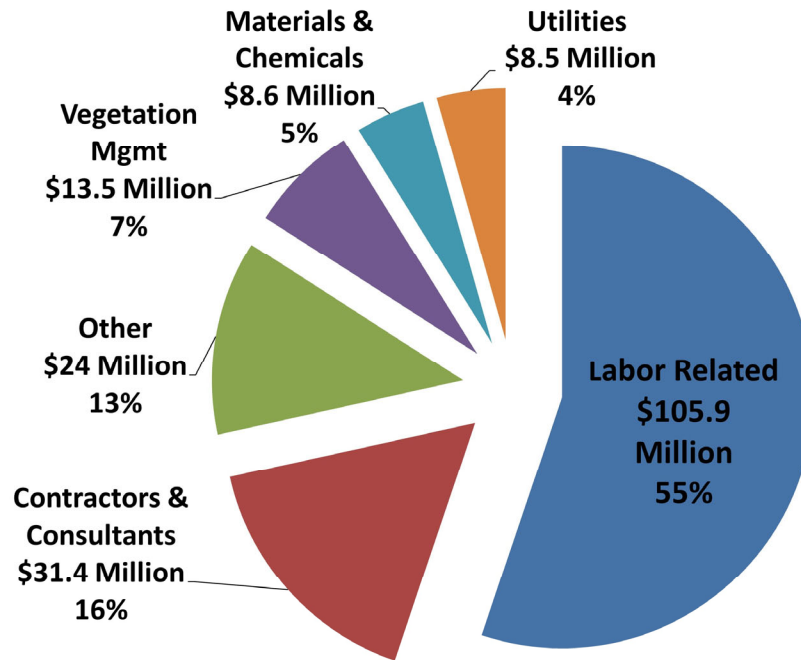
- Treatment expenses increased \$1.7 million, primarily due to chemical expenses and higher labor-related expenses.
- Fiber products and promotions increased \$2.3 million, primarily due to corporate advertising expense, as well as access and utilization expenses.
- Distribution and collection expenses increased \$9.4 million or 12.1 percent, primarily due to labor-related expenses, outside contractor and consultant expenses, and vegetation management circuit work.
- Customer service expenses increased \$0.5 million, primarily due to labor-related expenses.
- Administrative and general expenses increased \$30.1 million, primarily due to an increase in labor-related expenses, driven by higher pension expenses resulting from investment losses, and technology subscription expenses.

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**FY 2023 Consolidated O&M Expense = \$191.9 Million**



- Depreciation and amortization expense increased \$5.8 million or 6.6 percent. KUB added \$137.4 million in assets during fiscal year 2023. A partial year of depreciation expense was recorded on these capital investments and a full year of depreciation expense was incurred on \$182.5 million in assets placed in service during fiscal year 2022. In addition, \$17.9 million of assets were retired during fiscal year 2023.
- Taxes and tax equivalents increased \$1.3 million or 3.4 percent, primarily due to increased plant in service levels and employer Federal Insurance Contributions Act (FICA) taxes.

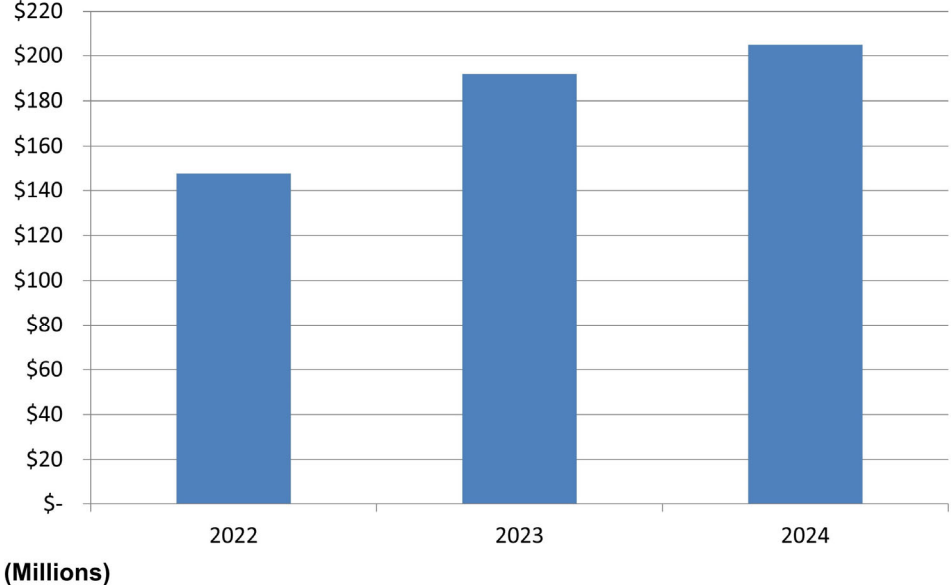
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**Consolidated Operation & Maintenance Expense**



**Other Income and Expense**

***Fiscal Year 2024 Compared to Fiscal Year 2023***

Interest income increased \$3.5 million compared to the prior fiscal year, reflecting higher interest rates throughout the year.

Interest expense increased \$2.4 million or 5.7 percent, reflecting the interest expense from new revenue bonds sold during the fiscal year.

Other income (net) increased \$5.5 million, primarily due to grant reimbursements and mark-to-market adjustments on investments.

Capital contributions by developers were \$1.8 million lower, due to a decrease in donated utility assets compared to the prior fiscal year.

***Fiscal Year 2023 Compared to Fiscal Year 2022***

Interest income increased \$8 million compared to the prior fiscal year, reflecting rising interest rates throughout the year.

Interest expense increased \$2.4 million or six percent, reflecting the interest expense from new revenue bonds sold during the fiscal year.

Other income (net) increased \$9.1 million, primarily due to mark-to-market adjustments on investments.

Capital contributions by developers were \$2.7 million higher, due to an increase in donated utility assets compared to the prior fiscal year.

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**Capital Assets**

<b>Capital Assets</b>			
<b>As of June 30</b>			
<b>(Net of Depreciation)</b>			
<i>(in thousands of dollars)</i>	<b>2024</b>	<b>2023</b>	<b>2022</b>
			<b>as restated</b>
<b>Production Plant (Intakes)</b>	\$ 6	\$ 6	6
<b>Pumping and Treatment Plant</b>	284,752	268,410	271,764
<b>Distribution and Collection Plant</b>			
Mains and metering	\$ 979,996	\$ 940,034	\$ 926,287
Services and meters	174,027	164,010	163,738
Electric station equipment	144,074	85,676	61,180
Poles, towers and fixtures	175,823	163,802	161,519
Overhead conductors	174,932	150,166	143,776
Line transformers	65,160	62,002	61,351
Other accounts	197,904	188,126	190,393
<b>Total Distribution &amp; Collection Plant</b>	<u>\$ 1,911,916</u>	<u>\$ 1,753,816</u>	<u>\$ 1,708,244</u>
<b>General Plant</b>	<u>130,872</u>	<u>112,247</u>	<u>111,153</u>
<b>Total Plant Assets</b>	<u>\$ 2,327,546</u>	<u>\$ 2,134,479</u>	<u>\$ 2,091,167</u>
Work In Progress	184,369	221,322	161,753
<b>Total Net Plant</b>	<u><u>\$ 2,511,915</u></u>	<u><u>\$ 2,355,801</u></u>	<u><u>\$ 2,252,920</u></u>

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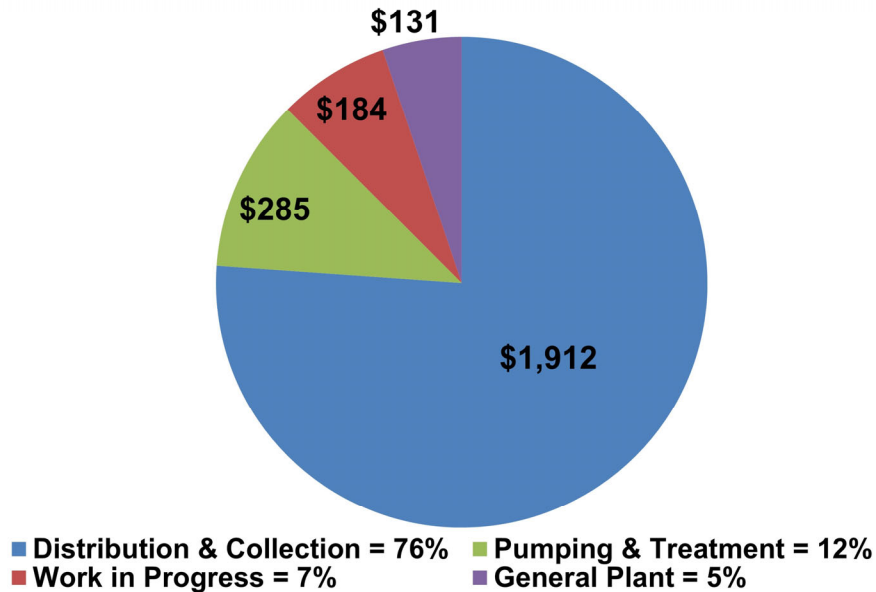
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***Fiscal Year 2024 Compared to Fiscal Year 2023***

As of June 30, 2024, KUB had \$2.5 billion invested in capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of \$156.1 million or 6.6 percent over the end of the last fiscal year.

**FY 2024 Consolidated Capital Assets = \$2.5 Billion**  
(in Millions)



Major capital asset additions during the year were as follows:

- \$67.7 million for fiber network buildout
- \$32.3 million for various electric distribution system improvements
- \$21 million related to wastewater Century II projects
  - \$4.4 million for pump station construction and improvements
  - \$7.2 million for sewer mini-basin rehabilitation and replacement
  - \$4.2 million for wastewater treatment plant upgrades
  - \$4.4 million for short line projects
  - \$0.8 million for trunkline improvements
- \$17.6 million for installation of new electric services and the upgrade or replacement of existing services.
- \$11.2 million for water plant redundancy
- \$9.1 million for water main replacements
- \$7.7 million for the gas service extensions
- \$7.3 million for pole replacements for the electric system
- \$3.9 million for auto and truck purchases

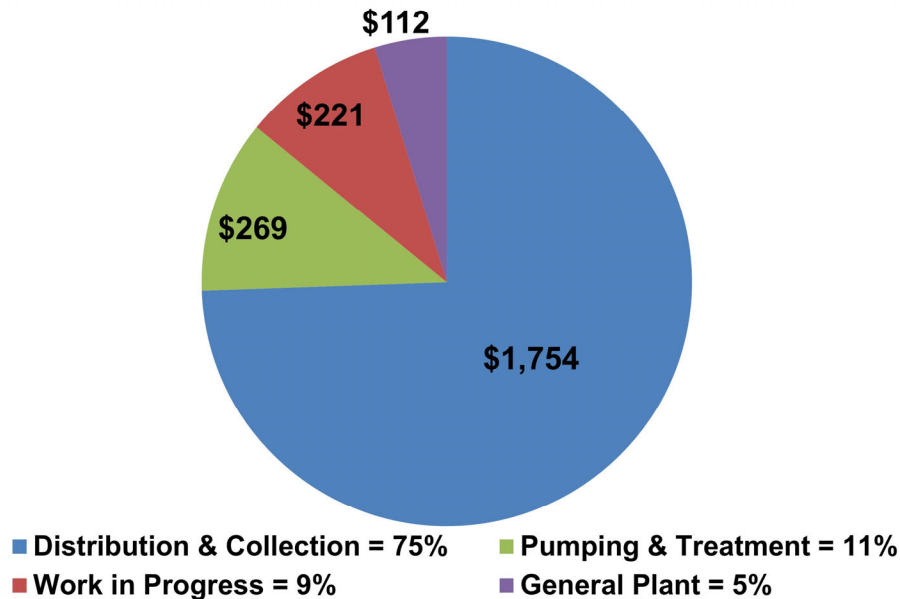
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***Fiscal Year 2023 Compared to Fiscal Year 2022***

As of June 30, 2023, KUB had \$2.4 billion invested in capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of \$102.9 million or 4.6 percent over the end of the last fiscal year.

**FY 2023 Consolidated Capital Assets = \$2.4 Billion**  
(in Millions)



Major capital asset additions during the year were as follows:

- \$46 million for fiber network buildout
- \$30.5 million for various electric distribution system improvements
- \$20.4 million related to wastewater Century II projects
  - \$8.2 million for pump station construction and improvements
  - \$5.2 million for sewer mini-basin rehabilitation and replacement
  - \$5.1 million for wastewater treatment plant upgrades
  - \$1.2 million for short line projects
- \$13.9 million for installation of new electric services and the upgrade or replacement of existing services.
- \$9.6 million for water main replacements
- \$7.4 million for the gas service extensions
- \$6.6 million for pole replacements for the electric system
- \$6.4 million for water plant redundancy
- \$4.6 million for auto and truck purchases

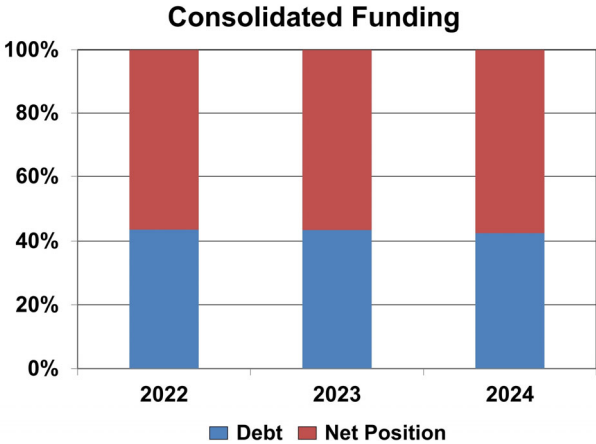
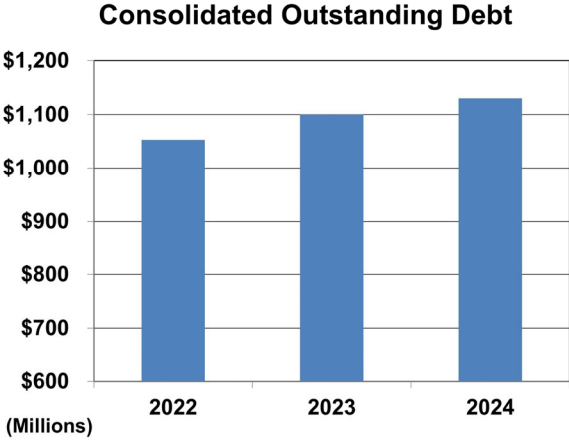
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**Debt Administration**

KUB’s outstanding debt was \$1.13 billion as of June 30, 2024. Debt as a percentage of capital structure was 42.5 percent in 2024, 43.4 percent in 2023, and 43.6 percent in 2022.

**Outstanding Debt  
As of June 30**

<i>(in thousands of dollars)</i>	<b>2024</b>	<b>2023</b>	<b>2022</b>
Revenue bonds	\$ 1,130,115	\$ 1,099,510	\$ 1,053,280
Total outstanding debt	\$ <u>1,130,115</u>	\$ <u>1,099,510</u>	\$ <u>1,053,280</u>



KUB will pay \$469.1 million in principal payments over the next ten years, representing 41.5 percent of outstanding bonds.

**Fiscal Year 2024 Compared to Fiscal Year 2023**

As of June 30, 2024, KUB had \$1.13 billion in outstanding debt (including the current portion of revenue bonds), representing an increase of \$30.6 million. As of June 30, 2024, KUB’s weighted average cost of debt was 3.95 percent (3.91 percent including the impact of Build America Bonds rebates).

KUB sold \$55 million in electric system revenue bonds in November 2023 for the purpose of funding electric system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 4.40 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2054.

KUB sold \$20 million in water system revenue bonds in November 2023 for the purpose of funding water system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 4.33 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2054.

KUB’s outstanding debt is rated by S&P Global Ratings and Moody’s Investors Service. As of June 30, 2024, S&P Global Ratings rated the revenue bonds of the Water Division AAA, the Wastewater Division

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AA+, the revenue bonds of the Electric Division AA- and the Gas Division AA. Moody's Investors Service rated the bonds of the Water Division Aa1 and the Electric, Gas, and Wastewater Divisions Aa2.

#### ***Fiscal Year 2023 Compared to Fiscal Year 2022***

As of June 30, 2023, KUB had \$1.1 billion in outstanding debt (including the current portion of revenue bonds), representing an increase of \$46.2 million. As of June 30, 2023, KUB's weighted average cost of debt was 3.90 percent (3.86 percent including the impact of Build America Bonds rebates).

KUB sold \$79 million in electric system revenue bonds in November 2022 for the purpose of funding electric system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 4.09 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2053.

KUB sold \$10 million in wastewater system revenue bonds in November 2022 for the purpose of funding wastewater system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 4.08 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2052.

KUB's outstanding debt is rated by S&P Global Ratings and Moody's Investors Service. As of June 30, 2023, S&P Global Ratings rated the revenue bonds of the Water Division AAA, the Wastewater Division AA+, the revenue bonds of the Electric Division AA- and the Gas Division AA. Moody's Investors Service rated the bonds of the Water Division Aa1 and the Electric, Gas, and Wastewater Divisions Aa2.

#### **Impacts on Future Financial Position**

KUB anticipates an increase of 14,600 customers, including 10,000 fiber system customers, during fiscal year 2025.

KUB sold \$91 million in electric system revenue bonds in July 2024 for the purpose of funding electric system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 4.05 percent.

KUB sold \$20 million in water system revenue bonds in July 2024 for the purpose of funding water system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 4.04 percent.

In July 2024, S&P Global Ratings upgraded KUB's wastewater system's rating from AA+ to AAA, the highest credit rating available.

On August 24, 2024, TVA's board voted to approve a 5.25 percent electric base rate increase effective October 1, 2024. The increases will flow through directly to KUB's electric customers.

As a component of the Fiber Division's start-up financing plan, the Electric Division will provide \$55 million of interdivisional loans. The first \$10 million was provided in October 2021, an additional \$7 million was provided in August 2022, \$13 million was provided in February 2023, \$7 million was provided in May 2024. A \$10 million loan is anticipated during fiscal year 2025.

In the fall of 2024, KUB will add two public fast charging stations for electric vehicles in Downtown Knoxville and Seymour as part of TVA's Fast Charge Tennessee Network.

# **Knoxville Utilities Board**

## **Management's Discussion and Analysis**

### **June 30, 2024 and 2023**

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In May 2024, the Board and the Tennessee Comptroller approved a Gas Division revenue anticipation note (line of credit) in the amount not to exceed \$20 million, for the purpose of natural gas purchases, storage, and pipeline capacity. If utilized, the note will be repaid within 12 months.

KUB long-term debt includes \$20.3 million of Wastewater Division 2010 Build America Bond (BABs). The BABs were sold on a taxable basis with the United States Treasury providing a rebate to KUB for a percentage of the interest cost. The interest rebates were subject to federal sequestration during the fiscal year and were reduced by 5.7 percent. Any future actions by Congress may also affect the anticipated rebates for future fiscal years.

The Pension Plan actuarial valuation resulted in an actuarially determined contribution of \$2,210,234 for the fiscal year ending June 30, 2025, based on the Plan's current funding policy. Subsequent to June 30, 2024, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$2,793,313 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. For the Plan year beginning January 1, 2024, the Plan's actuarial funded ratio is 105.19 percent, and the market value funded ratio is 96.77 percent.

The OPEB Plan actuarial valuation resulted in an actuarially determined contribution of \$1,279,985 for the fiscal year ending June 30, 2025, based on the Plan's current funding policy. Subsequent to June 30, 2024, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$1,217,234 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. The Plan's actuarial funded ratio is 84.19 percent, and the market value funded ratio is 87.91 percent.

GASB Statement No. 101, *Compensated Absences*, is effective for fiscal years beginning after December 15, 2023. GASB Statement No. 102, *Certain Risk Disclosures*, is effective for fiscal years beginning after June 15, 2024. GASB Statement No. 103, *Financial Reporting Model Improvements*, is effective for fiscal years beginning after June 15, 2025. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on KUB's financial position or results of operations during fiscal year 2024.

## **Financial Contact**

KUB's financial statements are designed to present users (citizens, customers, investors, and creditors) with a general overview of KUB's financial position and results of operations for the fiscal years ended June 30, 2024, and 2023. If you have questions about the statements or need additional financial information, contact KUB's Chief Financial Officer at 445 South Gay Street, Knoxville, Tennessee 37902.

**Knoxville Utilities Board**  
**Consolidated Statements of Net Position**  
**June 30, 2024 and 2023**

	2024	2023
<b>Assets and Deferred Outflows of Resources</b>		
Current assets:		
Cash and cash equivalents	\$ 109,288,248	\$ 152,766,323
Short-term contingency fund investments	60,673,701	97,122,004
Other current assets	892,885	1,111,263
Accrued interest receivable	155,663	224,641
Accounts receivable, less allowance of uncollectible accounts of \$800,861 in 2024 and \$760,386 in 2023	103,745,734	89,514,189
Current portion of lease receivable	838,178	555,779
Inventories	31,651,543	27,830,020
Prepaid expenses	1,284,871	1,124,777
Gas storage	7,442,708	9,679,117
Total current assets	<u>315,973,531</u>	<u>379,928,113</u>
Restricted assets:		
Bond funds	42,309,193	39,187,155
Student internet special fund	1,119,548	300,000
Other funds	1,524	1,518
Unused bond proceeds	-	13
Total restricted assets	<u>43,430,265</u>	<u>39,488,686</u>
Plant in service	3,522,024,743	3,268,468,254
Less accumulated depreciation	<u>(1,194,478,688)</u>	<u>(1,133,989,255)</u>
	2,327,546,055	2,134,478,999
Retirement in progress	1,834,945	1,731,799
Construction in progress	182,534,146	219,590,439
Net plant in service	<u>2,511,915,146</u>	<u>2,355,801,237</u>
Intangible assets:		
Intangible right of use asset	4,672,493	4,670,258
Intangible subscription asset	9,323,779	9,323,779
Less accumulated amortization	<u>(5,429,107)</u>	<u>(3,394,948)</u>
Net intangible assets	<u>8,567,165</u>	<u>10,599,089</u>
Other assets:		
Long-term contingency fund investments	57,402,740	15,810,229
Long-term lease receivable	8,554,118	3,815,799
TVA conservation program receivable	78,051	250,291
Under recovered purchased power cost	5,057,514	-
Under recovered purchased gas cost	1,050,732	-
Other	10,358,699	10,330,017
Total other assets	<u>82,501,854</u>	<u>30,206,336</u>
Total assets	<u>2,962,387,961</u>	<u>2,816,023,461</u>
Deferred outflows of resources:		
Pension outflow	28,276,023	48,544,818
OPEB outflow	2,889,145	5,478,678
Unamortized bond refunding costs	12,773,238	13,720,819
Total deferred outflows of resources	<u>43,938,406</u>	<u>67,744,315</u>
Total assets and deferred outflows of resources	<u>\$ 3,006,326,367</u>	<u>\$ 2,883,767,776</u>

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



**Knoxville Utilities Board**  
**Consolidated Statements of Net Position**  
**June 30, 2024 and 2023**

	2024	2023
<b>Liabilities, Deferred Inflows, and Net Position</b>		
Current liabilities:		
Current portion of revenue bonds	\$ 46,915,000	\$ 44,140,000
Current portion of accrued compensated absences	7,122,995	6,960,933
Current portion of lease liability	889,422	830,979
Current portion of subscription liability	1,037,806	910,426
Sales tax collections payable	1,551,137	1,506,080
Accounts payable	107,113,618	93,625,995
Unearned revenue	428,327	84,112
Accrued expenses	24,899,002	22,273,997
Customer deposits plus accrued interest	25,650,667	24,344,078
Accrued interest on revenue bonds	16,361,685	15,370,481
Total current liabilities	<u>231,969,659</u>	<u>210,047,081</u>
Other liabilities:		
TVA conservation program	89,790	271,138
Accrued compensated absences	3,669,422	3,585,936
Customer advances for construction	11,479,966	11,299,795
Lease liability	1,837,403	2,696,599
Subscription liability	5,684,425	6,722,232
Net pension liability	7,452,380	22,219,032
Net OPEB liability	9,373,073	12,930,655
Over recovered purchased power cost	-	3,548,522
Over recovered purchased gas cost	-	4,371,708
Other	108,402	119,620
Total other liabilities	<u>39,694,861</u>	<u>67,765,237</u>
Long-term debt:		
Revenue bonds	1,083,200,000	1,055,370,000
Unamortized premiums/discounts	110,077,252	111,787,156
Total long-term debt	<u>1,193,277,252</u>	<u>1,167,157,156</u>
Total liabilities	<u>1,464,941,772</u>	<u>1,444,969,474</u>
Deferred inflows of resources:		
Pension inflow	1,717	214,234
Unamortized bond refunding costs	1,530,785	1,539,009
OPEB inflow	1,801,872	-
Lease inflow	9,003,011	4,185,227
Total deferred inflows of resources	<u>12,337,385</u>	<u>5,938,470</u>
Total liabilities and deferred inflows of resources	<u>1,477,279,157</u>	<u>1,450,907,944</u>
Net position		
Net investment in capital assets	1,280,750,537	1,154,844,526
Restricted for:		
Debt service	25,947,508	23,816,674
Other	1,523	1,518
Unrestricted	222,347,642	254,197,114
Total net position	<u>1,529,047,210</u>	<u>1,432,859,832</u>
Total liabilities, deferred inflows, and net position	<u>\$ 3,006,326,367</u>	<u>\$ 2,883,767,776</u>

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

**Knoxville Utilities Board**  
**Consolidated Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2024 and 2023**

	<b>2024</b>	<b>2023</b>
Operating revenues		
Electric	\$ 644,955,767	\$ 649,815,033
Fiber	6,330,281	866,833
Gas	114,178,993	146,108,765
Water	72,075,990	68,034,640
Wastewater	113,919,625	107,693,416
Total operating revenues	<u>951,460,656</u>	<u>972,518,687</u>
Operating expenses		
Purchased power	442,008,407	470,554,241
Purchased gas	49,472,739	83,040,477
Treatment	21,662,439	20,706,623
Fiber products and promotions	5,313,148	3,141,625
Distribution and collection	92,563,865	86,741,918
Customer service	10,708,141	15,659,354
Administrative and general	74,556,205	65,698,005
Depreciation and amortization	97,978,982	93,927,866
Taxes and tax equivalents	41,562,257	39,260,576
Total operating expenses	<u>835,826,183</u>	<u>878,730,685</u>
Operating income	<u>115,634,473</u>	<u>93,788,002</u>
Non-operating revenues (expenses)		
Contributions in aid of construction	27,291,771	16,464,196
Interest income	12,606,202	9,122,264
Interest expense	(45,085,501)	(42,673,630)
Amortization of debt costs	4,632,245	4,528,002
Write-down of plant for costs recovered through contributions	(27,291,771)	(16,464,196)
Other	5,869,543	442,203
Total non-operating revenues (expenses)	<u>(21,977,511)</u>	<u>(28,581,161)</u>
Change in net position before capital contributions	93,656,962	65,206,841
Capital contributions	<u>2,530,416</u>	<u>4,325,428</u>
Change in net position	96,187,378	69,532,269
Net position, beginning of year	1,432,859,832	1,363,327,563
Net position, end of year	<u>\$ 1,529,047,210</u>	<u>\$ 1,432,859,832</u>

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

# Knoxville Utilities Board

## Consolidated Statements of Cash Flows

### Years Ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Cash receipts from customers	\$ 939,005,214	\$ 982,886,025
Cash receipts from other operations	8,780,566	18,600,726
Cash payments to suppliers of goods or services	(625,052,483)	(692,162,690)
Cash payments to employees for services	(76,719,497)	(81,439,080)
Payment in lieu of taxes	(35,344,750)	(33,337,681)
Cash receipts from collections of TVA conservation loan program participants	184,825	347,182
Cash payments for TVA Conservation loan program	(193,934)	(364,556)
Net cash provided by operating activities	<u>210,659,941</u>	<u>194,529,926</u>
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	78,729,215	91,636,173
Principal paid on revenue bonds	(44,390,000)	(42,765,000)
Increase (decrease) in unused bond proceeds	13	1,298,130
Interest paid on revenue bonds	(42,885,965)	(39,590,694)
Acquisition and construction of plant	(281,297,034)	(220,706,513)
Changes in bond funds, restricted	(3,122,038)	(4,113,621)
Customer advances for construction	763,495	1,263,519
Proceeds received on disposal of plant	307,483	288,181
Principal paid on lease liabilities	(839,756)	(900,865)
Principal paid on subscription liabilities	(1,358,003)	(709,324)
Interest paid on lease and subscription liabilities	(400,444)	(444,240)
Cash received from developers and individuals for capital purposes	27,291,771	16,464,196
Net cash used in capital and related financing activities	<u>(267,201,263)</u>	<u>(198,280,058)</u>
Cash flows from investing activities:		
Purchase of investment securities	(92,326,733)	(19,523,792)
Maturities of investment securities	90,200,000	20,329,649
Interest received	12,344,500	8,891,802
Other property and investments	2,845,480	42,250
Net cash provided by investing activities	<u>13,063,247</u>	<u>9,739,909</u>
Net (decrease) increase in cash and cash equivalents	(43,478,075)	5,989,777
Cash and cash equivalents, beginning of year	<u>152,766,323</u>	<u>146,776,546</u>
Cash and cash equivalents, end of year	<u>\$ 109,288,248</u>	<u>\$ 152,766,323</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 115,634,473	\$ 93,788,002
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	101,439,885	96,800,042
Changes in operating assets and liabilities:		
Accounts receivable	(14,231,545)	9,110,151
Lease receivable	(5,020,718)	117,723
Inventories	(3,821,523)	(8,797,442)
Prepaid expenses and gas storage	2,076,314	149,403
TVA conservation program receivable	172,240	325,244
Other assets	(502,376)	279,148
Sales tax collections payable	45,057	(46,387)
Accounts payable and other accrued expenses	27,753,318	(4,011,484)
TVA conservation program payable	(181,348)	(342,619)
Unrecovered purchased power cost	(8,606,036)	5,930,945
Underrecovered gas costs	(5,422,440)	183,444
Customer deposits plus accrued interest	1,335,861	1,084,677
Other liabilities	(11,221)	(40,921)
Net cash provided by operating activities	<u>\$ 210,659,941</u>	<u>\$ 194,529,926</u>
Noncash capital activities:		
Acquisition of plant assets through developer contributions	\$ 2,530,416	\$ 4,325,428
Record intangible right of use asset and lease liability	\$ 39,002	\$ 367,983
Record intangible subscription asset and subscription liability	\$ 447,577	\$ 68,768

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

**Knoxville Utilities Board**  
**Statements of Fiduciary Net Position**  
**June 30, 2024 and 2023**

	2024			2023		
	Pension Plan	Other Post Employment Benefits Trust	Total Fiduciary Funds	Pension Plan	Other Post Employment Benefits Trust	Total Fiduciary Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 1,405,069	\$ 205,587	\$ 1,610,656	\$ 1,231,407	\$ 209,362	\$ 1,440,769
Interest and dividends receivable	546,051	-	546,051	516,960	-	516,960
Due from broker for investment sales	209,328	-	209,328	361,962	-	361,962
Prepaid assets	-	10,000	10,000	-	10,000	10,000
Investments at fair value	254,345,234	52,337,619	306,682,853	230,723,302	49,494,378	280,217,680
Total assets	256,505,682	52,553,206	309,058,888	232,833,631	49,713,740	282,547,371
<b>Liabilities</b>						
Accounts payable	337,161	29,357	366,518	280,054	31,579	311,633
Due to broker for investment purchases	269,866	-	269,866	365,886	-	365,886
Benefit obligations	-	853,994	853,994	-	975,714	975,714
Total liabilities	607,027	883,351	1,490,378	645,940	1,007,293	1,653,233
<b>Net position restricted for Pensions and Other Post Employment Benefits</b>	<u>\$255,898,655</u>	<u>\$ 51,669,855</u>	<u>\$307,568,510</u>	<u>\$232,187,691</u>	<u>\$ 48,706,447</u>	<u>\$280,894,138</u>

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

# Knoxville Utilities Board

## Statements of Changes in Fiduciary Net Position

### June 30, 2024 and 2023

	2024			2023		
	Pension Plan	Other Post Employment Benefits Trust	Total Fiduciary Funds	Pension Plan	Other Post Employment Benefits Trust	Total Fiduciary Funds
<b>Additions (reductions)</b>						
Contributions:						
Employer	\$ 1,866,261	\$ 1,187,768	\$ 3,054,029	\$ 3,144,770	\$ 1,413,392	\$ 4,558,162
Participants	5,752,609	-	5,752,609	3,812,595	-	3,812,595
Total contributions	7,618,870	1,187,768	8,806,638	6,957,365	1,413,392	8,370,757
Investment income (loss):						
Net change in fair value of investments	29,608,677	5,707,892	35,316,569	(69,612,173)	4,399,322	(65,212,851)
Less investment expenses	(355,209)	(51,502)	(406,711)	(366,989)	(65,784)	(432,773)
Interest income	2,443,138	-	2,443,138	2,386,899	-	2,386,899
Dividend income	4,230,832	-	4,230,832	4,098,278	-	4,098,278
Net investment income (loss)	35,927,438	5,656,390	41,583,828	(63,493,985)	4,333,538	(59,160,447)
Other	4,568	-	4,568	9,415	-	9,415
Total net additions (reductions)	43,550,876	6,844,158	50,395,034	(56,527,205)	5,746,930	(50,780,275)
<b>Deductions</b>						
Benefit payments	19,193,834	3,469,945	22,663,779	17,065,610	3,937,977	21,003,587
Claims processing fees	-	316,426	316,426	-	335,093	335,093
General and administrative expenses	602,078	94,379	696,457	498,988	101,186	600,174
Death benefits	44,000	-	44,000	60,000	-	60,000
Total deductions	19,839,912	3,880,750	23,720,662	17,624,598	4,374,256	21,998,854
Change in net position	23,710,964	2,963,408	26,674,372	(74,151,803)	1,372,674	(72,779,129)
<b>Net position restricted for Pensions and Other Post Employment Benefits</b>						
Beginning of the year	232,187,691	48,706,447	280,894,138	306,339,494	47,333,773	353,673,267
End of the year	<u>\$255,898,655</u>	<u>\$ 51,669,855</u>	<u>\$307,568,510</u>	<u>\$232,187,691</u>	<u>\$ 48,706,447</u>	<u>\$280,894,138</u>

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

# Knoxville Utilities Board

## Notes to Consolidated Financial Statements

### June 30, 2024 and 2023

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#### 1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions, including setting rates. KUB's accounts are maintained in conformity with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC), the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners (NARUC), and the Governmental Accounting Standards Board (GASB), as applicable.

#### 2. Significant Accounting Policies

##### Basis of Accounting

In conformity with Generally Accepted Accounting Principles (GAAP), KUB follows the provisions of GASB Statement No. 34 (Statement No. 34), *Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 63 (Statement No. 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Statement No. 34 established standards for external financial reporting for all state and local governmental entities. Under Statement No. 63, financial statements include deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities, and report *net position* instead of net assets. In addition, KUB follows GASB Statement No. 62 (Statement No. 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, as it relates to certain items for regulatory accounting. Regulatory accounting allows a regulated utility to defer a cost (a regulatory asset) or recognize an obligation (a regulatory liability) if it is probable that through the rate making process, there will be a corresponding increase or decrease in future revenues. Accordingly, KUB has recognized certain regulatory assets and regulatory liabilities in the accompanying Statements of Net Position.

The consolidated financial statements are prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred. The accounting and financial reporting treatment applied is determined by measurement focus. The transactions are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statement of Net Position. Net position (i.e., total assets and deferred outflows of resources net of total liabilities and deferred inflows of resources) is segregated into net investment in capital assets, restricted for capital activity and debt service, and unrestricted components.

KUB's basic financial statements were expanded to meet the requirement of GASB Statement No. 84 (Statement No. 84), *Fiduciary Activities*. The fiduciary activities of KUB include the Knoxville Utilities Board Pension Plan and the Knoxville Utilities Board Other Post-Employment Benefits Trust and are included on Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position. The financial statements, note disclosures, and required supplementary information for these fiduciary activities are presented herein and can also be found in separately issued reports.

##### Recently Adopted New Accounting Pronouncements

In April 2022, the GASB issued GASB Statement No. 99 (Statement No. 99), *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements and accounting and financial reporting for financial guarantees. Paragraphs 26-32 were effective immediately. Paragraphs 11-25 were effective for fiscal years beginning after June 15, 2022. Paragraphs 4-10 are effective for

# **Knoxville Utilities Board**

## **Notes to Consolidated Financial Statements**

### **June 30, 2024 and 2023**

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fiscal years beginning after June 15, 2023. Adoption of this Statement did not have a significant impact on KUB's financial statements.

In June 2022, the GASB issued GASB Statement No. 100 (Statement No. 100), *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. Statement No. 100 is effective for fiscal years beginning after June 15, 2023. Adoption of this Statement did not have a significant impact on KUB's financial statements.

#### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Electric, Fiber, Gas, Water, and Wastewater Divisions. All significant intercompany balances and transactions have been eliminated in consolidation.

KUB issues separate financial reports, which include financial statements and required supplementary information, for the Electric, Fiber, Gas, Water, and Wastewater Divisions. These reports may be obtained by writing Knoxville Utilities Board, P.O. Box 59017, Knoxville, TN 37950-9017.

#### **Plant**

Plant and other property are stated on the basis of original cost. The costs of current repairs and minor replacements are charged to operating expense. The costs of renewals and improvements are capitalized. The original cost of utility plant assets retired or otherwise disposed of and the cost of removal less salvage value is charged to accumulated depreciation. When other property is retired, the related asset and accumulated depreciation are removed from the accounts, and the gain or loss is included in the results of operations.

The provision for depreciation of plants in service is based on the estimated useful lives of the assets, which range from three to sixty-seven years, and is computed using the straight-line method. Pursuant to FERC/NARUC, the caption "Depreciation and amortization" in the consolidated Statements of Revenues, Expenses and Changes in Net Position does not include depreciation for transportation equipment. Depreciation for transportation equipment of \$3,460,902 in fiscal year 2024 and \$2,872,176 in fiscal year 2023 is included in operation and maintenance expense.

#### **Operating Revenue**

Operating revenue consists primarily of charges for services provided by the principal operations of KUB. Operating revenue is recorded when the service is rendered, on a cycle basis, and includes an estimate of unbilled revenue. Revenues are reported net of bad debt expense of \$2,110,501 in fiscal year 2024 and of \$2,181,182 in fiscal year 2023.

#### **Non-operating Revenue**

Non-operating revenue consists of revenues that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

#### **Expense**

When an expense is incurred for purposes for which there are both restricted and unrestricted assets available, it is KUB's policy to apply those expenses to restricted assets to the extent such are available and then to unrestricted assets.

# Knoxville Utilities Board

## Notes to Consolidated Financial Statements

### June 30, 2024 and 2023

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#### Net Position

GASB Statement No. 63 requires the classification of net position into three components – net investment in capital assets, net position-restricted, and net position-unrestricted.

These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets and intangible assets, including restricted capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, mortgages, notes, lease and subscription liabilities, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Net position-restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- Net position-unrestricted – This component of net position consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

#### Contributions in Aid of Construction and Capital Contributions

Contributions in aid of construction are cash collections from customers, grantors, or others for a particular purpose, generally the construction of new facilities to serve new customers in excess of the investment KUB is willing to make for a particular incremental revenue source. KUB reduces the plant account balances to which contributions relate by the actual amount of the contribution and recognizes the contributions as non-operating revenue in accordance with Statement No. 62.

Capital contributions represent contributions of utility plant infrastructure constructed by developers and others in industrial parks and other developments and transferred to KUB upon completion of construction and the initiation of utility service. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, such contributions are recognized as revenues and capital assets upon receipt.

#### Inventories

Inventories, consisting of plant materials and operating supplies, are valued at the lower of average cost or replacement value.

#### OPEB Trust

KUB's OPEB Trust was established by KUB's Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. The purpose of the Trust is to fund KUB's post-employment health care plan (the "Plan"), which provides certain medical benefits for qualifying KUB retirees and beneficiaries. Effective January 1, 2022, the Plan was expanded to include two benefit offerings. Employees with a benefit service date prior to July 1, 1999, will continue to be eligible for the Retiree Medical Benefit, while those with a later benefit service date will participate in a new Retiree Health Reimbursement Arrangement, given that each eligible employee meets the "Rule of 80", the sum of age and at least 20 years of qualified service equal to or exceeding 80, at retirement.



# **Knoxville Utilities Board**

## **Notes to Consolidated Financial Statements**

### **June 30, 2024 and 2023**

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KUB's policy is to fully fund the annual actuarially determined contributions, which are determined by actuarial valuation. As required by GASB Statement No. 75, KUB measures net OPEB liability as total OPEB liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2024, and 2023, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2024, and 2023, are based on a June 30, 2024, and 2023, measurement date, respectively. The net OPEB liability is \$9,373,073 as of June 30, 2024, and \$12,930,655 as of June 30, 2023.

#### **Pension Plan and Qualified Excess Benefit Arrangement**

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 12). KUB's policy is to fully fund the annual actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2024, and 2023, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2024, and 2023, are based on a December 31, 2023, and 2022, measurement date, respectively. The net pension liability is \$7,452,380 as of June 30, 2024, and the net pension liability is \$22,219,032 as of June 30, 2023.

KUB implemented a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). The QEBA is a single employer defined benefit pension plan, administered by KUB (Note 13). As required by GASB Statement No. 73, KUB measures the total pension liability of the QEBA. The amounts reported as of June 30, 2024, and 2023, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2024, and 2023, are based on a December 31, 2023, and 2022, measurement date, respectively. Due to the increase in the section 415(d) annual benefit limitation from 2021 to 2022, the pension benefit for the sole participant in the Excess Benefit Arrangement is now fully payable under the KUB Pension Plan and, as such, there is no benefit payable under the Excess Benefit Arrangement as of June 30, 2024, and 2023.

#### **Investments**

Investments are carried at fair value as determined by quoted market prices at the reporting date.

#### **Self-Insurance**

KUB has established self-insurance programs covering portions of workers' compensation, employee health, environmental liability, general liability, property and casualty liability, and automobile liability claims. A liability is accrued for claims as they are incurred. When applicable, claims in excess of the self-insured risk are covered by KUB's insurance carrier. Additionally, KUB provides certain lifetime health benefits to eligible retired employees under a self-insurance plan administered by a third party.

#### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on historical experience and various other assumptions that KUB believes are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require adjustment. Estimates are used for, but not limited to, inventory valuation, allowance for uncollectible accounts, depreciable lives of plant assets, unbilled revenue volumes, over/under purchased power and gas costs, lease liabilities, subscription liabilities, developer contributions, pension trust valuations, OPEB trust valuations, insurance liability reserves, and potential losses from contingencies and litigation. Actual results could differ from those estimates.

# Knoxville Utilities Board

## Notes to Consolidated Financial Statements

### June 30, 2024 and 2023

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#### **Restricted and Designated Assets**

Certain assets are restricted by bond resolutions for the construction of utility plant and debt repayment. Certain additional assets are designated by management for contingency purposes and economic development. Assets are reported as restricted when limitations on their use are either imposed by creditors, contributors, grantors or imposed by enabling legislation.

KUB has established a program called ConnectED that provides financial assistance to student households in need, with donations from the City of Knoxville and Knox County. ConnectED provides up to \$80 monthly to qualified families for internet and router services. The restricted asset is shown in the student internet special fund, while the associated liability is shown in accrued expenses.

#### **Cash Equivalents**

For purposes of the Statements of Cash Flows, KUB considers all unrestricted and undesignated highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

#### **Leases**

KUB determines if an arrangement is or contains a lease at contract inception and recognizes an intangible right of use asset and a lease liability at the lease commencement date. Subsequently, the intangible right of use asset is amortized on a straight-line basis over its useful life. KUB also enters into agreements, as lessor, to lease office space or property, recognizing a lease receivable and a deferred inflow of resources. The lease term includes the non-cancelable period of the lease plus an additional period covered by either an option to extend or not to terminate the lease that the lessee is reasonably certain to exercise, or an option to extend or not to terminate the lease controlled by the lessor. KUB uses its estimated incremental borrowing rate as the discount rate for leases.

KUB monitors for events or changes in circumstances that require a reassessment of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the intangible right of use asset.

#### **Subscription-Based Information Technology Arrangements**

KUB determines if an arrangement is or contains a subscription-based information technology arrangement (subscription) at contract inception and recognizes an intangible subscription asset and a subscription liability at the commencement date. Subsequently, the subscription asset is amortized on a straight-line basis over its useful life. The subscription term includes the non-cancelable period of the subscription plus an additional period covered by either an option to extend or not to terminate the subscription that KUB is reasonably certain to exercise, or an option to extend or not to terminate the subscription controlled by the vendor. KUB uses its estimated incremental borrowing rate as the discount rate for subscriptions.

KUB monitors for events or changes in circumstances that require a reassessment of its subscriptions. When a reassessment results in the remeasurement of a subscription liability, a corresponding adjustment is made to the carrying amount of the subscription asset.

#### **Deferred Outflows and Inflows of Resources**

Deferred outflows of resources are items related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. Deferred inflows of resources are items related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. KUB records costs associated with the gain or loss on refunding of debt as either a deferred outflow or inflow based on the parameters of Statement No. 65. Deferred outflows of resources also include employer pension contributions made subsequent to the measurement date of the net pension liability and before the end of the employer's reporting period in accordance with Statement No. 71. Deferred inflows and deferred outflows also include the net difference between projected and actual earnings on pension plan investments and OPEB plan investments, differences between expected and actual experience, and changes in assumptions in accordance with Statements No. 68, 73, and 75. Deferred inflows are

# Knoxville Utilities Board

## Notes to Consolidated Financial Statements

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also recorded at the commencement of the lease term and recognized as revenue over the course of the lease in accordance with Statement No. 87.

#### **Debt Premium/Discount**

KUB records unamortized premium and discount on debt as a separate line item in the Long-Term Debt section of the Financial Statements. Amortization of these amounts is recorded over the life of the applicable debt as amortization expense.

#### **Debt Issuance Costs**

In accordance with regulatory accounting, KUB records debt issuance costs as an Other Asset. Amortization of these amounts is recorded over the life of the applicable debt as amortization expense.

#### **Deferred Gain/Loss on Refunding of Debt**

KUB records costs associated with the gain or loss on refunding of debt as either a deferred outflow or inflow based on the parameters of Statement No. 65. In accordance with FERC presentation, amortization of these amounts is recorded over the life of the applicable debt as amortization expense.

#### **Compensated Absences**

KUB accrues a liability for earned but unpaid paid time off (PTO) days.

#### **TVA Conservation Program**

KUB previously served as a fiscal intermediary for the Tennessee Valley Authority (TVA), whereby loans were made to KUB customers by TVA to be used in connection with TVA's Energy Right Residential Program. While KUB still holds existing loans on behalf of TVA, no loans were made through this program after October 31, 2015.

#### **Reclassification**

Certain 2023 amounts have been reclassified to conform to the 2024 presentation.

#### **Subsequent Events**

KUB sold \$91 million in electric system revenue bonds in July 2024 for the purpose of funding electric system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 4.05 percent.

KUB sold \$20 million in water system revenue bonds in July 2024 for the purpose of funding water system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 4.04 percent.

KUB has evaluated events and transactions through October 23, 2024, the date these financial statements were available to be issued, for items that should potentially be recognized or disclosed.

#### **Purchased Power Adjustment**

In October 2002, the Board adopted a Purchased Power Adjustment (PPA) to address changes in wholesale power costs. The PPA was established in response to an amendment to KUB's power supply contract under which, among other things, TVA relinquished its regulatory authority over KUB retail electric rates. The PPA allows KUB to promptly adjust retail electric rates in response to wholesale rate changes or adjustments, thus ensuring that KUB will recover the costs incurred for purchased power. These changes in electric costs are reflected as adjustments to the base electric rates established by the Board. The rate-setting authority vested in the Board by the City Charter meets the "self-regulated" provisions of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and KUB meets the remaining criteria of Statement No. 62.

# **Knoxville Utilities Board**

## **Notes to Consolidated Financial Statements**

### **June 30, 2024 and 2023**

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TVA implemented a fuel cost adjustment in October 2006 applied on a quarterly basis to wholesale power rates. TVA's quarterly fuel cost adjustment became a monthly fuel cost adjustment effective October 2009. KUB flows changes to wholesale power rates from TVA's fuel cost adjustment mechanism directly through to its retail electric rates via the PPA.

In April 2011, TVA modified its wholesale rate structure to demand and energy billing for its distributors. In response, KUB revised its PPA to include a deferred accounting component to ensure appropriate matching of revenue and expense and cost recovery. KUB will adjust its retail rates on an annual basis to flow any over or under recovery of wholesale power costs through to its customers via the PPA.

During the period of October 2020 to September 2021, TVA provided a Pandemic Relief Credit to local power companies. KUB excluded the Standard Service portion of this credit from the Purchased Power Adjustment in order to assist customers in need of financial assistance due to the pandemic. \$6,550,000 was made available to residential and small business customers through the COVID Utility Relief Effort (CURE) fund.

During the period of October 2021 to September 2022, TVA provided a Pandemic Recovery Credit to local power companies. KUB excluded the Standard Service portion of this credit from the Purchased Power Adjustment in order to assist customers in need of financial assistance due to the pandemic, making \$7,300,000 available to residential and small business customers.

During the period of October 2022 to September 2023, TVA provided a Pandemic Recovery Credit to local power companies. KUB included this credit in the Purchased Power Adjustment in order for all customers to benefit from this credit.

Under the PPA mechanism, KUB tracks the actual over/(under) recovered amount in the Over/(Under) Recovered Purchased Power Cost accounts. These accounts are rolled into the PPA rate adjustments thereby assuring that any over/(under) recovered amounts are promptly passed on to KUB's electric customers. The amount of over/(under) recovered cost was (\$5,057,514) as of June 30, 2024, and \$3,548,522 as of June 30, 2023.

#### **Purchased Gas Adjustment**

In November 1990, the Board implemented a deferred Purchased Gas (Cost) Adjustment (PGA) mechanism, which allows KUB to flow changes in purchased gas costs through to its customers. These changes in gas costs are reflected as adjustments to the base gas rates established by the Board. The rate-setting authority vested in the Board by the City Charter meets the "self-regulated" provisions of GASB Statement No. 62 (Statement No. 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The PGA is intended to ensure that KUB recovers the total cost of natural gas purchased, transported and/or reserved for delivery to its sales and transportation customers on an equitable basis. The PGA is also intended to ensure that no excess or deficient cost recovery from KUB's customers occurs.

Under the PGA mechanism, KUB tracks the actual over/(under) recovered amount in the Over/(Under) Recovered Purchased Gas Cost accounts. These accounts are rolled into the PGA rate adjustment on June 30 of each year thereby ensuring that any over/(under) recovered amounts are passed on to KUB's gas system customers. The amount of over/(under) recovered cost was (\$1,050,732) as of June 30, 2024, and \$4,371,708 as of June 30, 2023.

#### **Recently Issued Accounting Pronouncements**

In June 2022, the GASB issued GASB Statement No. 101 (Statement No. 101), *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. Statement No. 101 is effective for fiscal years beginning after December 15, 2023.

# Knoxville Utilities Board

## Notes to Consolidated Financial Statements

### June 30, 2024 and 2023

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In December 2023, the GASB issued GASB Statement No. 102 (Statement No. 102), *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. Statement No. 102 is effective for fiscal years beginning after June 15, 2024.

In April 2024, the GASB issued GASB Statement No. 103 (Statement No. 103), *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. Statement No. 103 is effective for fiscal years beginning after June 15, 2025.

KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

### 3. Deposits and Investments

KUB follows the provisions of Statement No. 40 of the Governmental Accounting Standards Board, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*. This Statement establishes and modifies disclosure requirements for state and local governments related to deposit and investment risks. KUB classifies its fair value measurements within the fair value hierarchy established by Statement No. 72 of the Governmental Accounting Standards Board, *Fair Value Measurement and Application*.

KUB's investment policy provides the framework for the administration and investment of cash deposits. The investment policy follows Tennessee State law and defines the parameters under which KUB funds should be invested. State law authorizes KUB to invest in obligations of the United States Treasury, its agencies and instrumentalities; certificates of deposit; repurchase agreements; money market funds; and the State Treasurer's Investment Pool.

*Interest Rate Risk.* KUB's primary investment objectives are to place investments in a manner to ensure the preservation of capital, remain sufficiently liquid to meet all operating requirements, and maximize yield of return. KUB minimizes its exposure to interest rate risk by adhering to Tennessee State law requirements for the investment of public funds. This includes limiting investments to those types described above and limiting maturity horizons. The maximum maturity is four years from the date of investment. KUB also limits its exposure by holding investments to maturity unless cash flow requirements dictate otherwise.

*Credit Risk.* KUB's investment policy, as required by state law, is to apply the prudent-person rule: Investments are made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable income to be derived, as well as the probable safety of their capital.

*Custodial Credit Risk.* KUB's investment policy limits exposure to custodial credit risk by restricting investments to a standard set forth by state law. All deposits in excess of federal depository insurance limits are collateralized with government securities held in KUB's name by a third-party custodian bank(s) acting as KUB's agent(s), or through the State of Tennessee's collateral pool. Financial institutions that participate in the collateral pool are subject to special assessment; therefore, the deposits are considered insured. A portion of KUB's investments is generally held in the State of Tennessee Local Government Investment Pool (LGIP). The LGIP is a part of the State Pooled Investment Fund and is sponsored by the State of Tennessee Treasury Department. Tennessee Code Annotated ¶9-4-701 *et seq.* authorizes local governments to invest in the LGIP. None of KUB's investments are exposed to custodial credit risk.

**Knoxville Utilities Board**  
**Notes to Consolidated Financial Statements**  
**June 30, 2024 and 2023**

Classification of deposits and investments per Statement of Net Position:

	<b>2024</b>	<b>2023</b>
Current assets		
Cash and cash equivalents	\$ 109,288,248	\$ 152,766,323
Short-term contingency fund investments	60,002,890	97,029,690
Other assets		
Long-term contingency fund investments	57,402,740	15,661,112
Restricted assets		
Unused bond proceeds	-	13
Bond fund	42,309,193	39,187,155
Student internet special fund	1,119,548	300,000
Other funds	1,524	1,518
	<u>\$ 270,124,143</u>	<u>\$ 304,945,811</u>

The above amounts do not include accrued interest of \$670,811 in fiscal year 2024 and \$241,431 in fiscal year 2023. Interest income is recorded on an accrual basis.

Investments and maturities of KUB's deposits and investments as held by financial institutions as of June 30, 2024:

	<b>Deposit and Investment Maturities (in Years)</b>		
	<b>Fair Value</b>	<b>Less Than 1</b>	<b>1-5</b>
Supersweep NOW and Other Deposits	\$ 141,444,231	\$ 141,444,231	\$ -
State Treasurer's Investment Pool	49,644,301	49,644,301	-
Agency Bonds	84,126,541	26,723,801	57,402,740
	<u>\$ 275,215,073</u>	<u>\$ 217,812,333</u>	<u>\$ 57,402,740</u>

KUB categorizes its fair value measurements within the fair value hierarchy established by Statement No. 72 of the Governmental Accounting Standards Board, *Fair Value Measurement and Application*. The hierarchy is based on the valuation inputs used to measure the fair value of an asset with a maturity at purchase of greater than one year. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

KUB has the following recurring fair value measurements as of June 30, 2024:

- U.S. Agency bonds of \$57,402,740, which have a maturity at purchase of greater than one year, are valued using quoted market prices (Level 1 inputs)

KUB measures investments with a maturity at purchase of one year or less at amortized cost, which is considered a fair value equivalent due to their nature. Investments in the State Treasurer's Investment Pool are measured at net asset value (NAV) per share.

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**Knoxville Utilities Board**  
**Notes to Consolidated Financial Statements**  
**June 30, 2024 and 2023**

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**4. Accounts Receivable**

Accounts receivable consists of the following:

	<b>2024</b>	<b>2023</b>
Wholesale and retail customers		
Billed services	\$ 55,815,880	\$ 47,349,019
Unbilled services	33,514,225	29,988,499
Other	15,216,490	12,937,057
Allowance for uncollectible accounts	<u>(800,861)</u>	<u>(760,386)</u>
	<u>\$ 103,745,734</u>	<u>\$ 89,514,189</u>

**5. Accounts Payable and Accruals**

Accounts payable and accruals consist of the following:

	<b>2024</b>	<b>2023</b>
Trade accounts	\$ 107,113,618	\$ 93,625,995
Current portion of accrued compensated absences	7,122,995	6,960,933
Salaries and wages	2,272,345	1,598,485
Advances on pole rental	1,527,262	1,482,546
Self-insurance liabilities	2,720,264	2,566,095
Other current liabilities	<u>18,379,131</u>	<u>16,626,871</u>
	<u>\$ 139,135,615</u>	<u>\$ 122,860,925</u>

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**Knoxville Utilities Board**  
**Notes to Consolidated Financial Statements**  
**June 30, 2024 and 2023**

**6. Long-Term Obligations**

	<b>Balance</b>				<b>Balance</b>	<b>Amounts</b>
	<b>June 30,</b>	<b>Additions</b>	<b>Payments</b>	<b>Defeased</b>	<b>June 30,</b>	<b>Due</b>
	<b>2023</b>				<b>2024</b>	<b>Within</b>
						<b>One Year</b>
<b>Electric</b>						
EE-2015 - 2.0 - 5.0%	\$ 19,230,000	\$ -	\$ 2,415,000	\$ -	\$ 16,815,000	\$ 2,555,000
FF-2015 - 2.0 - 5.0%	850,000	-	850,000	-	-	-
GG-2016 - 2.0 - 5.0%	34,700,000	-	1,050,000	-	33,650,000	1,100,000
HH-2017 - 2.5 - 5.0%	12,920,000	-	2,400,000	-	10,520,000	2,460,000
II-2017 - 3.0 - 5.0%	35,995,000	-	935,000	-	35,060,000	985,000
JJ-2018 - 3.0 - 5.0%	36,655,000	-	930,000	-	35,725,000	965,000
KK-2020 - 5.0%	12,010,000	-	1,270,000	-	10,740,000	1,335,000
LL-2021 - 4.0 - 5.0%	65,570,000	-	4,855,000	-	60,715,000	5,015,000
MM-2022 - 4.0 - 5.0%	45,650,000	-	765,000	-	44,885,000	805,000
NN-2022 - 4.0 - 5.0%	27,215,000	-	-	-	27,215,000	825,000
OO-2022 - 4.0 - 5.0%	79,000,000	-	-	-	79,000,000	1,275,000
PP-2023 - 5.0%	-	55,000,000	-	-	55,000,000	-
Total bonds	\$ 369,795,000	\$ 55,000,000	\$ 15,470,000	\$ -	\$ 409,325,000	\$ 17,320,000
Unamortized Premium	30,341,874	4,074,569	1,920,982	-	32,495,461	-
Total long term debt	\$ 400,136,874	\$ 59,074,569	\$ 17,390,982	\$ -	\$ 441,820,461	\$ 17,320,000
<b>Gas</b>						
U-2015 - 2.0 - 5.0%	\$ 7,380,000	\$ -	\$ 805,000	\$ -	\$ 6,575,000	\$ 845,000
V-2016 - 2.125 - 5.0%	10,225,000	-	325,000	-	9,900,000	325,000
W-2017 - 5.0%	3,685,000	-	850,000	-	2,835,000	900,000
X-2017 - 2.0 - 5.0%	10,505,000	-	300,000	-	10,205,000	315,000
Y-2018 - 3.0 - 5.0%	7,125,000	-	185,000	-	6,940,000	195,000
Z-2020 - 4.0 - 5.0%	5,000,000	-	615,000	-	4,385,000	645,000
AA-2021 - 4.0 - 5.0%	34,185,000	-	3,590,000	-	30,595,000	3,395,000
Total bonds	\$ 78,105,000	\$ -	\$ 6,670,000	\$ -	\$ 71,435,000	\$ 6,620,000
Unamortized Premium	7,978,913	-	922,377	-	7,056,536	-
Total long term debt	\$ 86,083,913	\$ -	\$ 7,592,377	\$ -	\$ 78,491,536	\$ 6,620,000
<b>Water</b>						
BB-2015 - 2.0 - 5.0%	\$ 17,025,000	\$ -	\$ 1,110,000	\$ -	\$ 15,915,000	\$ 1,170,000
CC-2015 - 2.0 - 4.0%	1,575,000	-	500,000	-	1,075,000	525,000
DD-2016 - 3.0 - 5.0%	21,475,000	-	650,000	-	20,825,000	675,000
EE-2016 - 2.0 - 5.0%	15,870,000	-	1,380,000	-	14,490,000	1,435,000
FF-2017 - 3.0 - 5.0%	2,365,000	-	550,000	-	1,815,000	575,000
GG-2017 - 2.125 - 5.0%	17,710,000	-	485,000	-	17,225,000	505,000
HH-2018 - 3.0 - 5.0%	17,855,000	-	440,000	-	17,415,000	465,000
II-2019 - 3.0 - 5.0%	18,450,000	-	420,000	-	18,030,000	440,000
JJ-2020 - 3.0 - 5.0%	17,950,000	-	445,000	-	17,505,000	450,000
KK-2020 - 3.0 - 5.0%	8,485,000	-	190,000	-	8,295,000	195,000
LL-2021 - 4.0 - 5.0%	30,690,000	-	1,305,000	-	29,385,000	1,350,000
MM-2022 - 3.0 - 5.0%	14,815,000	-	-	-	14,815,000	-
NN-2023 - 4.0 - 5.0%	-	19,995,000	250,000	-	19,745,000	335,000
Total bonds	\$ 184,265,000	\$ 19,995,000	\$ 7,725,000	\$ -	\$ 196,535,000	\$ 8,120,000
Unamortized Premium	14,439,030	365,073	807,900	-	13,996,203	-
Total long term debt	\$ 198,704,030	\$ 20,360,073	\$ 8,532,900	\$ -	\$ 210,531,203	\$ 8,120,000
<b>Wastewater</b>						
2010C - 1.18 - 6.1%	\$ 20,250,000	\$ -	\$ -	\$ -	\$ 20,250,000	\$ -
2015A - 3.0 - 5.0%	98,945,000	-	3,720,000	-	95,225,000	3,785,000
2015B - 3.0 - 5.0%	1,225,000	-	600,000	-	625,000	625,000
2016 - 2.0 - 5.0%	16,775,000	-	550,000	-	16,225,000	575,000
2017A - 3.0 - 5.0%	2,510,000	-	595,000	-	1,915,000	615,000
2017B - 2.0 - 5.0%	22,035,000	-	630,000	-	21,405,000	660,000
2018 - 3.0 - 5.0%	10,715,000	-	280,000	-	10,435,000	290,000
2019 - 3.0 - 5.0%	14,805,000	-	345,000	-	14,460,000	360,000
2020A - 3.0 - 5.0%	26,050,000	-	750,000	-	25,300,000	785,000
2020B - 3.0 - 4.0%	25,775,000	-	600,000	-	25,175,000	625,000
2021A - 4.0 - 5.0%	184,265,000	-	6,085,000	-	178,180,000	6,150,000
2022A - 4.0 - 5.0%	10,900,000	-	200,000	-	10,700,000	210,000
2022B - 4.0 - 5.0%	23,100,000	-	-	-	23,100,000	-
2022C - 4.0 - 5.0%	9,995,000	-	170,000	-	9,825,000	175,000
Total bonds	\$ 467,345,000	\$ -	\$ 14,525,000	\$ -	\$ 452,820,000	\$ 14,855,000
Unamortized Premium	59,027,339	-	2,498,287	-	56,529,052	-
Total long term debt	\$ 526,372,339	\$ -	\$ 17,023,287	\$ -	\$ 509,349,052	\$ 14,855,000
<b>Consolidated</b>						
Total Bonds	\$ 1,099,510,000	\$ 74,995,000	\$ 44,390,000	\$ -	\$ 1,130,115,000	\$ 46,915,000
Total unamortized premium	111,787,156	4,439,642	6,149,546	-	110,077,252	-
Total long term debt	\$ 1,211,297,156	\$ 79,434,642	\$ 50,539,546	\$ -	\$ 1,240,192,252	\$ 46,915,000



# Knoxville Utilities Board

## Notes to Consolidated Financial Statements

### June 30, 2024 and 2023

	Balance June 30, 2022	Additions	Payments	Defeased	Balance June 30, 2023	Amounts Due Within One Year
<b>Electric</b>						
EE-2015 - 2.0 - 5.0%	\$ 21,530,000	\$ -	\$ 2,300,000	\$ -	\$ 19,230,000	\$ 2,415,000
FF-2015 - 2.0 - 5.0%	1,675,000	-	825,000	-	850,000	850,000
GG-2016 - 2.0 - 5.0%	35,700,000	-	1,000,000	-	34,700,000	1,050,000
HH-2017 - 2.5 - 5.0%	15,225,000	-	2,305,000	-	12,920,000	2,400,000
II-2017 - 3.0 - 5.0%	36,885,000	-	890,000	-	35,995,000	935,000
JJ-2018 - 3.0 - 5.0%	37,550,000	-	895,000	-	36,655,000	930,000
KK-2020 - 5.0%	13,225,000	-	1,215,000	-	12,010,000	1,270,000
LL-2021 - 4.0 - 5.0%	70,180,000	-	4,610,000	-	65,570,000	4,855,000
MM-2022 - 4.0 - 5.0%	45,650,000	-	-	-	45,650,000	765,000
NN-2022 - 4.0 - 5.0%	27,215,000	-	-	-	27,215,000	-
OO-2022 - 4.0 - 5.0%	-	79,000,000	-	-	79,000,000	-
Total bonds	<u>\$ 304,835,000</u>	<u>\$ 79,000,000</u>	<u>\$ 14,040,000</u>	<u>\$ -</u>	<u>\$ 369,795,000</u>	<u>\$ 15,470,000</u>
Unamortized Premium	29,092,437	3,099,539	1,850,102	-	30,341,874	-
Total long term debt	<u>\$ 333,927,437</u>	<u>\$ 82,099,539</u>	<u>\$ 15,890,102</u>	<u>\$ -</u>	<u>\$ 400,136,874</u>	<u>\$ 15,470,000</u>
<b>Gas</b>						
U-2015 - 2.0 - 5.0%	\$ 8,175,000	\$ -	\$ 795,000	\$ -	\$ 7,380,000	\$ 805,000
V-2016 - 2.125 - 5.0%	10,525,000	-	300,000	-	10,225,000	325,000
W-2017 - 5.0%	4,500,000	-	815,000	-	3,685,000	850,000
X-2017 - 2.0 - 5.0%	10,790,000	-	285,000	-	10,505,000	300,000
Y-2018 - 3.0 - 5.0%	7,305,000	-	180,000	-	7,125,000	185,000
Z-2020 - 4.0 - 5.0%	5,585,000	-	585,000	-	5,000,000	615,000
AA-2021 - 4.0 - 5.0%	37,915,000	-	3,730,000	-	34,185,000	3,590,000
Total bonds	<u>\$ 84,795,000</u>	<u>\$ -</u>	<u>\$ 6,690,000</u>	<u>\$ -</u>	<u>\$ 78,105,000</u>	<u>\$ 6,670,000</u>
Unamortized Premium	8,901,291	-	922,378	-	7,978,913	-
Total long term debt	<u>\$ 93,696,291</u>	<u>\$ -</u>	<u>\$ 7,612,378</u>	<u>\$ -</u>	<u>\$ 86,083,913</u>	<u>\$ 6,670,000</u>
<b>Water</b>						
BB-2015 - 2.0 - 5.0%	\$ 18,075,000	\$ -	\$ 1,050,000	\$ -	\$ 17,025,000	\$ 1,110,000
CC-2015 - 2.0 - 4.0%	2,050,000	-	475,000	-	1,575,000	500,000
DD-2016 - 3.0 - 5.0%	22,100,000	-	625,000	-	21,475,000	650,000
EE-2016 - 2.0 - 5.0%	17,185,000	-	1,315,000	-	15,870,000	1,380,000
FF-2017 - 3.0 - 5.0%	2,895,000	-	530,000	-	2,365,000	550,000
GG-2017 - 2.125 - 5.0%	18,170,000	-	460,000	-	17,710,000	485,000
HH-2018 - 3.0 - 5.0%	18,285,000	-	430,000	-	17,855,000	440,000
II-2019 - 3.0 - 5.0%	18,850,000	-	400,000	-	18,450,000	420,000
JJ-2020 - 3.0 - 5.0%	18,395,000	-	445,000	-	17,950,000	445,000
KK-2020 - 3.0 - 5.0%	8,665,000	-	180,000	-	8,485,000	190,000
LL-2021 - 4.0 - 5.0%	31,955,000	-	1,265,000	-	30,690,000	1,305,000
MM-2022 - 3.0 - 5.0%	14,915,000	-	100,000	-	14,815,000	-
Total bonds	<u>\$ 191,540,000</u>	<u>\$ -</u>	<u>\$ 7,275,000</u>	<u>\$ -</u>	<u>\$ 184,265,000</u>	<u>\$ 7,475,000</u>
Unamortized Premium	15,240,672	-	801,642	-	14,439,030	-
Total long term debt	<u>\$ 206,780,672</u>	<u>\$ -</u>	<u>\$ 8,076,642</u>	<u>\$ -</u>	<u>\$ 198,704,030</u>	<u>\$ 7,475,000</u>
<b>Wastewater</b>						
2010C - 1.18 - 6.1%	\$ 20,250,000	\$ -	\$ -	\$ -	\$ 20,250,000	\$ -
2015A - 3.0 - 5.0%	104,950,000	-	6,005,000	-	98,945,000	3,720,000
2015B - 3.0 - 5.0%	1,800,000	-	575,000	-	1,225,000	600,000
2016 - 2.0 - 5.0%	17,300,000	-	525,000	-	16,775,000	550,000
2017A - 3.0 - 5.0%	4,285,000	-	1,775,000	-	2,510,000	595,000
2017B - 2.0 - 5.0%	22,635,000	-	600,000	-	22,035,000	630,000
2018 - 3.0 - 5.0%	10,985,000	-	270,000	-	10,715,000	280,000
2019 - 3.0 - 5.0%	15,135,000	-	330,000	-	14,805,000	345,000
2020A - 3.0 - 5.0%	26,765,000	-	715,000	-	26,050,000	750,000
2020B - 3.0 - 4.0%	26,355,000	-	580,000	-	25,775,000	600,000
2021A - 4.0 - 5.0%	187,325,000	-	3,060,000	-	184,265,000	6,085,000
2022A - 4.0 - 5.0%	11,125,000	-	225,000	-	10,900,000	200,000
2022B - 4.0 - 5.0%	23,200,000	-	100,000	-	23,100,000	-
2022C - 4.0 - 5.0%	-	9,995,000	-	-	9,995,000	170,000
Total bonds	<u>\$ 472,110,000</u>	<u>\$ 9,995,000</u>	<u>\$ 14,760,000</u>	<u>\$ -</u>	<u>\$ 467,345,000</u>	<u>\$ 14,525,000</u>
Unamortized Premium	61,168,494	351,129	2,492,284	-	59,027,339	-
Total long term debt	<u>\$ 533,278,494</u>	<u>\$ 10,346,129</u>	<u>\$ 17,252,284</u>	<u>\$ -</u>	<u>\$ 526,372,339</u>	<u>\$ 14,525,000</u>
<b>Consolidated</b>						
Total Bonds	\$ 1,053,280,000	\$ 88,995,000	\$ 42,765,000	\$ -	\$ 1,099,510,000	\$ 44,140,000
Total unamortized premium	114,402,894	3,450,668	6,066,406	-	111,787,156	-
Total long term debt	<u>\$ 1,167,682,894</u>	<u>\$ 92,445,668</u>	<u>\$ 48,831,406</u>	<u>\$ -</u>	<u>\$ 1,211,297,156</u>	<u>\$ 44,140,000</u>

**Knoxville Utilities Board**  
**Notes to Consolidated Financial Statements**  
**June 30, 2024 and 2023**

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Debt service over remaining term of the debt is as follows:

Fiscal Year	Principal	Interest	Total
2025	\$ 46,915,000	\$ 44,427,368	\$ 91,342,368
2026	46,255,000	42,339,251	88,594,251
2027	47,700,000	40,394,347	88,094,347
2028	49,045,000	38,349,372	87,394,372
2029	47,990,000	36,330,015	84,320,015
2030-2034	231,220,000	152,303,659	383,523,659
2035-2039	236,405,000	108,190,973	344,595,973
2040-2044	229,625,000	60,512,900	290,137,900
2045-2049	143,050,000	24,245,405	167,295,405
2050-2054	51,910,000	4,810,907	56,720,907
Total	\$ <u>1,130,115,000</u>	\$ <u>551,904,197</u>	\$ <u>1,682,019,197</u>

The Divisions have pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet bond principal and interest payments of revenue bonds when due. Such bond requirements are being met through monthly deposits to the bond funds as required by the bond covenants. As of June 30, 2024, these requirements have been satisfied.

The Divisions outstanding bonds payable contain provisions that in an event of default, outstanding amounts are to become immediately due if the Division is unable to make payment.

During fiscal year 2023, KUB's Electric Division issued Series OO 2022 bonds to fund electric system capital improvements.

During fiscal year 2024, KUB's Electric Division issued Series PP 2023 bonds to fund electric system capital improvements.

During fiscal year 2024, KUB's Water Division issued Series NN 2023 bonds to fund water system capital improvements.

During fiscal year 2011, KUB's Wastewater Division issued Series 2010C bonds to fund capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. These bonds are subject to a reduction in rebate payment amounts which is subject to change based on Congressional action. As of October 1, 2021, the effective reduction in rebate is 5.7 percent.

During fiscal year 2023, KUB's Wastewater Division issued Series 2022C bonds to fund wastewater system capital improvements.

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**Knoxville Utilities Board**  
**Notes to Consolidated Financial Statements**  
**June 30, 2024 and 2023**

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Other liabilities consist of the following:

	<b>Balance June 30, 2023</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance June 30, 2024</b>
TVA conservation program	\$ 271,138	\$ 13,659	\$ (195,007)	\$ 89,790
Accrued compensated absences	3,585,936	7,019,505	(6,936,019)	3,669,422
Customer advances for construction	11,299,795	4,687,643	(4,507,472)	11,479,966
Other	119,620	137,652	(148,870)	108,402
	<u>\$ 15,276,489</u>	<u>\$ 11,858,459</u>	<u>\$ (11,787,368)</u>	<u>\$ 15,347,580</u>

	<b>Balance June 30, 2022</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance June 30, 2023</b>
TVA conservation program	\$ 613,757	\$ 25,487	\$ (368,106)	\$ 271,138
Accrued compensated absences	10,759,104	21,378,328	(28,551,496)	3,585,936
Customer advances for construction	10,681,887	4,972,019	(4,354,111)	11,299,795
Other	244,656	199,418	(324,454)	119,620
	<u>\$ 22,299,404</u>	<u>\$ 26,575,252</u>	<u>\$ (33,598,167)</u>	<u>\$ 15,276,489</u>

In May 2024, the Board and the Tennessee Comptroller approved a Gas Division revenue anticipation note (line of credit) in the amount not to exceed \$20 million, for the purpose of natural gas purchases, storage, and pipeline capacity. If utilized, the note will be repaid within 12 months. No amounts were drawn as of June 30, 2024.

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**Knoxville Utilities Board**  
**Notes to Consolidated Financial Statements**  
**June 30, 2024 and 2023**

**7. Lease Receivables**

KUB, as lessor, leases office space, land, and fiber optic cables under non-cancelable lease arrangements. Terms of the leases range from one to fourteen years and contain fixed payment terms. Certain leases contain an option to renew that has been considered in the lease receivable when the lessee is reasonably certain to exercise the renewal option. KUB recognized lease revenue, which is included in other operating revenues, of \$981,984 in 2024 and \$631,140 in 2023. KUB also recognized interest income from leases, which is included in non-operating revenues, totaling \$315,652 in 2024 and \$153,241 in 2023. Total lease receivables were \$9,392,296 (\$838,178 current) and \$4,371,578 (\$555,779 current) as of June 30, 2024, and 2023, respectively, and are included in other assets on the Statement of Net Position.

**8. Lease Liability**

Changes in lease liabilities are summarized as follows:

	<b>Balance</b>			<b>Balance</b>
	<b>June 30, 2023</b>	<b>Increase</b>	<b>Decrease</b>	<b>June 30, 2024</b>
Total lease liabilities	\$ 3,527,578	\$ 39,002	\$ (839,755)	\$ 2,726,825
Less current portion	(830,979)			(889,422)
Long-term portion	<u>\$ 2,696,599</u>			<u>\$ 1,837,403</u>

	<b>Balance</b>			<b>Balance</b>
	<b>June 30, 2022</b>	<b>Increase</b>	<b>Decrease</b>	<b>June 30, 2023</b>
Total lease liabilities	\$ 4,060,460	\$ 367,985	\$ (900,867)	\$ 3,527,578
Less current portion	(844,904)			(830,979)
Long-term portion	<u>\$ 3,215,556</u>			<u>\$ 2,696,599</u>

KUB leases certain office space, equipment, and other assets under non-cancelable lease arrangements. Terms of the leases range from one to nineteen years and contain fixed payment terms. Certain office space leases contain the option for renewal, which has been considered in the lease liability when KUB is reasonably certain to exercise the renewal option.

Maturities and future interest requirements related to the balances of lease liabilities outstanding as of June 30, 2024, are summarized as follows:

	<b>Lease Maturities</b>	<b>Interest Requirements</b>
2025	\$ 889,422	\$ 89,760
2026	924,531	56,514
2027	755,335	21,332
2028	19,470	6,992
2029	5,657	6,145
2030-2034	34,903	29,639
2035-2039	49,158	25,664
2040-2044	48,349	13,934
	<u>\$ 2,726,825</u>	<u>\$ 249,980</u>

**Knoxville Utilities Board**  
**Notes to Consolidated Financial Statements**  
**June 30, 2024 and 2023**

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**9. Subscription-Based Information Technology Agreement Liabilities**

Changes in SBITA liabilities are summarized as follows:

	<b>Balance June 30, 2023</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance June 30, 2024</b>
Total SBITA liabilities	\$ 7,632,658	\$ 447,577	\$ (1,358,004)	\$ 6,722,231
Less current portion	(910,426)			(1,037,806)
Long-term portion	<u>\$ 6,722,232</u>			<u>\$ 5,684,425</u>

	<b>Balance June 30, 2022</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance June 30, 2023</b>
Total SBITA liabilities	\$ 8,273,214	\$ 68,768	\$ (709,324)	\$ 7,632,658
Less current portion	(709,324)			(910,426)
Long-term portion	<u>\$ 7,563,890</u>			<u>\$ 6,722,232</u>

KUB has subscription-based information technology agreements (SBITAs) which grant non-cancelable rights to use underlying information technology software. Terms of agreement range from five to eighteen years and contain fixed and variable payment terms. Certain SBITAs contain the option for renewal, which has been considered in the SBITA liability when KUB is reasonably certain to exercise the renewal option.

Maturities and future interest requirements related to the balances of SBITA liabilities outstanding as of June 30, 2024, are summarized as follows:

	<b>Subscription Maturities</b>	<b>Interest Requirements</b>
2025	\$ 1,037,806	\$ 243,407
2026	1,206,488	199,923
2027	1,237,452	151,138
2028	1,296,950	101,934
2029	588,127	65,191
2030-2032	1,355,408	60,116
	<u>\$ 6,722,231</u>	<u>\$ 821,709</u>

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**Knoxville Utilities Board**  
**Notes to Consolidated Financial Statements**  
**June 30, 2024 and 2023**

**10. Capital and Intangible Assets**

Capital and intangible asset activity was as follows:

	Balance				Balance	
	June 30, 2023		Increase	Decrease		June 30, 2024
<b>Production Plant (Intakes)</b>	\$ 742,503	\$	-	\$	-	\$ 742,503
<b>Pumping and Treatment Plant</b>	419,411,768		28,191,915	(815,674)		446,788,009
<b>Distribution and Collection Plant</b>						
Mains and metering	1,226,555,606		66,825,542	(3,857,811)		1,289,523,337
Services and meters	252,205,063		21,157,339	(608,895)		272,753,507
Electric station equipment	218,924,364		67,605,046	(455,777)		286,073,633
Poles, towers and fixtures	237,092,817		19,242,803	(1,132,423)		255,203,197
Overhead conductors	199,084,887		29,551,211	(6,243,400)		222,392,698
Line transformers	111,182,883		5,863,192	(514,807)		116,531,268
Other accounts	309,980,838		18,208,208	(1,489,238)		326,699,808
<b>Total Distribution &amp; Collection Plant</b>	\$ 2,555,026,458	\$	228,453,341	\$ (14,302,351)	\$	2,769,177,448
<b>General Plant</b>	293,287,525		33,628,897	(21,599,639)		305,316,783
<b>Total Plant Assets</b>	\$ 3,268,468,254	\$	290,274,153	\$ (36,717,664)	\$	3,522,024,743
Less Accumulated Depreciation	(1,133,989,255)		(99,475,084)	38,985,651		(1,194,478,688)
<b>Net Plant Assets</b>	\$ 2,134,478,999	\$	190,799,069	\$ 2,267,987	\$	2,327,546,055
Work In Progress	221,322,238		252,999,302	(289,952,449)		184,369,091
<b>Total Net Plant</b>	\$ 2,355,801,237	\$	443,798,371	\$ (287,684,462)	\$	2,511,915,146
<b>Intangible Right of Use Assets</b>						
Office space	\$ 4,206,577	\$	47,198	\$ -	\$	4,253,775
Equipment	133,003		-	(44,963)		88,040
Other	330,678		-	-		330,678
<b>Total Intangible Right of Use Assets</b>	\$ 4,670,258	\$	47,198	\$ (44,963)	\$	4,672,493
Less Accumulated Amortization	(1,365,235)		(877,788)	44,963		(2,198,060)
<b>Net Intangible Right of Use Assets</b>	\$ 3,305,023	\$	(830,590)	\$ -	\$	2,474,433
<b>Intangible Subscription Assets</b>						
Intangible Subscription Assets	\$ 9,323,779	\$	-	\$ -	\$	9,323,779
Less Accumulated Amortization	(2,029,713)		(1,201,334)	-		(3,231,047)
<b>Net Intangible Subscription Assets</b>	\$ 7,294,066	\$	(1,201,334)	\$ -	\$	6,092,732

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# Knoxville Utilities Board

## Notes to Consolidated Financial Statements

### June 30, 2024 and 2023

CONSOLIDATED				
	Balance		Balance	
	June 30, 2022	Increase	Decrease	June 30, 2023
Production Plant (Intakes)	\$ 742,503	\$ -	\$ -	\$ 742,503
Pumping and Treatment Plant	413,102,170	8,398,801	(2,089,203)	419,411,768
<b>Distribution and Collection Plant</b>				
Mains and metering	1,191,235,230	39,651,835	(4,331,459)	1,226,555,606
Services and meters	243,710,892	10,060,281	(1,566,110)	252,205,063
Electric station equipment	187,970,174	32,116,980	(1,162,790)	218,924,364
Poles, towers and fixtures	229,318,620	9,047,087	(1,272,890)	237,092,817
Overhead conductors	189,890,503	12,186,366	(2,991,982)	199,084,887
Line transformers	108,462,711	3,275,116	(554,944)	111,182,883
Other accounts	305,772,862	5,543,567	(1,335,591)	309,980,838
<b>Total Distribution &amp; Collection Plant</b>	<b>\$ 2,456,360,992</b>	<b>\$ 111,881,232</b>	<b>\$ (13,215,766)</b>	<b>\$ 2,555,026,458</b>
	-	-	-	-
<b>General Plant</b>	<b>278,765,298</b>	<b>17,085,602</b>	<b>(2,563,375)</b>	<b>293,287,525</b>
<b>Total Plant Assets</b>	<b>\$ 3,148,970,963</b>	<b>\$ 137,365,635</b>	<b>\$ (17,868,344)</b>	<b>\$ 3,268,468,254</b>
Less Accumulated Depreciation	(1,057,804,184)	(95,226,575)	19,041,504	(1,133,989,255)
<b>Net Plant Assets</b>	<b>\$ 2,091,166,779</b>	<b>\$ 42,139,060</b>	<b>\$ 1,173,160</b>	<b>\$ 2,134,478,999</b>
Work In Progress	161,753,319	194,937,382	(135,368,463)	221,322,238
<b>Total Net Plant</b>	<b>\$ 2,252,920,098</b>	<b>\$ 237,076,442</b>	<b>\$ (134,195,303)</b>	<b>\$ 2,355,801,237</b>
<b>Intangible Right of Use Assets</b>				
Office space	\$ 4,361,497	\$ -	\$ (154,920)	\$ 4,206,577
Equipment	82,407	67,006	(16,410)	133,003
Other	143,783	330,678	(143,783)	330,678
<b>Total Intangible Right of Use Assets</b>	<b>\$ 4,587,687</b>	<b>\$ 397,684</b>	<b>\$ (315,113)</b>	<b>\$ 4,670,258</b>
Less Accumulated Amortization	(689,074)	(851,664)	175,503	(1,365,235)
<b>Net Intangible Right of Use Assets</b>	<b>\$ 3,898,613</b>	<b>\$ (453,981)</b>	<b>\$ (139,610)</b>	<b>\$ 3,305,023</b>
<b>Intangible Subscription Assets</b>				
Intangible Subscription Assets	\$ 9,273,959	\$ 49,820	\$ -	\$ 9,323,779
Less Accumulated Amortization	(832,906)	(1,196,807)	-	(2,029,713)
<b>Net Intangible Subscription Assets</b>	<b>\$ 8,441,053</b>	<b>\$ (1,146,987)</b>	<b>\$ -</b>	<b>\$ 7,294,066</b>

## 11. Risk Management

KUB is exposed to various risks of loss related to active and retiree medical claims; injuries to workers; theft of, damage to, and destruction of assets; environmental damages; and natural disasters. Claims expenditures and liabilities are reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. On June 30, 2024, and June 30, 2023, the amount of these liabilities was \$2,720,264 and \$2,566,095, respectively, resulting from the following changes:

	2024	2023
Balance, beginning of year	\$ 2,566,095	\$ 2,252,221
Current year claims and changes in estimates	20,269,079	21,658,882
Claims payments	(20,114,910)	(21,345,008)
Balance, end of year	<u>\$ 2,720,264</u>	<u>\$ 2,566,095</u>

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**12. Pension Plan**

**Description of Plan**

The Knoxville Utilities Board Pension Plan (the Plan) is a governmental plan as defined by the Employee Retirement Income Security Act of 1974 (ERISA or the Act), is not subject to any of the provisions of the Act, and was revised January 1, 2020, to include all prior approved amendments. The Plan is a single employer contributory, defined benefit pension plan established by Knoxville Utilities Board Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville §1107(J). KUB Board Resolution No. 979, effective July 1, 1999, as amended by Resolution No. 1037, establishing the KUB Retirement System, was amended effective June 18, 2020, to amend the term “Trustee” to include both custodians and/or trustees, in order to provide flexibility should KUB choose to change from its current Pension trustee. The Plan is designed to provide retirement, disability, and death benefits to KUB employees. KUB administers the Plan through an Administrative Committee consisting of seven KUB employees that are appointed by KUB’s President and CEO. Any amendments to the Plan involving costs not approved in the operating budget must be adopted by KUB’s Board of Commissioners, upon recommendation by KUB’s President and CEO. All other amendments to the Plan may be approved by KUB’s President and CEO upon 60 days notification to the Board’s Audit and Finance Committee. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

Effective January 1, 2011, KUB closed the Plan such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and to accrue benefits under the Plan.

Participants in the Plan consisted of the following as of December 31:

	<b>2023</b>	<b>2022</b>
Inactive plan members:		
Terminated vested participants	9	14
Retirees and beneficiaries	602	603
Active plan members	<u>389</u>	<u>431</u>
Total	<u>1,000</u>	<u>1,048</u>

**Retirement Benefits**

The Plan provides three benefit arrangements for KUB participants, retirees, and beneficiaries.

The Plan provides pension benefits through the Career Equity Program (“CEP”) for eligible employees hired on or after January 1, 1999, and for eligible former “City System Plan A” participants who elected CEP coverage as of July 1, 1999. The guaranteed pension benefit payable to a participant who has completed five or more years of service (or reached the normal retirement date, if earlier) upon termination of KUB employment shall be a lump sum equal to the participant’s average compensation times their benefit percentage, as defined in the Plan document, or an annuity may be chosen by the participant.

In addition, the Plan provided retirement benefits through “Plan A” for former City System Plan A participants who elected not to participate in the CEP. Plan A is a closed plan and is not available to KUB employees hired after July 1, 1999. Plan A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or later. Benefits provided to Plan A participants include several different forms of monthly annuity payments.



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The Plan also provides retirement benefits through “Plan B” for former “City System Plan B” participants. Plan B is a closed plan providing benefits to participants not covered by Social Security. Benefits provided to Plan B participants include several different forms of monthly annuity payments available to participants.

Effective January 1, 2012, KUB began to provide for additional monthly supplements, which are not subject to cost-of-living adjustments, to certain former employees and surviving dependents of former employees who are eligible for and have elected coverage under the KUB retiree medical plan and are eligible for Medicare. This was done to compensate for the elimination of drug coverage under the KUB retiree medical plan and to assist such individuals in obtaining prescription drug coverage under Medicare Part D.

#### Contributions

Participation in Plan A requires employee contributions of three percent of the first \$4,800 of annual earnings and five percent of annual earnings in excess of \$4,800. KUB contributions are determined by the enrolled actuary of the Plan and equal to the amount necessary to provide the benefits under the Plan determined by the application of accepted actuarial methods and assumptions. The method of funding shall be consistent with Plan objectives.

#### Plan Funding

KUB maintains a Funding Policy for the Plan in accordance with Tennessee State Law. The primary goal of the Policy is to document the method KUB has adopted to provide assurance that future KUB and employee contributions and current Plan assets will be sufficient to fund all benefits expected to be paid to current active, inactive and retired Plan participants and their beneficiaries. Per the Funding Policy, KUB fully funds its annual Actuarially Determined Contribution.

#### Investments

The Plan’s investments are held by State Street Bank and Trust Company (the “Trustee”). The Plan’s policy in regard to the allocation of invested assets is established by the Retirement System Investment Committee and approved by the KUB Board of Commissioners and may only be amended by the KUB Board of Commissioners. It is the policy of the Retirement System Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Plan’s adopted asset allocation policy as of December 31, 2023:

Asset Class	Target Allocation
Domestic equity – large cap	20% - 50%
Domestic equity – small/mid cap	0% - 30%
Multi-asset credit	0% - 20%
Non-U.S. equity	0% - 20%
U.S. core real estate	0% - 10%
Fixed income	20% - 40%
Cash and deposits	0% - 5%

Contributions of \$1,108,147 and \$2,624,373 for 2022 and 2021, respectively, were made during the Plan sponsor’s fiscal years ended June 30, 2024, and 2023, respectively. The fiscal year 2024 contribution was determined as part of the January 1, 2022, valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant’s benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability, or death.

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**Net Pension Liability (Asset)**

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (“GASB 68”), which requires measurement of the net pension liability as total pension liability less the amount of the Plan’s fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB’s measurements as of June 30, 2024, and 2023, will be based on the December 31, 2023, and 2022, measurement date, respectively.

GASB 68 requires certain disclosures related to the net pension liability (asset) of the Plan as disclosed below:

	<b>2023</b>		<b>2022</b>
Total pension liability	\$ 263,351,035	\$	254,406,723
Plan fiduciary net position	<u>(255,898,655)</u>		<u>(232,187,691)</u>
Plan's net pension liability	<u>\$ 7,452,380</u>	\$	<u>22,219,032</u>

Plan fiduciary net position as a percentage of the total pension liability	97.17%	91.27%
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Changes in Net Pension Liability (Asset) are as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2022	\$ 254,406,723	\$ 232,187,691	\$ 22,219,032
Changes for the year:			
Service cost	8,221,181	-	8,221,181
Interest	17,868,490	-	17,868,490
Changes of Benefits	-	-	-
Differences between Expected and Actual Experience	2,092,475	-	2,092,475
Changes of Assumptions	-	-	-
Contributions - employer	-	1,866,261	(1,866,261)
Contributions - rollovers	-	3,225	(3,225)
Contributions - member	-	5,749,384	(5,749,384)
Net investment income	-	35,932,006	(35,932,006)
Benefit payments	(19,237,834)	(19,237,834)	-
Administrative expense	-	(602,078)	602,078
Net changes	<u>8,944,312</u>	<u>23,710,964</u>	<u>(14,766,652)</u>
Balances at December 31, 2023	<u>\$ 263,351,035</u>	<u>\$ 255,898,655</u>	<u>\$ 7,452,380</u>

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#### *Actuarial Assumptions*

The total pension liability was determined by an actuarial valuation, using the following actuarial assumptions applied to all periods included in the measurement:

Valuation dates	January 1, 2023, rolled forward to December 31, 2023; January 1, 2022, rolled forward to December 31, 2022
Discount rate	7.00% as of December 31, 2023 and 2022
Salary increases	From 2.50% to 5.65%, based on years of service as of December 31, 2023, and 2022
Mortality	115% and 110% of the PubG-2010 table for males and females, respectively, using the Public Sector General Employee Table for ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of December 31, 2023 and 2022
Inflation	2.5% as of December 31, 2023 and 2022

The actuarial assumptions used in the January 1, 2023, and 2022, valuations were based on an actuarial experience study covering the period January 1, 2014, through December 31, 2018.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2023, and 2022, are summarized in the following table. The real rate of return reported for fixed income is for aggregate fixed income. The Plan has both aggregate and long duration fixed income.

<b>Asset Class</b>	<b>Long Term Expected Real Rate of Return</b>	
	<b>2023</b>	<b>2022</b>
Domestic equity	5.6%	5.0%
Non-U.S. equity	6.5%	6.1%
Real estate equity	5.8%	5.4%
Debt securities	1.9%	0.5%
Cash and deposits	0.7%	(0.1%)

#### *Discount rate*

The discount rate used to measure the total pension liability was 7.00 percent as of December 31, 2023, and December 31, 2022. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

#### *Sensitivity of the net pension liability (asset) to changes in the discount rate*

The following presents the net pension liability of the Plan as of December 31, 2023, calculated using the discount rate of 7.00 percent, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one percent lower (6.00 percent) or one percent higher (8.00 percent) than the current rate:

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	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Plan's net pension liability	\$ 31,223,728	\$ 7,452,380	\$ (13,022,725)

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended June 30, 2024, KUB recognized pension expense of \$6,394,757.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2022, this average was four years. During the measurement year, there was a liability experience loss of \$2,092,475, with \$523,119 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$1,569,356. Unrecognized liability experience losses from prior periods were \$1,951,216, of which \$940,357 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,010,859. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$2,580,215. Unrecognized liability gains from prior periods were \$210,825, of which \$210,825 was recognized as a decrease in Pension Expense in the current year and resulted in a deferred inflow of \$0.

During the measurement year, there were no benefit changes or assumption changes. Net unrecognized assumption change losses from prior periods were \$5,646,136, of which \$3,011,800 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$2,634,336.

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$20,099,370, of which \$4,019,874 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were \$39,628,509, of which \$1,043,676 was recognized as an increase in Pension Expense in the current year. The combination of unrecognized investment gains this year, along with unrecognized investment losses from prior periods, results in a deferred outflow of \$22,505,337.

In addition, KUB recorded a deferred outflow of resources of \$554,084 for employer contributions made between December 31, 2023, and June 30, 2024.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,580,215	\$ -
Changes in assumptions	2,634,336	-
Net difference between projected and actual earnings on pension plan investments	22,505,337	-
Contributions subsequent to measurement date	554,084	-
Total	<u>\$ 28,273,972</u>	<u>\$ -</u>

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\$554,084 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2025. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2025	\$ 6,782,311
2026	11,391,353
2027	13,566,098
2028	(4,019,874)
2029	-
Thereafter	-

For the year ended June 30, 2023, KUB recognized pension expense of \$8,973,269.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2021, this average was four years. During the measurement year, there was a liability experience loss of \$282,014, with \$70,504 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$211,510. Unrecognized liability experience losses from prior periods were \$2,609,559, of which \$869,853 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,739,706. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$1,951,216. Unrecognized liability gains from prior periods were \$542,777, of which \$331,952 was recognized as a decrease in Pension Expense in the current year and resulted in a deferred inflow of \$210,825.

During the measurement year, there was an assumption change loss of \$5,268,672, with \$1,317,168 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$3,951,504. Net unrecognized assumption change losses from prior periods were \$3,389,264, of which \$1,694,632 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$1,694,632.

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment loss of \$85,314,262, of which \$17,062,852 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment gains from prior periods were \$38,969,257, of which \$10,346,356 was recognized as a decrease in Pension Expense in the current year. The combination of unrecognized investment losses this year, along with net unrecognized investment gains from prior periods, results in a deferred outflow of \$39,628,509.

In addition, KUB recorded a deferred outflow of resources of \$1,312,188 for employer contributions made between December 31, 2022, and June 30, 2023.

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,951,216	\$ 210,825
Changes in assumptions	5,646,136	-
Net difference between projected and actual earnings on pension plan investments	39,628,509	-
Contributions subsequent to measurement date	1,312,188	-
Total	<u>\$ 48,538,049</u>	<u>\$ 210,825</u>

**13. Qualified Excess Benefit Arrangement**

**Description**

In fiscal year 2017, KUB implemented a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). The QEBA is a single employer defined benefit pension plan administered by KUB. The number of participants in any given year for the QEBA is determined by the number of KUB Pension Plan participants who exceed the current year's section 415(b) limitations, as calculated by the KUB Pension Plan actuary. The amount of QEBA benefit will be the amount specified by the terms of the KUB Pension Plan without regard to Section 415(b) limitations minus the amount payable from the KUB Pension Plan as limited by Section 415(b). QEBA benefits are subject to cost-of-living adjustments.

As of June 30, 2024, there are 372 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the KUB Pension Plan. The KUB Pension Plan was amended to include the provision of QEBA benefits; therefore, amendments to the QEBA require the same authority as amendments to the KUB Pension Plan. As required by federal tax law, the QEBA is unfunded within the meaning of the federal tax laws. KUB may not pre-fund the QEBA to cover future liabilities beyond the current year. KUB has established procedures to pay for these benefits on a pay-as-you-go basis. There are no assets accumulated in a trust that meets the GASB's criteria. Due to the increase in the section 415(d) annual benefit limitation from 2021 to 2022, the pension benefit for the sole participant in the Excess Benefit Arrangement is now fully payable under the KUB Pension Plan and, as such, there is no benefit payable under the Excess Benefit Arrangement as of June 30, 2024, and 2023.

**Total Pension Liability of the QEBA**

The below summarizes the disclosures of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"). GASB 73 extends a similar approach of financial reporting to plans meeting specific criteria that are not administered through trusts that GASB 68 established for pension plans. GASB 73 requires measurement of the total pension liability of the QEBA. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2024, and 2023, are based on a December 31, 2023, and 2022, measurement date, respectively. There is no Total Pension Liability as of June 30, 2024, and 2023.

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GASB 73 requires certain disclosures related to the total pension liability of the QEBA, as disclosed below:

	<b>2023</b>	<b>2022</b>
Total pension liability	\$0	\$0
Deferred outflows	(2,051)	(6,779)
Deferred inflows	<u>1,704</u>	<u>3,408</u>
Net impact on Statement of Net Position	<u>(\$347)</u>	<u>(\$3,371)</u>
Covered payroll	\$35,604,464	\$37,412,132
Total pension liability as a % of covered payroll	0.00%	0.00%

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended June 30, 2024, KUB recognized pension expense of \$3,024 for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$-), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [(\$347) – (\$3,371) + \$-].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2020, this average was four years. There was a deferred inflow at the end of the measurement year of \$1,717 from experience gains in prior years and a deferred outflow of \$2,033 from experience losses in prior years.

There was a deferred outflow of \$18 from assumption changes in prior years.

The table below summarizes the current balances of deferred outflows and deferred inflows of resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,033	\$ 1,717
Changes in assumptions	<u>18</u>	<u>-</u>
Total	<u>\$ 2,051</u>	<u>\$ 1,717</u>

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2025	\$ 334
2026	-
2027	-
2028	-
2029	-
Thereafter	-

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For the year ended June 30, 2023, KUB recognized pension expense of (\$8,793) for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$-), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [(\$3,371) - \$5,422 + \$-].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2020, this average was four years. There was a deferred inflow at the end of the measurement year of \$3,408 from experience gains in prior years and a deferred outflow of \$4,073 from experience losses in prior years.

There was a deferred outflow of \$2,706 from assumption changes in prior years.

The table below summarizes the current balances of deferred outflows and deferred inflows of resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,073	\$ 3,408
Changes in assumptions	2,706	-
Total	\$ 6,779	\$ 3,408

**14. Defined Contribution Plan**

The KUB Asset Accumulation 401(k) Plan (the "401(k) Plan") is a defined contribution 401(k) employee retirement savings plan covering eligible KUB employees established by the KUB Board of Commissioners in accordance with the Charter of the City of Knoxville, Tennessee. The 401(k) Plan's assets are held in trust under an agreement between KUB and Fidelity Management Trust Company. Employees hired prior to January 1, 2011, may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of three percent. Employees hired on or after January 1, 2011, have an enhanced 401(k) due to the closure of the Defined Benefit Pension Plan. They may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of three percent. They also receive a non-elective KUB contribution of three percent to six percent, depending on years of service, whether they contribute or not.

KUB funded 401(k) matching contributions and non-elective contributions of \$3,909,598 and \$3,794,561, respectively, for the years ended June 30, 2024, and 2023.

**Vesting**

Participants are immediately vested in their own contributions to the Plan, plus actual earnings on these contributions. Participants become 100% vested and entitled to the full value of their account, less any loans outstanding, upon death or disability or upon retirement after attaining their normal retirement age (first of the month coinciding with or following attainment of age 62).

Otherwise, vesting in the KUB matching contribution and non-elective contribution (as applicable) portion of their account plus related earnings are based on years of service and date of hire, as follows:



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Participants hired prior to January 1, 2011 are 100% vested in the KUB matching contribution portion of their account.

Participants hired by KUB after December 31, 2010 are vested in the KUB matching and non-elective contribution portion of their account as follows:

<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 2 years	0%
2	20%
3	40%
4	60%
5	80%
6 or more	100%

**Forfeitures**

Forfeitures are created when participants terminate employment before becoming entitled to their full benefits under the Plan. Upon forfeiture, the match and non-elective funds become available to offset Plan expenses. The Plan experienced forfeitures of \$306,016 during calendar year 2023 and \$188,609 during calendar year 2022. Forfeitures of \$295,955 and \$167,891 were used to reduce employer contributions in 2023 and 2022, respectively. The ending balance of forfeited assets in the Plan, including contributions and dividends, totaled \$37,985 and \$26,999 as of December 31, 2023 and 2022, respectively.

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**15. Other Post-Employment Benefits (OPEB)**

**Description of Trust**

The Knoxville Utilities Board Other Post-Employment Benefits Trust (the Trust) is a single employer trust established by the KUB Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. The Trust, along with the KUB Health Plan, make up a Voluntary Employee Beneficiary Association (“VEBA”) and are intended to be tax-exempt pursuant to Code §501(c)(9). The purpose of the Trust is to fund KUB’s post-employment health care plan (the “Plan”), which provides certain medical benefits for qualifying KUB retirees and beneficiaries. The applicable documentation was submitted to the State Funding Board and, in December 2007, the State Funding Board approved the Trust. The Trust was also approved by the Internal Revenue Service in June 2008. KUB administers the Trust through a Board of Trustees consisting of seven KUB employees that are appointed by KUB’s President and CEO. Any amendments to the Trust involving costs not approved in the operating budget must be approved by KUB’s Board of Commissioners, upon recommendation by KUB’s President and CEO. All other amendments to the Trust may be approved by KUB’s President and CEO upon 60 days notification to the Board’s Audit and Finance Committee. The investment of all deposits to the Trust is governed by an Investment Policy, which was adopted by the KUB Board and approved by the State Funding Board. The Trust issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

Effective January 1, 2022, the Plan was expanded to two benefit offerings. Employees with a benefit service date prior to July 1, 1999, will continue to be eligible for the Retiree Medical Benefit, while those with a later benefit service date will participate in a new Retiree Health Reimbursement Arrangement, given that each eligible employee meets the “Rule of 80”, the sum of age and at least 20 years of qualified service equal to or exceeding 80, at retirement.

Participants in the Plan consisted of the following as of June 30:

	HRA		Retiree Medical Benefit	
	2024	2023	2024	2023
Retirees	8	6	538	542
Dependents of retirees	6	2	585	596
Eligible active employees	46	25	129	140
<b>Total</b>	<b>60</b>	<b>33</b>	<b>1,252</b>	<b>1,278</b>

**Benefits**

Benefits for pre-July 1, 1999, eligible participants may include, but shall not be limited to, medical, prescription drugs, dental, vision, hearing, Medicare Part B or Part D premiums, life insurance, long-term care, and long-term disability. Post-July 1, 1999, eligible participants are eligible for HRA benefits which include up to \$50,000 to be used exclusively for reimbursement of qualified medical expenses of the retiree and his or her spouse and dependents. Any unused HRA amounts will remain assets of the OPEB Trust.

**Contributions and Funding**

The primary goal of the Funding Policy for the Trust is to document the method KUB has adopted to provide assurance that future KUB and retiree contributions and current Trust assets will be sufficient to fund all benefits expected to be paid to Trust beneficiaries. Per the Funding Policy, KUB’s current practice is to fully fund its annual Actuarially Determined Contribution, which is determined by actuarial valuation.

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Contributions are authorized by the terms of the Trust as established by KUB Resolution No. 1168, as amended, as approved by the Tennessee State Funding Board. KUB shall have the right at any time to amend, in whole or in part, the provisions of this Trust; however, no such amendment shall authorize or permit the assets of the Trust to be used for or diverted to purposes other than those expressed in the Declaration of Trust.

It shall be the sole and exclusive responsibility of KUB to determine the level of contributions KUB will make to the Trust for the purpose of financing other post-employment benefits accrued by its respective participants. Neither the Trust, nor the Trust’s Board, shall be responsible for collecting or otherwise determining the level of contributions needed by KUB to finance any other post-employment benefits offered by KUB. The assets of the Trust shall be expended solely to make payments for other post-employment benefits pursuant to, and in accordance with, the terms of the Trust and to pay the cost of administration.

Based on the date of retirement, certain retired members are required to contribute specified amounts monthly to maintain health insurance. Those who retired prior to July 1983 have no required monthly premiums for themselves or dependents. The retirees, or their surviving dependents, who retired between August 1983 and January 1998 are required to pay \$275 per month for pre-Medicare family health insurance. For individuals who retired after January 1998, the required monthly premium for pre-Medicare health insurance is \$275 for single coverage and \$550 for family coverage. There is currently no premium for Medicare eligible retirees or dependents. KUB is responsible for determining the level of retired plan member contributions on an annual basis as part of its review of healthcare cost sharing.

Participants in the Health Reimbursement Arrangement are not eligible for health insurance and are not required to make contributions.

**Investments**

The Trust holds investments in a balanced fund, which invests in passively managed common trust index funds, managed and sponsored by State Street Global Advisors (SSgA), with an asset allocation mirroring the asset allocation of the Trust and rebalanced monthly. The Trust's Investment Policy was established and may only be amended by the KUB Board of Commissioners. The Trust’s Investment Policy is to invest in a manner that will provide sufficient investment return to meet current and future retiree health benefits, while conforming to all governing State and Federal statutes. It allows investment of Trust assets in any type of security instrument allowed for in T.C.A 8-50-1203. The following was the Trust’s adopted investment target allocations as set forth in the Trust’s Investment Policy as of June 30, 2024:

<b>Asset Class</b>	<b>Target Allocation</b>
Domestic Equity:	
Large Cap	30%
Small Cap	8%
International Equity:	
Developed	16%
Emerging	8%
Real Estate Equity	8%
Debt Securities	30%
Total	100%

Actuarially determined contributions of \$1,187,768 and \$1,413,392 were made to the OPEB Trust in fiscal years ended June 30, 2024 and 2023, respectively. These were based on the OPEB actuarial valuations as of January 1, 2022, and 2021.

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**Net OPEB Liability**

The below summarizes the disclosures of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“GASB 75”), which requires measurement of the net OPEB liability as total OPEB liability less the amount of the Trust’s fiduciary net position. The amounts reported as of June 30 are based on the reporting date for the KUB Other Post-Employment Benefits Plan which is June 30. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2024, and 2023, and the Total OPEB Liability as of the valuation date January 1, 2023, updated to June 30, 2024, and January 1, 2022, updated to June 30, 2023, respectively. KUB’s total net OPEB liability was \$9,373,073 as of June 30, 2024, and \$12,930,655 as of June 30, 2023.

The components of the total net OPEB liability of the Trust are as follows as of June 30:

	<b>2024</b>	<b>2023</b>
Total OPEB liability	\$ 61,042,928	\$ 61,637,102
Plan fiduciary net position	51,669,855	48,706,447
Net OPEB liability	<u>\$ 9,373,073</u>	<u>\$ 12,930,655</u>
Plan fiduciary net position as a percentage of the total OPEB liability	84.65%	79.02%

Changes in Net OPEB Liability are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2023	\$ 61,637,102	\$ 48,706,447	\$ 12,930,655
Changes for the year:			
Service cost	615,753	-	615,753
Interest	4,256,122	-	4,256,122
Changes of Benefits	(164,746)	-	(164,746)
Differences between Expected and Actual Experience	587,252	-	587,252
Changes of Assumptions	(2,102,184)	-	(2,102,184)
Contributions - employer	-	1,187,768	(1,187,768)
Contributions - member	-	-	-
Net investment income	-	5,656,390	(5,656,390)
Benefit payments	(3,786,371)	(3,786,371)	-
Administrative expense	-	(94,379)	94,379
Net changes	<u>(594,174)</u>	<u>2,963,408</u>	<u>(3,557,582)</u>
Balances at June 30, 2024	<u>\$ 61,042,928</u>	<u>\$ 51,669,855</u>	<u>\$ 9,373,073</u>

# Knoxville Utilities Board

## Notes to Consolidated Financial Statements

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#### *Actuarial assumptions*

The total OPEB liability was determined by actuarial valuations, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation dates:	January 1, 2023, rolled forward to June 30, 2024; January 1, 2022, rolled forward to June 30, 2023
Discount rate:	7.00% as of June 30, 2024 and June 30, 2023
Healthcare cost trend rates:	Pre-Medicare: 5.75% grading down to 3.935% over 20 years as of June 30, 2024 and June 30, 2023 Medicare: 11.30% grading down to 3.935% over 20 years as of June 30, 2024 and June 30, 2023 Administrative expenses: 3.0% per year
Salary increases:	From 2.50% to 5.65
Mortality:	115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010) for males and females, respectively, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Healthy Annuitant Mortality Table, both projected using scale MP2018 fully generational
Inflation:	2.50%

The actuarial assumptions used in the January 1, 2023, and January 1, 2022, valuations were based on the results of actuarial experience studies for the periods January 1, 2014, through December 31, 2018.

The long-term expected rate of return on Trust investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Trust investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The long-term expected rate of return may be lower in periods of current strong performance due to future valuations that mean revert to the long-term average. Best estimates of arithmetic real rates of return for each major asset class included in the Trust's target asset allocation (see the discussion of the Trust's Investment Policy) are summarized in the chart below.

<b>Asset Class</b>	<b>Long Term Expected Real Rate of Return</b>	
	<b>2024</b>	<b>2023</b>
Domestic equity	5.4%	5.1%
International equity	6.1%	6.1%
Emerging Market equity	7.8%	8.4%
Real estate equity	5.5%	5.3%
Debt securities	2.3%	1.8%
Cash and deposits	0.9%	0.7%

#### *Discount rate*

The discount rate used to measure the total OPEB liability was 7.00 percent as of June 30, 2024 and June 30, 2023. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based

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on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

*Sensitivity of the net OPEB liability to changes in the discount rate.*

The following presents the net OPEB liability of the Trust as of June 30, 2024, calculated using the discount rate of 7.00 percent, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is one percent lower (6.00 percent) or one percent higher (8.00 percent) than the current rate:

	<b>1% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
Net OPEB liability	\$15,834,714	\$9,373,073	\$3,950,645

*Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.*

The following presents the net OPEB liability of the Trust as of June 30, 2024, as well as what the Trust's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percent lower or one percent higher than the current rate:

	<b>1% Decrease</b>	<b>Baseline Trends</b>	<b>1% Increase</b>
Net OPEB liability	\$3,895,008	\$9,373,073	\$15,785,165

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2024, KUB recognized OPEB expense of \$2,021,591.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience loss of \$587,252, with \$83,893 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$503,359. Unrecognized experience losses from prior periods were \$100,858, of which \$16,810 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of resources of \$84,048. The combination of unrecognized experience gains or losses results in a deferred outflow of resources of \$587,407.

During the measurement year, there was a benefit change gain of \$164,746. The entire amount was recognized as a decrease in OPEB expense in the current year.

During the measurement year, there was an assumption change gain of \$2,102,184, with \$300,312 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$1,801,872. Unrecognized assumption losses from prior periods were \$2,166,706, of which \$361,118 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of \$1,805,588.

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$2,339,599, of which \$467,920 was

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recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$1,871,679. Net unrecognized investment losses from prior periods were \$3,211,114, of which \$843,284 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$2,367,829. The combination of unrecognized gains and losses from the current year and prior periods results in a deferred outflow of resources of \$496,150. The following table summarizes the current balances of deferred outflows and deferred inflows of resources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 587,407	\$ -
Changes in assumptions	1,805,588	1,801,872
Net difference between projected and actual earnings on OPEB plan investments	496,150	-
Total	<u>\$ 2,889,145</u>	<u>\$ 1,801,872</u>

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ended June 30:	
2025	\$ 21,052
2026	1,935,412
2027	(507,868)
2028	(306,410)
2029	161,505
Thereafter	(216,418)

For the year ended June 30, 2023, KUB recognized OPEB expense of \$2,872,556.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience loss of \$117,668, with \$16,810 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$100,858. Unrecognized experience losses from prior periods were \$30,475, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there were no benefit changes.

During the measurement year, there was an assumption change loss of \$2,527,824, with \$361,118 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$2,166,706.

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$1,007,293, of which \$201,459 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$805,834. Net unrecognized investment losses from prior periods were \$5,179,219, of which \$1,162,271 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$4,016,948. The combination of unrecognized

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gains this year, along with the net unrecognized investment losses from prior periods, results in a deferred outflow of resources of \$3,211,114. The following table summarizes the current balances of deferred outflows and deferred inflows of resources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 100,858	\$ -
Changes in assumptions	2,166,706	-
Net difference between projected and actual earnings on OPEB plan investments	3,211,114	-
Total	<u>\$ 5,478,678</u>	<u>\$ -</u>

**16. Related Party Transactions**

KUB, in the normal course of operations, is involved in transactions with the City of Knoxville. Such transactions for the years ended June 30, 2024, and 2023, are summarized as follows:

	<b>2024</b>	<b>2023</b>
City of Knoxville		
Amounts billed by KUB for utilities and related services	\$ 14,962,620	\$ 14,835,602
Payments by KUB in lieu of property tax	24,101,630	22,798,626
Payments by KUB for services provided	846,753	1,684,395
Grant expenditures incurred	7,581,000	2,937,000

With respect to these transactions, accounts receivable from the City of Knoxville included in the balance sheet at year end were as follows:

	<b>2024</b>	<b>2023</b>
Accounts receivable	\$ 1,050,610	\$ 686,079
Amounts eligible for reimbursement from grants	5,518,000	2,937,000

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**17. Natural Gas Supply Contract Commitments**

For fiscal year 2024, the Gas Division hedged 19 percent of its total gas purchases via gas supply contracts. As of June 30, 2024, the Gas Division had hedged the price on eight percent of its anticipated gas purchases for fiscal year 2025.

KUB contracts separately for the purchase, transportation, and storage of natural gas. Purchase commitments for the next five years and thereafter are as follows:

Firm obligations related to purchased gas – demand

	2025	2026	2027	2028	2029
Transportation					
Tennessee Gas Pipeline	\$ 3,404,640	\$ 1,134,880	\$ -	\$ -	\$ -
East Tennessee Natural Gas	12,582,997	3,435,624	-	-	-
Texas Eastern	328,500	109,500	-	-	-
Storage					
Tennessee Gas Pipeline	1,484,952	494,984	-	-	-
East Tennessee Natural Gas	1,081,500	-	-	-	-
Saltville Natural Gas	3,849,549	2,878,872	2,878,872	2,159,154	-
Bobcat	198,000	66,000	-	-	-
Demand Total	<u>\$ 22,930,138</u>	<u>\$ 8,119,860</u>	<u>\$ 2,878,872</u>	<u>\$ 2,159,154</u>	<u>\$ -</u>

Firm obligations related to purchased gas – commodity

	2025	2026	2027	2028	2029	2030-2054
Baseload						
ConocoPhillips	\$ 417,880	\$ -	\$ -	\$ -	\$ -	\$ -
Shell Energy North America	1,465,900	-	-	-	-	-
NextEra Energy	574,410	-	-	-	-	-
Enervest Operating LLC	2,121,556	-	-	-	-	-
CNX	4,301,580	3,768,654	-	-	-	-
Tennergy Corporation (2021A)	2,457,249	3,061,075	3,235,423	2,980,887	3,262,156	76,345,454
Tennergy Corporation (2022)	2,644,796	3,249,151	3,421,029	3,164,991	3,511,910	88,644,790
Commodity Total	<u>\$ 13,983,371</u>	<u>\$ 10,078,880</u>	<u>\$ 6,656,452</u>	<u>\$ 6,145,878</u>	<u>\$ 6,774,066</u>	<u>\$ 164,990,244</u>

The total commodity values presented here are based upon firm supply obligations with each individual natural gas supplier. The firm obligations value for ConocoPhillips, Shell Energy North America, and NextEra Energy are based upon firm supply obligations and locked prices with those suppliers. The firm obligations value for Enervest Operating LLC and CNX are based upon firm supply obligations and the applicable NYMEX strip prices on June 30, 2024. The firm obligations values for Tennergy Corporation are based upon 30-year prepay gas contracts valued at the applicable Tennessee Zone 0 and Tennessee 800L strip prices on June 30, 2024.

**18. Other Commitments and Contingencies**

In the normal course of business, there are various lawsuits pending against KUB. Management has reviewed these lawsuits with counsel, who is vigorously defending KUB's position and is of the opinion that the ultimate disposition of these matters will not have a material adverse effect on KUB's financial position, results of operations, or cash flows.

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**19. Segment Information**

The following financial information represents identifiable activities for which the revenue bonds and other revenue backed debt are outstanding for the respective Divisions:

**Condensed Statement of Net Position**

	<b>2024</b>				
	<b>Electric</b>	<b>Fiber</b>	<b>Gas</b>	<b>Water</b>	<b>Wastewater</b>
<b>Assets and Deferred Outflows of Resources</b>					
Current assets	\$ 170,316,208	\$ 11,341,762	\$ 46,263,447	\$ 42,036,015	\$ 47,981,656
Restricted assets	25,944,381	1,119,594	3,123,122	5,018,613	8,224,554
Net capital assets	883,281,774	4,998,613	347,605,164	407,905,814	868,123,781
Net intangible assets	2,587,845	4,205,421	937,117	505,224	331,556
Other assets	69,986,304	253,072	10,480,123	17,072,904	17,446,950
<b>Total assets</b>	<b>\$ 1,152,116,512</b>	<b>\$ 21,918,462</b>	<b>\$ 408,408,973</b>	<b>\$ 472,538,570</b>	<b>\$ 942,108,497</b>
Deferred outflows of resources	14,930,378	907,934	5,506,471	7,509,369	16,361,045
<b>Total assets and deferred outflows of resources</b>	<b>\$ 1,167,046,890</b>	<b>\$ 22,826,396</b>	<b>\$ 413,915,444</b>	<b>\$ 480,047,939</b>	<b>\$ 958,469,542</b>
<b>Liabilities and Deferred Inflows of Resources</b>					
Current liabilities	\$ 163,775,211	\$ 4,615,208	\$ 20,506,655	\$ 16,972,156	\$ 28,065,983
Other liabilities	21,083,790	4,759,855	5,456,533	4,129,460	4,266,221
Long-term debt	424,500,461	32,737,500	71,871,536	202,411,203	494,494,052
<b>Total liabilities</b>	<b>\$ 609,359,462</b>	<b>\$ 42,112,563</b>	<b>\$ 97,834,724</b>	<b>\$ 223,512,819</b>	<b>\$ 526,826,256</b>
Deferred inflows of resources	6,778,289	721,663	2,086,126	1,784,325	2,243,775
<b>Total liabilities and deferred inflows of resources</b>	<b>\$ 616,137,751</b>	<b>\$ 42,834,226</b>	<b>\$ 99,920,850</b>	<b>\$ 225,297,144</b>	<b>\$ 529,070,031</b>
<b>Net position</b>					
Net investment in capital assets	\$ 433,775,494	\$ (692,633)	\$ 268,290,027	\$ 201,447,697	\$ 372,931,337
Restricted	17,320,826	46	2,207,025	2,706,964	3,714,170
Unrestricted	99,812,819	(19,315,243)	43,497,542	50,596,134	52,754,004
<b>Total net position</b>	<b>\$ 550,909,139</b>	<b>\$ (20,007,830)</b>	<b>\$ 313,994,594</b>	<b>\$ 254,750,795</b>	<b>\$ 429,399,511</b>

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**Condensed Statement of Net Position**

	<b>2023</b>				
	<b>Electric</b>	<b>Fiber</b>	<b>Gas</b>	<b>Water</b>	<b>Wastewater</b>
<b>Assets and Deferred Outflows of Resources</b>					
Current assets	\$ 201,697,793	\$ 14,320,294	\$ 61,235,456	\$ 43,435,987	\$ 60,834,992
Restricted assets	23,046,903	300,046	3,243,888	4,617,470	8,280,378
Net capital assets	784,490,342	4,509,599	335,049,856	387,497,822	844,253,618
Net intangible assets	3,577,870	4,992,518	1,067,322	850,822	110,558
Other assets	32,931,262	123,426	1,566,074	6,402,832	16,799,407
Total assets	<u>\$ 1,045,744,170</u>	<u>\$ 24,245,883</u>	<u>\$ 402,162,596</u>	<u>\$ 442,804,933</u>	<u>\$ 930,278,953</u>
Deferred outflows of resources	25,733,906	-	9,943,478	11,528,524	21,401,637
Total assets and deferred outflows of resources	<u>\$ 1,071,478,076</u>	<u>\$ 24,245,883</u>	<u>\$ 412,106,074</u>	<u>\$ 454,333,457</u>	<u>\$ 951,680,590</u>
<b>Liabilities and Deferred Inflows of Resources</b>					
Current liabilities	\$ 141,924,131	\$ 3,191,498	\$ 18,680,883	\$ 14,631,116	\$ 26,254,927
Other liabilities	37,186,119	5,125,649	15,030,219	8,745,689	8,638,496
Long-term debt	384,666,874	27,616,667	79,413,913	191,229,030	511,847,339
Total liabilities	<u>\$ 563,777,124</u>	<u>\$ 35,933,814</u>	<u>\$ 113,125,015</u>	<u>\$ 214,605,835</u>	<u>\$ 546,740,762</u>
Deferred inflows of resources	3,755,093	119,933	992,855	1,033,153	900,665
Total liabilities and deferred inflows of resources	<u>\$ 567,532,217</u>	<u>\$ 36,053,747</u>	<u>\$ 114,117,870</u>	<u>\$ 215,638,988</u>	<u>\$ 547,641,427</u>
<b>Net position</b>					
Net investment in capital assets	\$ 376,865,221	\$ (390,086)	\$ 247,958,911	\$ 192,818,920	\$ 333,081,961
Restricted	15,470,822	46	2,223,691	2,491,963	3,631,669
Unrestricted	111,609,816	(11,417,824)	47,805,602	43,383,586	67,325,533
Total net position	<u>\$ 503,945,859</u>	<u>\$ (11,807,864)</u>	<u>\$ 297,988,204</u>	<u>\$ 238,694,469</u>	<u>\$ 404,039,163</u>

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**Condensed Statement of Revenues, Expenses  
and Changes in Net Position**

	<b>2024</b>				
	<b>Electric</b>	<b>Fiber</b>	<b>Gas</b>	<b>Water</b>	<b>Wastewater</b>
Operating revenues	\$ 657,034,681	\$ 6,419,654	\$ 114,858,667	\$ 72,896,489	\$ 114,620,879
Operating expenses	561,825,049	12,845,444	82,740,991	41,558,064	53,247,369
Depreciation and amortization	44,066,858	876,983	16,316,365	12,268,290	24,450,486
Total operating expenses	<u>605,891,907</u>	<u>13,722,427</u>	<u>99,057,356</u>	<u>53,826,354</u>	<u>77,697,855</u>
Operating income (loss)	51,142,774	(7,302,773)	15,801,311	19,070,135	36,923,024
Non-operating expense	<u>(4,179,494)</u>	<u>(897,193)</u>	180,973	<u>(3,760,806)</u>	<u>(13,320,989)</u>
Change in net position before capital contributions	46,963,280	(8,199,966)	15,982,284	15,309,329	23,602,035
Capital contributions	-	-	25,106	746,997	1,758,313
Change in net position	<u>46,963,280</u>	<u>(8,199,966)</u>	<u>16,007,390</u>	<u>16,056,326</u>	<u>25,360,348</u>
Net position					
Beginning of year	503,945,859	(11,807,864)	297,988,204	238,694,469	404,039,163
End of year	<u>\$ 550,909,139</u>	<u>\$ (20,007,830)</u>	<u>\$ 313,995,594</u>	<u>\$ 254,750,795</u>	<u>\$ 429,399,511</u>

**Condensed Statement of Revenues, Expenses  
and Changes in Net Position**

	<b>2023</b>				
	<b>Electric</b>	<b>Fiber</b>	<b>Gas</b>	<b>Water</b>	<b>Wastewater</b>
Operating revenues	\$ 660,231,612	\$ 879,506	\$ 146,698,445	\$ 68,702,749	\$ 108,369,907
Operating expenses	581,648,717	8,662,989	116,464,623	39,182,366	51,207,657
Depreciation and amortization	40,651,472	832,662	15,720,232	12,439,495	24,284,005
Total operating expenses	<u>622,300,189</u>	<u>9,495,651</u>	<u>132,184,855</u>	<u>51,621,861</u>	<u>75,491,662</u>
Operating income (loss)	37,931,423	(8,616,145)	14,513,590	17,080,888	32,878,245
Non-operating expense	<u>(6,510,993)</u>	<u>(626,330)</u>	<u>(1,317,027)</u>	<u>(4,835,478)</u>	<u>(15,291,333)</u>
Change in net position before capital contributions	31,420,430	(9,242,475)	13,196,563	12,245,410	17,586,912
Capital contributions	-	-	323,950	865,108	3,136,370
Change in net position	<u>31,420,430</u>	<u>(9,242,475)</u>	<u>13,520,513</u>	<u>13,110,518</u>	<u>20,723,282</u>
Net position					
Beginning of year	472,525,429	(2,565,389)	284,467,691	225,583,951	383,315,881
End of year	<u>\$ 503,945,859</u>	<u>\$ (11,807,864)</u>	<u>\$ 297,988,204</u>	<u>\$ 238,694,469</u>	<u>\$ 404,039,163</u>

**Knoxville Utilities Board**  
**Notes to Consolidated Financial Statements**  
**June 30, 2024 and 2023**

**Condensed Statement of Cash Flows**

	<b>2024</b>				
	<b>Electric</b>	<b>Fiber</b>	<b>Gas</b>	<b>Water</b>	<b>Wastewater</b>
Net cash provided by (used in) operating activities	\$ 92,117,345	\$ (6,474,842)	\$ 30,963,137	\$ 31,753,906	\$ 62,300,396
Net cash used in capital and related financing activities	(119,138,357)	(1,287,949)	(39,296,368)	(27,460,389)	(80,018,201)
Net cash provided by noncapital and related financing activities	-	4,317,052	-	-	-
Net cash provided by (used in) investing activities	<u>1,603,037</u>	<u>475,018</u>	<u>1,970,823</u>	<u>2,067,529</u>	<u>2,629,789</u>
Net increase (decrease) in cash and cash equivalents	(25,417,975)	(2,970,721)	(6,362,408)	6,361,046	(15,088,016)
Cash and cash equivalents, beginning of year	<u>72,488,469</u>	<u>12,264,803</u>	<u>26,093,814</u>	<u>13,442,541</u>	<u>28,476,696</u>
Cash and cash equivalents, end of year	<u>\$ 47,070,494</u>	<u>\$ 9,294,082</u>	<u>\$ 19,731,406</u>	<u>\$ 19,803,587</u>	<u>\$ 13,388,680</u>

**Condensed Statement of Cash Flows**

	<b>2023</b>				
	<b>Electric</b>	<b>Fiber</b>	<b>Gas</b>	<b>Water</b>	<b>Wastewater</b>
Net cash provided by (used in) operating activities	\$ 79,512,886	\$ (8,730,680)	\$ 30,649,396	\$ 30,584,697	\$ 62,513,630
Net cash used in capital and related financing activities	(62,795,475)	(1,045,729)	(32,455,214)	(44,356,312)	(57,627,327)
Net cash provided by noncapital and related financing activities	-	18,331,982	-	-	-
Net cash provided by (used in) investing activities	<u>(17,567,708)</u>	<u>435,087</u>	<u>5,174,984</u>	<u>1,345,800</u>	<u>2,019,761</u>
Net increase (decrease) in cash and cash equivalents	(850,297)	8,990,660	3,369,166	(12,425,815)	6,906,064
Cash and cash equivalents, beginning of year	<u>73,338,766</u>	<u>3,274,143</u>	<u>22,724,648</u>	<u>25,868,356</u>	<u>21,570,632</u>
Cash and cash equivalents, end of year	<u>\$ 72,488,469</u>	<u>\$ 12,264,803</u>	<u>\$ 26,093,814</u>	<u>\$ 13,442,541</u>	<u>\$ 28,476,696</u>

# Knoxville Utilities Board

## Required Supplementary Information - Schedule of Changes in Net Pension Liability and Related Ratios

### June 30, 2024

	Year ended December 31									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
<b>Total pension liability</b>										
Service cost	\$ 8,221,181	\$ 6,349,402	\$ 6,647,220	\$ 5,227,657	\$ 6,142,213	\$ 5,095,488	\$ 4,607,486	\$ 4,228,985	\$ 4,157,062	\$ 4,092,808
Interest	17,868,490	17,430,465	16,982,226	16,393,202	16,030,626	15,344,193	15,015,282	14,966,559	14,812,784	14,698,657
Changes of benefit terms	-	-	-	-	163,199	-	-	-	-	-
Differences between expected and actual experience	2,092,475	282,014	1,935,276	1,930,170	(1,054,117)	(605,649)	(1,087,161)	(2,233,762)	(1,890,334)	-
Changes of assumptions	-	5,268,672	-	-	8,473,160	-	(357,633)	(2,932,883)	-	-
Benefit payments, including refunds of member contributions	(19,237,834)	(17,125,610)	(17,725,963)	(16,006,565)	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)	(15,533,167)
<b>Net change in total pension liability</b>	<b>8,944,312</b>	<b>12,204,943</b>	<b>7,838,759</b>	<b>7,544,464</b>	<b>14,660,606</b>	<b>4,559,218</b>	<b>3,207,995</b>	<b>(111,612)</b>	<b>1,728,586</b>	<b>3,258,298</b>
<b>Total pension liability - beginning</b>	<b>254,406,723</b>	<b>242,201,780</b>	<b>234,363,021</b>	<b>226,818,557</b>	<b>212,157,951</b>	<b>207,598,733</b>	<b>204,390,738</b>	<b>204,502,350</b>	<b>202,773,764</b>	<b>199,515,466</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 263,351,035</b>	<b>\$ 254,406,723</b>	<b>\$ 242,201,780</b>	<b>\$ 234,363,021</b>	<b>\$ 226,818,557</b>	<b>\$ 212,157,951</b>	<b>\$ 207,598,733</b>	<b>\$ 204,390,738</b>	<b>\$ 204,502,350</b>	<b>\$ 202,773,764</b>
<b>Plan fiduciary net position</b>										
Contributions - employer	\$ 1,866,261	\$ 3,144,770	\$ 3,416,428	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541
Contributions - participants	5,752,609	3,812,595	3,939,687	2,284,727	3,170,825	2,081,125	1,488,632	555,075	487,546	475,854
Net investment income	35,927,438	(63,493,985)	37,575,566	44,814,914	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)	22,292,369
Other additions	4,568	9,415	112,484	7,740	13,579	62,616	82,239	45,848	30,879	29,733
Benefit payments, including refunds of member contributions	(19,193,834)	(17,065,610)	(17,653,963)	(15,962,565)	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)	(15,405,167)
Administrative expense	(602,078)	(498,988)	(441,017)	(455,191)	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)	(378,085)
Death benefits	(44,000)	(60,000)	(72,000)	(44,000)	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)	(128,000)
<b>Net change in plan fiduciary net position**</b>	<b>23,710,964</b>	<b>(74,151,803)</b>	<b>26,877,185</b>	<b>33,522,377</b>	<b>40,431,737</b>	<b>(21,868,910)</b>	<b>22,862,426</b>	<b>5,052,489</b>	<b>(9,333,204)</b>	<b>12,795,245</b>
<b>Plan fiduciary net position - beginning**</b>	<b>232,187,691</b>	<b>306,339,494</b>	<b>279,462,309</b>	<b>245,939,932</b>	<b>205,508,195</b>	<b>227,377,105</b>	<b>204,514,679</b>	<b>199,462,190</b>	<b>208,795,394</b>	<b>196,000,149</b>
<b>Plan fiduciary net position - ending (b)**</b>	<b>\$ 255,898,655</b>	<b>\$ 232,187,691</b>	<b>\$ 306,339,494</b>	<b>\$ 279,462,309</b>	<b>\$ 245,939,932</b>	<b>\$ 205,508,195</b>	<b>\$ 227,377,105</b>	<b>\$ 204,514,679</b>	<b>\$ 199,462,190</b>	<b>\$ 208,795,394</b>
<b>Plan's net pension liability - ending (a) - (b)</b>	<b>\$ 7,452,380</b>	<b>\$ 22,219,032</b>	<b>\$ (64,137,714)</b>	<b>\$ (45,099,288)</b>	<b>\$ (19,121,375)</b>	<b>\$ 6,649,756</b>	<b>\$ (19,778,372)</b>	<b>\$ (123,941)</b>	<b>\$ 5,040,160</b>	<b>\$ (6,021,630)</b>
Plan fiduciary net position as a percentage of the total pension liability	97.17%	91.27%	126.48%	119.24%	108.43%	96.87%	109.53%	100.06%	97.54%	102.97%
Covered payroll	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743	\$ 44,076,351
Plan's net pension liability as a percentage of covered payroll	20.93%	59.39%	(168.45%)	(108.61%)	(47.48%)	15.78%	(45.67%)	(0.28%)	11.34%	(13.66%)

**Notes to Schedule:**

\*\* Excludes amounts related to 401(k) matching contributions.

See accompanying Independent Auditor's Report

# Knoxville Utilities Board

## Required Supplementary Information - Schedule of Employer Pension Contributions

### June 30, 2024

	Year ended December 31										
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	
Actuarially determined contribution	\$ 1,866,261	\$ 3,144,770	\$ 3,416,428	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541	
Contribution in relation to the actuarially determined contribution	1,866,261	3,144,770	3,416,428	2,876,752	2,871,241	3,456,475	4,286,597	5,243,146	5,991,887	5,908,541	
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Covered payroll	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743	\$ 44,076,351	
Contributions as a percentage of covered payroll	5.24%	8.41%	8.97%	6.93%	7.13%	8.20%	9.90%	11.80%	13.48%	13.41%	

#### Notes to Schedule:

Timing: Actuarially determined contributions for a Plan year are based upon 50% of the amounts determined at the actuarial valuations for each of the two prior Plan years.

Valuation Dates: January 1, 2022 and January 1, 2021

#### Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Individual entry age

Asset valuation method: 5-year smoothed market, adjusted to remain within 20% of the market value

Amortization method: As of January 1, 2022: Level dollar, 30-year closed period with 19 years remaining, or a level dollar, 30-year open period for a negative unfunded liability  
As of January 1, 2021: Level dollar, 30-year closed period with 20 years remaining, or a level dollar, 30-year open period for a negative unfunded liability  
As of January 1, 2022 and 2021, the unfunded liability was negative.

Discount rate: 7.25%

Salary increases: 2.50% to 5.65%, based on years of service; As of January 1, 2021, a one-time reduction was applied to reduce the 2020 compensation by 3.7% to account for an additional 2020 pay period

Mortality: 115% and 110% of the benefits-weighted Public Sector General Healthy Annuitant Mortality Table (PubG-2010), respectively, for males and females, using the Public Sector General Employee Table while in active employment and for annuitant ages prior to the start of the Healthy Annuitant Mortality Table, both projected from the 2010 base rates using scale MP2018 fully generational

Inflation: 2.5%

Please refer to prior year's audited financial statements for prior methods and assumptions.

See accompanying Independent Auditor's Report

# Knoxville Utilities Board

## Required Supplementary Information – Schedule of Changes in Net OPEB Liability and Related Ratios

### June 30, 2024

	2024	2023	2022	*Year ended June 30 2021	2020	2019	2018
<b>Total OPEB liability</b>							
Service cost	\$ 615,753	\$ 595,392	\$ 416,277	\$ 283,786	\$ 256,270	\$ 270,515	\$ 202,603
Interest	4,256,122	4,133,008	3,858,276	3,861,304	3,672,291	3,624,737	3,295,240
Change of benefit terms	(164,746)	-	6,594,293	-	(202,408)	-	-
Differences between expected and actual experience	587,252	117,668	60,951	42,802	43,902	999,098	1,324,769
Changes of assumptions	(2,102,184)	2,527,824	-	(4,105,835)	3,604,843	3,231,601	(397,180)
Benefit payments	(3,786,371)	(4,273,070)	(3,908,635)	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
<b>Net change in total OPEB liability</b>	<u>(594,174)</u>	<u>3,100,822</u>	<u>7,021,162</u>	<u>(3,029,122)</u>	<u>4,346,302</u>	<u>4,593,507</u>	<u>1,126,693</u>
<b>Total OPEB liability - beginning</b>	<u>61,637,102</u>	<u>58,536,280</u>	<u>51,515,118</u>	<u>54,544,240</u>	<u>50,197,938</u>	<u>45,604,431</u>	<u>44,477,738</u>
<b>Total OPEB liability - ending (a)</b>	<u>\$ 61,042,928</u>	<u>\$ 61,637,102</u>	<u>\$ 58,536,280</u>	<u>\$ 51,515,118</u>	<u>\$ 54,544,240</u>	<u>\$ 50,197,938</u>	<u>\$ 45,604,431</u>
<b>Plan fiduciary net position</b>							
Contributions - employer	\$ 1,187,768	\$ 1,413,392	\$ 1,989,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Net investment income	5,656,390	4,333,538	(8,122,417)	12,890,602	975,155	2,981,928	3,705,473
Benefit payments	(3,786,371)	(4,273,070)	(3,908,635)	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	(94,379)	(101,186)	(71,187)	(44,496)	(53,286)	(54,787)	(51,668)
<b>Net change in plan fiduciary net position</b>	<u>2,963,408</u>	<u>1,372,674</u>	<u>(10,113,173)</u>	<u>10,492,153</u>	<u>(1,795,403)</u>	<u>(605,303)</u>	<u>355,066</u>
<b>Plan fiduciary net position - beginning</b>	<u>48,706,447</u>	<u>47,333,773</u>	<u>57,446,946</u>	<u>46,954,793</u>	<u>48,750,196</u>	<u>49,355,499</u>	<u>49,000,433</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 51,669,855</u>	<u>\$ 48,706,447</u>	<u>\$ 47,333,773</u>	<u>\$ 57,446,946</u>	<u>\$ 46,954,793</u>	<u>\$ 48,750,196</u>	<u>\$ 49,355,499</u>
<b>Net OPEB liability (asset) - ending (a) - (b)</b>	<u>\$ 9,373,073</u>	<u>\$ 12,930,655</u>	<u>\$ 11,202,507</u>	<u>\$ (5,931,828)</u>	<u>\$ 7,589,447</u>	<u>\$ 1,447,742</u>	<u>\$ (3,751,068)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	84.65%	79.02%	80.86%	111.51%	86.09%	97.12%	108.23%
Covered employee payroll**	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	11.21%	18.44%	15.15%	(27.49%)	32.48%	5.95%	(15.84%)

**Notes to Schedule:**

\* Information not reflected prior to 2018 due to changes in actuary methodologies required under GASB 75, which was implemented in 2018.

\*\* The covered-employee payroll increased in FY 2022 due to the inclusion of plan participants eligible for the HRA benefits.

See accompanying Independent Auditor's Report



# Knoxville Utilities Board

## Required Supplementary Information – Schedule of Employer OPEB Contributions

### June 30, 2024

	2024	2023	2022	*Year ended June 30 2021	2020	2019	2018
Actuarially determined contribution	\$ 1,187,768	\$ 1,413,392	\$ 489,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Contribution in relation to the annual required contribution	1,187,768	1,413,392	1,989,066	757,226	311,324	-	-
Contribution deficiency/(excess)	\$ -	\$ -	\$ (1,500,000)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll*	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Contributions as a percentage of covered employee payroll	1.42%	2.02%	2.69%	3.51%	1.33%	0.00%	0.00%

\* The covered-employee payroll increased in FY 2022 due to the inclusion of plan participants eligible for the HRA benefits.

KUB elected to make a \$1,500,000 voluntary contribution to the Trust to initially fund the HRA benefit which was effective January 1, 2022. This contribution was not required.

#### Notes to Schedule:

Valuation Date: January 1, 2022 and January 1, 2021  
 Timing: Actuarially determined contribution rates are calculated based on the actuarial valuation completed 18 months before the beginning of the fiscal year.

#### Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age normal  
 Asset valuation method: 5-year smoothed market  
 Amortization method: 15-year layered amortization bases for annual changes in the unfunded liabilities as of January 1, 2021 and 2022; 30-year rolling amortization for a funding surplus; As of January 1, 2021 and 2022, there was an unfunded liability  
 Discount rate: 7.25%  
 Healthcare cost trend rate: Pre-Medicare: 6.50% grading down to 4.04% over 18 years as of January 1, 2022;  
 6.75% grading down to 4.04% over 19 years as of January 1, 2021  
 Medicare: 6.20% grading down to 4.04% over 18 years as of January 1, 2022;  
 6.30% grading down to 4.04% over 19 years as of January 1, 2021  
 Administrative expenses: 3.0% per year  
 Salary increases: From 2.50% to 5.65%, based on years of service  
 Mortality: 115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational  
 Inflation: 2.5%  
 Investment rate of return: 7.25%  
 Retirement age: 2% at ages 50-57, grading up to 100% at age 70

\* Schedule of Employer Contribution information is not reflected prior to 2018 due to changes in actuary methodologies required under GASB 75, which was implemented in 2018. Please refer to prior year's audited financial statement for prior methods and assumptions.

See accompanying Independent Auditor's Report

**Knoxville Utilities Board**  
**Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement**  
**Schedule of Changes in Total Pension Liability and Related Ratios**  
**June 30, 2024**

	*Year ended December 31							
	2023	2022	2021	2020	2019	2018	2017	2016
<b>Total pension liability</b>								
Service cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 941	\$ 584	\$ -
Interest (includes interest on service cost)	-	-	268	388	9,181	9,676	7,535	-
Changes of benefit terms	-	-	-	-	(218,272)	-	-	185,077
Differences between expected and actual experience	-	-	(6,816)	10,165	34	(36,125)	13,684	-
Changes of assumptions	-	-	-	91	13,342	(22,950)	73,461	-
Benefit payments, including refunds of member contributions	-	-	(12,166)	(12,166)	(15,932)	-	-	-
<b>Net change in total pension liability</b>	<u>-</u>	<u>-</u>	<u>(18,714)</u>	<u>(1,522)</u>	<u>(211,647)</u>	<u>(48,458)</u>	<u>95,264</u>	<u>185,077</u>
<b>Total pension liability - beginning</b>	<u>-</u>	<u>-</u>	<u>18,714</u>	<u>20,236</u>	<u>231,883</u>	<u>280,341</u>	<u>185,077</u>	<u>-</u>
<b>Total pension liability - ending</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,714</u>	<u>\$ 20,236</u>	<u>\$ 231,883</u>	<u>\$ 280,341</u>	<u>\$ 185,077</u>
Covered payroll	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747
Total pension liability as a percentage of covered payroll	0.00%	0.00%	0.00%	0.05%	0.05%	0.55%	0.65%	0.42%

**Notes to Schedule:**

\* There are no assets accumulated in a trust that meet the criteria in paragraph 4 of GASB 73 to pay related benefits.

See accompanying Independent Auditor's Report

**Knoxville Utilities Board  
Supplemental Information  
Schedule of Expenditures of Federal Awards  
June 30, 2024**

Federal Grantor/ Pass-Through Grantor	Program Name	Assistance Listing Number	Pass-Through Entity Identifying Number	Expenditures
U.S. Department of Treasury through City of Knoxville	COVID-19: Coronavirus State and Local Fiscal Recovery Fund	21.027	DW20191385	\$ 2,063,000
U.S. Department of Treasury through Knox County	COVID-19: Coronavirus State and Local Fiscal Recovery Fund	21.027	DW-COSTR-1	\$ 6,183,840
U.S. Department of Treasury through Tennessee Department of Economic and Community Development	COVID-19: Tennessee Emergency Broadband Fund - American Rescue Plan - Union County	21.027	33007-44923	\$ 3,454,890
U.S. Department of Treasury through Tennessee Department of Economic and Community Development	COVID-19: Tennessee Emergency Broadband Fund - American Rescue Plan - Grainger County	21.027	33007-46723	\$ 2,417,794
U.S. Department of Treasury through Tennessee Department of Economic and Community Development	COVID-19: Tennessee Emergency Broadband Fund - American Rescue Plan - Sevier County	21.027	33007-44823	\$ 226,665
U.S. Department of Treasury through Tennessee Department of Economic and Community Development	COVID-19: Tennessee Emergency Broadband Fund - American Rescue Plan - Jefferson County	21.027	33007-44723	\$ 11,944
		Total Program 21.027		\$ 14,358,133
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	FEMA-4691-DR-TN	\$ 587,532
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	FEMA-4742-DR-TN	\$ 2,849,578
		Total Program 97.036		\$ 3,437,110
<b>Total Federal Awards</b>				<b>\$ 17,795,243</b>

**NOTE 1 - BASIS OF PRESENTATION**

The Schedule of Expenditures of Federal Awards and State Financial Assistance includes the award activity of Knoxville Utilities Board (KUB) under programs of the federal government for the year ended June 30, 2024, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State of Tennessee Audit Manual. Expenditures of \$587,532 for FEMA-4691-DR-TN were incurred in fiscal year 2023. In accordance with the requirements of Assistance Listing Number 97.036, these expenditures have been reported in fiscal year 2024 when the grant was approved by the Federal Emergency Management Agency. KUB did not elect to use 10% de minimis indirect cost rate.

See accompanying Independent Auditor's Report

**Knoxville Utilities Board**  
**Statistical Information – Schedule of Insurance in Force**  
**June 30, 2024**  
**(Unaudited)**

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**Crime**

Covers losses resulting from employee dishonesty, robbery, burglary, and computer fraud. Limits of coverage - \$5,000,000; \$250,000 retention.

**Directors' and Officers' Liability Insurance**

Covers KUB personnel appropriately authorized to make decisions on behalf of KUB (including but not limited to Commissioners, President and CEO, Senior Vice Presidents, Vice Presidents, and Directors) for wrongful acts. Limits of coverage - \$20,000,000; \$500,000 corporate deductible, \$0 individual deductible.

**Employment Practices Liability**

Coverage for costs related to actual or alleged employment practices violations for amounts exceeding specified amount (\$500,000). Limits of coverage - \$10,000,000.

**Fiduciary**

Covers losses resulting from wrongful acts related to KUB's Pension, 401(k), OPEB Trust funds, and Medical Plan. Limits of coverage - \$10,000,000; \$150,000 deductible.

**Environmental and Pollution Legal Liability**

Environmental and Pollution coverage for covered losses resulting from a pollution or environmental event. Limits of coverage - \$15,000,000.

**Property Insurance**

This coverage provides protection of KUB's property for fire, extended coverage, vandalism and malicious mischief, and coverage on boilers and machinery. Also included are flood and earthquake damage and mechanical failure. Limits of coverage - \$250,000,000 per occurrence (subject to certain sub limits); \$3,500,000 deductible per occurrence.

**Travel Accident**

Covers losses related to employees' business travel. Limits of coverage - \$1,000,000 aggregate.

**Excess Insurance for General Liability**

As a governmental entity, KUB's liability is limited under the Tennessee Governmental Tort Liability Act (TCA §29-20-403). Limits of coverage - \$5,000,000; \$700,000 retention.

**Excess Insurance for Workers' Compensation**

Covers all losses exceeding specified amount per occurrence (\$1,000,000). Limits of coverage - Statutory; stop loss coverage applies for aggregate losses over \$5,000,000.

**Employee Health Plan Stop Loss Coverage**

KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses for more than \$700,000 per individual participant.

**Cyber Security Liability**

Liability coverage resulting from losses related to a covered event such as data breaches, ransomware, regulatory fines, cyber extortion, business interruption and other cyber-related events. Limits of coverage - \$5,000,000; \$500,000 deductible.

**Drone**

Liability coverage resulting from losses related to bodily injury or damaged property arising out of the ownership, maintenance, or use of a drone aircraft. Limits of coverage - \$2,000,000.

See accompanying Independent Auditor's Report

Independent Auditor's 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*

Board of Commissioners  
Knoxville Utilities Board  
Knoxville, Tennessee

We have audited, in accordance with the 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 (*Government Auditing Standards*), the financial statements of the Knoxville Utilities Board (KUB), a component unit of the City of Knoxville, Tennessee, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements, and have issued our report thereon dated October 23, 2024.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered KUB's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KUB's internal control. Accordingly, we do not express an opinion on the effectiveness of KUB's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of KUB's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Board of Commissioners  
Knoxville Utilities Board  
Knoxville, Tennessee

### **Report on Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of KUB's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KUB's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Coulter & Justus, P.C.*

Knoxville, Tennessee  
October 23, 2024



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Independent Auditor's Report on Compliance for Each Major Federal  
Program and on Internal Control Over Compliance in Accordance  
with the Uniform Guidance

Board of Commissioners  
Knoxville Utilities Board  
Knoxville, Tennessee

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited compliance of the Knoxville Utilities Board (KUB), a component unit of the City of Knoxville, Tennessee, with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on KUB's major federal program for the year ended June 30, 2024. KUB's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, KUB complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2024.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of KUB and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of KUB's compliance with the compliance requirements referred to above.

Board of Commissioners  
Knoxville Utilities Board  
Knoxville, Tennessee

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to KUB's federal programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on KUB's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about KUB's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding KUB's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of KUB's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of KUB's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.



Board of Commissioners  
Knoxville Utilities Board  
Knoxville, Tennessee

## Report on Internal Control Over Compliance

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Coulter & Justus, P. C.*

Knoxville, Tennessee  
October 23, 2024

**Knoxville Utilities Board**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2024**

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**Section I -- Summary of Auditor's Results**

**Financial Statements**

Type of auditors' report issued:	Unmodified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	None reported
Non-compliance material to financial statements:	No

**Federal Awards**

Internal control over major programs: Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	None reported

Type of auditors' report issued on compliance for major programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with Section 200.516 of the Uniform Guidance?	No
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Identification of major programs:	<u>CFDA</u>	<u>Name of Program</u>
	21.027	Coronavirus State and Local Fiscal Recovery Funds
	97.036	Disaster Grants – Public Assistance

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
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Auditee qualified as low-risk auditee?	No
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**Section II -- Financial Statement Findings**

None reported.

**Section III – Federal Award Findings and Questioned Costs**

None reported.

**Section IV -- Summary Schedule of Prior Year Audit Findings**

Not applicable as there were no prior year findings reported.

**Section V – Corrective Action Plan**

Not applicable as there were no current year findings reported.