



Knoxville Utilities Board

Consolidated

Financial Statements and Supplemental Information June 30, 2021 and 2020

KUB Board of Commissioners

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Vice President and Assistant to Chief Technology Officer

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Knoxville Utilities Board

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June 30, 2021 and 2020

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Independent Auditor's Report

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

We have audited the accompanying financial statements of the Knoxville Utilities Board (KUB), a component unit of the City of Knoxville, Tennessee, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements as listed in the index.

Management's Responsibility for the Financial Statements

KUB's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to KUB's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KUB as of June 30, 2021 and 2020, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 28 and the required supplementary information on pages 75 through 79 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 and State Financial Assistance, as required by the State of Tennessee, 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 and State Financial Assistance 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. Such 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 and State Financial Assistance is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2021, 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 25, 2021

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2021 and 2020

Knoxville Utilities Board (KUB), comprised of the Electric 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, 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, 2021 activities, resulting changes and current known facts, and should be read in conjunction with KUB's consolidated financial statements.

Consolidated Highlights

System Highlights

As the COVID-19 global pandemic continued throughout the fiscal year, KUB adjusted its operations accordingly. Employee health and safety, accommodation of customers and continuity of operations rose as priorities. While working to relieve the burden of utility bills for impacted customers, KUB also reduced capital spending to create extra liquidity until the financial impact of the pandemic became clear. As the year progressed, KUB began to return to more normal operations, and projects were restarted. However, KUB continues to maintain flexibility in our finances to ensure that we are prepared to meet the ongoing uncertainties of the pandemic.

As of June 30, 2021, KUB served 473,354 customers. KUB added 5,321 new customers in fiscal year 2021, representing growth of one percent.

KUB's electric system had a strong year for reliability with only 1.83 hours of service interruption for the average customer in fiscal year 2021 compared to 2.44 hours in fiscal year 2020. This improvement is due to favorable weather conditions and the implementation of new automated technologies, including the Fault Location, Isolation, and Service Restoration (FLISR) deployment.

KUB's energy sales in fiscal year 2021 benefited from colder temperatures in Knoxville. Natural gas sales increased 8.7 percent from the prior year, while electric sales increased 7 percent.

KUB's electric system's record peak in demand remains 1,328 megawatt hours, set in February 2015. The natural gas system's record peak demand remains 140,204 dekatherms, set in January 2018.

During fiscal year 2021, KUB sold \$36.5 million in revenue bonds for the purpose of funding system expenditures and also sold \$336.1 in revenue refunding bonds for the purpose of refinancing \$415 million in outstanding existing revenue bonds. KUB will realize a total debt service savings of \$79.5 million over the life of the bonds (\$70 million on a net present value basis).

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.

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Management's Discussion and Analysis

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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 2023. KUB was designated a Safety Contest Winner for calendar year 2019 by APGA, indicating the lowest number of recordable injuries per labor-hours worked.

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 three Wastewater Treatment Plants in calendar year 2020. Fourth Creek and Loves Creek Wastewater Treatment Plants won silver awards while Eastbridge won gold.

KUB continued to maintain Platinum certification with the National Biosolids Partnership following a rigorous review process and independent audit that was conducted in December 2020. 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, but accelerated, investment.

In fiscal year 2015, KUB concluded the smart grid pilot project, of which a portion of the project was funded by a United States Department of Energy Smart Grid Investment Grant (SGIG). This grant was received by KUB in 2009 as part of the American Reinvestment and Recovery Act (ARRA). Based upon the success of that pilot, KUB formed a plan to move forward with a Century II Grid Modernization initiative, which includes advanced metering for all KUB customers, a telecommunication system linking critical KUB infrastructure, and an increased investment in automation technology to help operate KUB's energy and water distribution systems. The deployment is funded in large part by debt issues and system revenues. In fiscal year 2020, KUB completed the final year of the four-year advanced meter deployment, spending approximately \$82.4 million. The project was completed on time and under budget.

In June 2017, the Board adopted three annual rate increases for all KUB Divisions. The three approved electric rate increases went into effect in October 2017, October 2018, and October 2019 generating \$10.9 million, \$11.2 million, and \$5.7 million in additional annual Electric Division revenue, respectively. The three approved gas rate increases went into effect in October 2017, October 2018, and October 2019, generating \$2.2 million, \$2.3 million, and \$2.3 million in additional annual Gas Division revenue, respectively. The three water rate increases went into effect July 2017, July 2018, and July 2019 generating \$3.1 million, \$3.1 million, and \$3.3 million of additional annual Water Division revenue, respectively. The three approved wastewater rate increases went into effect in July 2017, July 2018, and July 2019 generating \$4.3 million, \$4.2 million, and \$4.5 million in additional annual Wastewater Division revenue, respectively.

In June 2021, the Board approved a 2 percent water rate increase effective in July 2021, which will generate \$1.2 million in additional annual Water Division revenue.

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 \$173 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

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Management's Discussion and Analysis

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kW diesel generators and associated switchgear was completed at the Mark B. Whitaker Water Treatment Plant. Design has been completed on a new filter building at the plant.

For the fiscal year, KUB stayed on track with its overall Century II capital budget and production goals. The electric system replaced 1,438 poles and 9.1 miles of transmission lines. In the natural gas system, 8.9 miles of gas steel main were replaced. In the water system, 8.1 miles of galvanized water main and 6.3 miles of cast iron water main were replaced. In the wastewater system, 14.8 miles of main were rehabilitated or replaced.

Consent Decree

In February 2005, a Consent Decree was entered into federal court regarding the operation of KUB's wastewater system. Under the terms of the Consent Decree, the remediation of identified sanitary sewer overflows (SSOs) on KUB's wastewater system had to be completed by June 30, 2016. KUB completed all the requirements of the Consent Decree for the collection system two years in advance of the deadline.

The Consent Decree also required KUB to perform an evaluation of the wet weather performance and capacity of its wastewater treatment plants. In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB's Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provides for a biologically enhanced high-rate clarification (the BEHRC) secondary treatment system to be installed at the Fourth Creek treatment plant and at the Kuwahee treatment plant. KUB successfully completed the installation of the BEHRC system at the Fourth Creek treatment plant. Work is currently ongoing at the Kuwahee treatment plant and project completion is scheduled for early 2022. The total cost of such improvements at the Kuwahee treatment plant is estimated to be approximately \$50 million.

KUB's funding plan for the Consent Decree includes long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all types of wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2021, the Wastewater Division had issued \$583.7 million in bonds to fund wastewater system capital improvements since the inception of the Consent Decree. The Board approved two 50 percent rate increases, which went into effect in April 2005 and January 2007. The Board also approved an 8 percent rate increase, which was effective in September 2008, two 12 percent rate increases, which were effective in April 2011 and October 2012, three 6 percent rate increases, which were effective October 2014, October 2015, and October 2016, and three 5 percent rate increases, which were effective July 2017, July 2018, and July 2019. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

KUB successfully completed the first cycle of Maintenance Operation Management (MOM) requirements one year before the deadline by inspecting manholes and gravity mains, smoke testing gravity mains, performing required inspections of pump stations and the related force mains, and completing all Corrective Action Plan/Engineering Report (CAP/ER) projects. KUB initiated the second MOM cycle that continues to focus on the prevention of SSOs. As part of the Century II initiative, formally known as the PACE10 program, KUB has installed storage tanks providing 34 million gallons of wastewater storage to control wet weather overflows and rehabilitated or replaced 423 miles of collection system pipe. KUB also continues to maintain a proactive operations and maintenance plan for the wastewater collection system including inspection, grease control, and private lateral enforcement. The result of the PACE10/Century II initiative has been an 80 percent reduction in SSOs.

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Management's Discussion and Analysis

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As of June 30, 2021, the Wastewater Division had completed its 17th full year under the Consent Decree, spending \$575.9 million on capital investments to meet Consent Decree requirements.

KUB's management anticipates the full completion of final required projects under the Consent Decree in fiscal year 2022, and the closure of the Consent Decree by the applicable regulatory authorities.

Financial Highlights

Fiscal Year 2021 Compared to Fiscal Year 2020

KUB's consolidated Change in Net Position increased \$75.5 million in fiscal year 2021. Comparatively, net position increased by \$78 million in fiscal year 2020.

Operating revenue increased \$18.5 million as a result of increased sales volumes for electric, gas, and wastewater. Purchased energy expense (power and natural gas) increased \$6.1 million or 1.4 percent, the net effect of a \$3 million decrease in purchased power cost and a \$9.1 million increase in purchased gas cost. Margin from sales (operating revenue less purchased energy expense) increased \$12.5 million or 3.4 percent compared with the prior fiscal year.

Operating expenses (excluding purchased power and purchased gas expense) increased \$8.1 million. Operating and maintenance (O&M) expenses were \$10.8 million lower than the previous year due to lower pension expenses. Depreciation expense increased \$17.2 million or 23.7 percent reflecting the completion of several large capital projects. Taxes and tax equivalents increased \$1.6 million or 4.4 percent.

Interest income was \$3.9 million less than the prior fiscal year. Interest expense decreased \$1.3 million or 3 percent, reflecting the net impact of interest expense from new revenue bonds sold during fiscal year 2021 and savings on refunding of outstanding bonds.

Capital contributions increased \$0.6 million, the result of a higher level of assets contributed by developers.

Total plant assets (net) increased \$53.4 million or 2.5 percent over the last fiscal year.

Long-term debt represented 44.8 percent of KUB's consolidated capital structure, compared to 48.3 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 2020 Compared to Fiscal Year 2019

KUB's consolidated Change in Net Position increased \$78 million in fiscal year 2020. Comparatively, net position increased by \$65.3 million in fiscal year 2019.

Operating revenue decreased \$11.6 million, the net result of additional revenues from system rate increases and a decline in billed sales volumes. Purchased energy expense (power and natural gas) decreased \$26.3 million or 5.7 percent, the combined effect of a \$19.8 million decrease in purchased power cost and a decrease of \$6.6 million in purchased gas cost, reflecting lower customer demand. Margin from sales (operating revenue less purchased energy expense) increased \$14.7 million or 4.2 percent compared with the prior fiscal year.

Operating expenses (excluding purchased power and purchased gas expense) decreased \$0.8 million. Operating and maintenance (O&M) expenses were \$1.5 million higher than the previous year. Depreciation expense decreased \$1.9 million or 2.5 percent. Taxes and tax equivalents decreased \$0.4 million or 1.2 percent.

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Management's Discussion and Analysis
June 30, 2021 and 2020

Interest income was \$1.9 million less than the prior fiscal year. Interest expense decreased \$0.5 million or 1.1 percent, reflecting the net impact of interest expense from new revenue bonds sold during fiscal year 2020 and savings on refunding of outstanding bonds.

Capital contributions decreased \$0.7 million, the result of a lower level of assets contributed by developers.

Total plant assets (net) increased \$115.6 million or 5.7 percent over the last fiscal year.

Long-term debt represented 48.3 percent of KUB's consolidated capital structure, compared to 50.2 percent last fiscal year. Capital structure equals long-term debt (including the current and long-term portion of revenue bonds), plus net position.

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Knoxville Utilities Board Management's Discussion and Analysis June 30, 2021 and 2020

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.

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, or other assets.

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 less 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, 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, 2021 and 2020

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>	2021	2020	2019
Current, restricted and other assets	\$ 431,430	\$ 395,224	\$ 389,851
Capital assets, net	2,189,154	2,135,780	2,020,169
Deferred outflows of resources	24,006	33,237	41,209
Total assets and deferred outflows of resources	<u>2,644,590</u>	<u>2,564,241</u>	<u>2,451,229</u>
Current and other liabilities	202,304	207,464	180,241
Long-term debt outstanding	1,112,346	1,126,089	1,135,027
Deferred inflows of resources	44,295	20,569	3,843
Total liabilities and deferred inflows of resources	<u>1,358,945</u>	<u>1,354,122</u>	<u>1,319,111</u>
Net position			
Net investment in capital assets	1,049,324	990,228	871,180
Restricted	21,755	22,186	21,294
Unrestricted	214,566	197,705	239,644
Total net position	<u>\$ 1,285,645</u>	<u>\$ 1,210,119</u>	<u>\$ 1,132,118</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 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.

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Management's Discussion and Analysis

June 30, 2021 and 2020

Impacts and Analysis

Current, Restricted and Other Assets

Fiscal Year 2021 Compared to Fiscal Year 2020

Current, restricted and other assets increased \$36.2 million or 9.2 percent, due to an increase in the actuarially determined net pension asset of \$26 million, an increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) of \$7.4 million, an increase in the actuarially determined net OPEB asset of \$5.9 million, and an increase in accounts receivable of \$3.1 million. KUB under recovered \$1.4 million in wholesale gas costs from its customers in fiscal year 2021. 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 2020 Compared to Fiscal Year 2019

Current, restricted and other assets increased \$5.4 million or 1.4 percent. This increase reflects an increase in the actuarially determined net pension asset of \$19.1 million offset by a \$7.1 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments), and a \$6.8 million decrease in inventories. KUB under recovered \$1.5 million in wholesale gas costs from its customers in fiscal year 2020. 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.

Capital Assets

Fiscal Year 2021 Compared to Fiscal Year 2020

Capital assets (net) increased \$53.4 million or 2.5 percent. Spending was slowed this year to allow for better financial liquidity in response to the pandemic. Major capital expenditures (reflected in both plant additions and work in progress) in fiscal year 2021 included \$35.2 million related to wastewater Century II projects, \$23.9 million for various electric distribution system improvements, \$10.3 million for water main replacements, \$6.9 million for building improvements, \$6.5 million for the construction of gas mains, \$6.1 million for Grid Modernization and advanced metering including Supervisory Control and Data Acquisition (SCADA) system upgrades, and \$5.6 million for pole replacements for the electric system. System assets of \$42.5 million were retired during fiscal year 2021.

Fiscal Year 2020 Compared to Fiscal Year 2019

Capital assets (net) increased \$115.6 million or 5.7 percent. Major capital expenditures (reflected in both plant additions and work in progress) in fiscal year 2020 included \$46 million related to wastewater Century II projects, \$24.1 million for various electric distribution system improvements, \$11.4 million for building improvements, \$10.5 million for Grid Modernization and advanced metering including Supervisory Control and Data Acquisition (SCADA) system upgrades, \$9.6 million for water main replacements, \$9.3 million for the construction of gas mains, and \$7.3 million for pole replacements for the electric system.

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Deferred Outflows of Resources

Fiscal Year 2021 Compared to Fiscal Year 2020

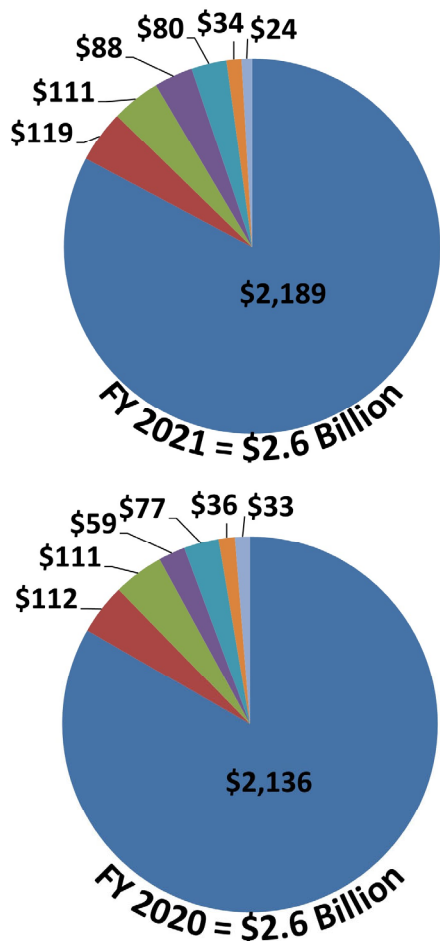
Deferred outflows of resources decreased \$9.2 million compared to the prior year, reflecting a decrease in unamortized bond refunding costs of \$5.2 million and a \$4.2 million decrease in OPEB outflow when compared to the prior fiscal year.

Fiscal Year 2020 Compared to Fiscal Year 2019

Deferred outflows of resources decreased \$8 million compared to the prior year, reflecting a decrease in pension outflow of \$9.1 million and a \$0.5 million decrease in unamortized bonds refunding costs offset by a \$1.7 million increase in OPEB outflow when compared to the prior fiscal year.

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**Knoxville Utilities Board
Management's Discussion and Analysis
June 30, 2021 and 2020**



**Consolidated Total Assets and
Deferred Outflows of Resources
(in Millions)**

	<u>FY21</u>	<u>FY20</u>
Plant	83%	83%
General Fund	5%	5%
Contingency Fund	4%	4%
Other Assets	3%	2%
Accounts Receivable	3%	3%
Restricted Assets	1%	2%
Deferred Outflows of Resources	1%	1%

Current and Other Liabilities

Fiscal Year 2021 Compared to Fiscal Year 2020

Current and other liabilities decreased \$5.2 million or 2.5 percent compared to the prior fiscal year. This reflects a decrease of \$7.6 million in the net OPEB liability, a decrease of \$2 million in accrued interest on revenue bonds, and a decrease of \$1.4 million in over recovered purchased power cost offset by an increase of \$4.3 million in accounts payable. KUB over recovered \$0.4 million in wholesale power costs from its customers in fiscal year 2021, as compared to a \$1.8 million over recovery in fiscal year 2020. This over recovery of costs will be flowed back to KUB's electric customers during the next fiscal year through adjustments to rates via the Purchased Power Adjustment.

The outstanding balance on TVA conservation loans declined by \$0.9 million, as KUB ceased issuance of any new loans in fiscal year 2016.

Fiscal Year 2020 Compared to Fiscal Year 2019

Current and other liabilities increased \$27.2 million or 15.1 percent compared to the prior fiscal year. This reflects an increase of \$22.9 million in accounts payable, an increase of \$6.1 million in net OPEB liability, an increase in the current portion of revenue bonds of \$3.2 million, and an increase of \$1.5 million in

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Management's Discussion and Analysis

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customer advances for construction offset by a decrease of \$6.9 million in net pension liability. KUB over recovered \$1.8 million in wholesale power costs from its customers in fiscal year 2020, as compared to a \$2.7 million over recovery in fiscal year 2019. This over recovery of costs will be flowed back to KUB's electric customers during the next fiscal year through adjustments to rates via the Purchased Power Adjustment.

The outstanding balance on TVA conservation loans declined by \$1.1 million, as KUB ceased issuance of any new loans in fiscal year 2016.

Long-term Debt

Fiscal Year 2021 Compared to Fiscal Year 2020

Long-term debt decreased \$13.7 million or 1.2 percent. The decrease is due in part to the net impact of the scheduled repayment of debt and \$36.5 million in water and wastewater system revenue bonds sold in October 2020. KUB also sold \$336.1 million of revenue refunding bonds in March 2021 with a premium of \$80.2 million to refund \$415.2 million in outstanding debt, resulting in a reduction of principal of \$79.1 million.

Fiscal Year 2020 Compared to Fiscal Year 2019

Long-term debt decreased \$8.9 million or 0.8 percent. Revenue bonds totaling \$36 million were sold for the water and wastewater system in July 2019 and \$68.9 million of revenue refunding bonds were sold in April 2020, which were offset by the refunded bonds and the scheduled repayment of debt. During the fiscal year, \$42.6 million of bond debt was repaid, which included a \$2 million gas system cash contribution to help retire existing debt, and principal payments from the July 2019 revenue bond issuance.

Deferred Inflows of Resources

Fiscal Year 2021 Compared to Fiscal Year 2020

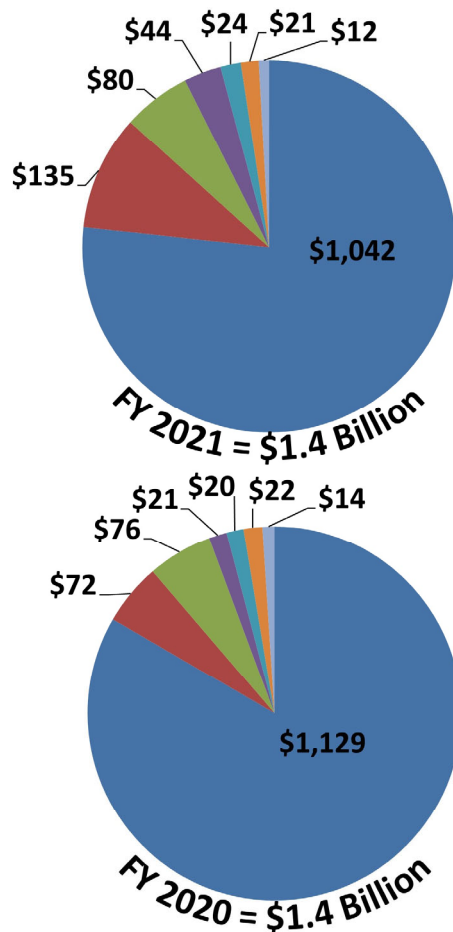
Deferred inflows increased \$23.7 million compared to the prior fiscal year due to a \$15.6 million increase in pension inflow and an \$8 million increase in OPEB inflow.

Fiscal Year 2020 Compared to Fiscal Year 2019

Deferred inflows increased \$16.7 million compared to the prior fiscal year due to differences in pension inflow.

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

	<u>FY21</u>	<u>FY20</u>
■ Bond Debt	77%	83%
■ Other Liabilities	10%	5%
■ Payables	6%	6%
■ Deferred Inflows of Resources	3%	2%
■ Misc Current	2%	1%
■ Customer Deposits	1%	2%
■ Interest Accrued	1%	1%

Net Position

Fiscal Year 2021 Compared to Fiscal Year 2020

Total net position increased \$75.5 million or 6.2 percent. Unrestricted net position increased \$16.9 million or 8.5 percent compared to the previous fiscal year, due to a \$7.4 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) and changes in pension and OPEB accruals for the fiscal year. Net investment in capital assets increased \$59.1 million or 6 percent, primarily the result of net capital assets increasing \$53.4 million. Restricted net position decreased \$0.4 million compared to the prior year.

Fiscal Year 2020 Compared to Fiscal Year 2019

Total net position increased \$78 million or 6.9 percent. Unrestricted net position decreased \$41.9 million or 17.5 percent compared to the previous fiscal year, partially due to a \$7.1 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments), a \$6.8 million decrease in inventories, along with an increase of \$22.9 million in accounts payable, and an increase of \$6.1 million in net OPEB liability. Net investment in capital assets increased \$119 million or 13.7 percent, the result of net capital assets increasing \$115.6 million and a \$5.8 million decrease in current portion of revenue bonds and total long-term debt. Restricted net position increased \$0.9 million compared to the prior year.

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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

(in thousands of dollars)

	2021	2020	2019
Operating revenues	\$ 822,299	\$ 803,751	\$ 815,390
Less: Purchased energy expense	<u>442,299</u>	<u>436,236</u>	<u>462,564</u>
Margin from sales	<u>380,000</u>	<u>367,515</u>	<u>352,826</u>
Operating expenses			
Treatment	17,098	16,306	16,355
Distribution and collection	69,388	70,822	66,590
Customer service	14,098	14,007	15,710
Administrative and general	31,453	41,668	42,601
Depreciation	90,067	72,826	74,730
Taxes and tax equivalents	<u>37,448</u>	<u>35,863</u>	<u>36,310</u>
Total operating expenses	<u>259,552</u>	<u>251,492</u>	<u>252,296</u>
Operating income	120,448	116,023	100,530
Interest income	829	4,740	6,626
Interest expense	(41,816)	(43,127)	(43,590)
Other income/(expense)	<u>(4,918)</u>	<u>(52)</u>	<u>668</u>
Change in net position before capital contributions	<u>74,543</u>	<u>77,584</u>	<u>64,234</u>
Capital contributions	983	417	1,104
Change in net position	<u>\$ 75,526</u>	<u>\$ 78,001</u>	<u>\$ 65,338</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 expense is impacted by plant additions and retirements during the fiscal year.
- Taxes and equivalents are impacted by plant additions/retirements, changes in property tax rates, and gross margin levels.

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- 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 2021 Compared to Fiscal Year 2020

KUB's consolidated Change in Net Position increased \$75.5 million in fiscal year 2021. Comparatively, net position increased \$78 million in fiscal year 2020.

Fiscal Year 2020 Compared to Fiscal Year 2019

KUB's consolidated Change in Net Position increased \$78 million in fiscal year 2020. Comparatively, net position increased \$65.3 million in fiscal year 2019.

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Margin from Sales

Fiscal Year 2021 Compared to Fiscal Year 2020

Operating revenue was \$18.5 million higher than the previous fiscal year. Both electric and natural gas sales benefited from colder winter temperatures than the previous fiscal year. Electric Division operating revenue increased \$7.4 million due to the net result of a 6.8 percent increase in sales volumes and the flow through of prior year over recovered purchased power costs to electric customers. Gas Division revenue increased \$12.8 million for the fiscal year, the result of an 8.7 percent increase in billed sales. Water Division revenue decreased \$0.7 million, reflecting an increase in billed sales of \$0.2 million and a decrease in other operating revenue of \$0.4 million. Wastewater Division revenue was \$1 million lower than the previous year, reflecting an increase in billed sales of \$0.8 million and a decrease in other operating revenue of \$1.2 million. Billable wastewater flows increased 1.2 percent.

Wholesale energy expense increased \$6.1 million or 1.4 percent. Purchased power expense decreased \$3 million compared to last year, reflecting the net effect of higher customer demand and flow through of lower wholesale power costs. KUB received \$9.2 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 \$9.1 million higher, reflecting higher customer demand for the fiscal year and higher natural gas prices.

Margin from sales (operating revenue less purchased energy expense) increased \$12.5 million compared to the previous year.

Overall, other operating revenues declined \$3.5 million as a result of KUB's waiver and suspension of late fees on customer payments for several months during the Pandemic.

Fiscal Year 2020 Compared to Fiscal Year 2019

Operating revenue was \$11.6 million lower than the previous fiscal year. Both electric and natural gas sales were impacted by a milder winter than the previous fiscal year. Electric Division operating revenue decreased \$12.7 million due to the net result of additional revenue from KUB's 1 percent electric rate increase effective October 2019, a 2.3 percent decrease in sales volumes, and the flow through of prior year over recovered purchased power costs to electric customers. Gas Division revenue decreased \$6 million for the fiscal year, the net result of a 3.2 percent decrease in billed sales and additional revenue generated from the 2 percent gas rate increase effective October 2019. Water Division revenue increased \$4.3 million, the net result of additional revenue from the 6.5 percent water rate increase effective July 2019 and a 1.2 percent decline in billed water sales volumes. Wastewater Division revenue was \$2.7 million higher than the previous year due to additional revenue from the 5 percent wastewater rate increase effective July 2019 offset by a 3.3 percent decrease in billable wastewater volumes.

Wholesale energy expense decreased \$26.3 million or 5.7 percent. Purchased power expense decreased \$19.8 million compared to last year, reflecting lower customer demand and flow through of lower wholesale power costs. Purchased gas expense was \$6.6 million lower, reflecting lower customer demand for the fiscal year and lower natural gas prices.

Margin from sales (operating revenue less purchased energy expense) increased \$14.7 million compared to the previous year. The increase reflects additional revenue from the electric, natural gas, water, and wastewater rate increases.

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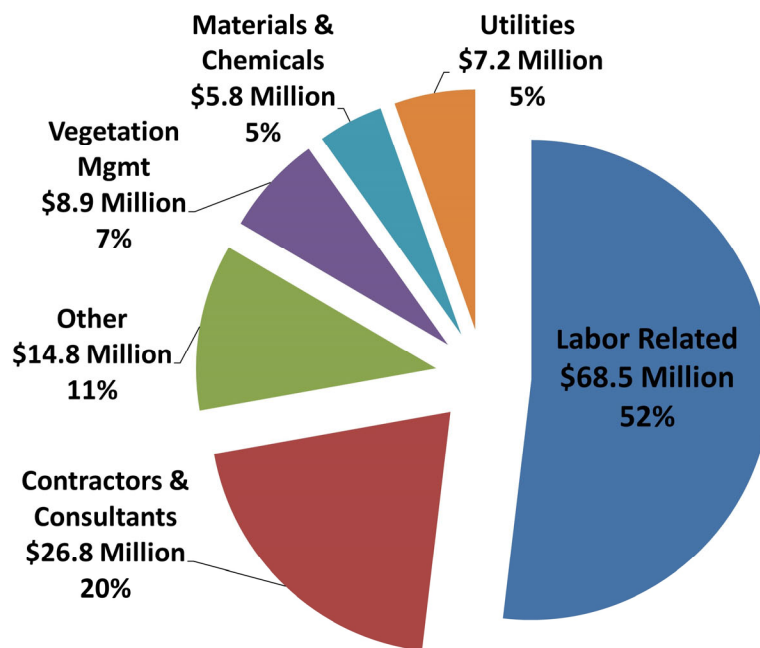
Operating Expenses

Fiscal Year 2021 Compared to Fiscal Year 2020

Operating expenses (excluding wholesale purchased energy expense) increased \$8.1 million compared to fiscal year 2020. Operating expenses include operations and maintenance (O&M) expense, depreciation, and taxes/tax equivalents. O&M expenses can be further classified as treatment, distribution and collection, customer service, and administrative and general.

- Treatment expenses increased \$0.8 million, primarily due to higher outside contractor and consultant costs.
- Distribution and collection expenses decreased \$1.4 million or 2 percent, primarily due to timing delay in vegetation management circuit work due to the pandemic.
- Customer service expenses increased \$0.1 million, primarily due to outside contractor and consultant costs.
- Administrative and general expenses decreased \$10.2 million, primarily due to a decrease in labor related expenses, including lower pension and OPEB expenses.

FY 2021 Consolidated O&M Expense = \$132 Million



- Depreciation expense increased \$17.2 million or 23.7 percent. KUB added \$207.1 million in assets during fiscal year 2021, including \$27.4 million of multi-year projects being held in Construction Work in Progress. A partial year of depreciation expense was recorded on these capital investments and a full year of depreciation expense was incurred on \$161.1 million in assets placed in service during fiscal year 2020. In addition, \$42.5 million of assets were retired during fiscal year 2021.

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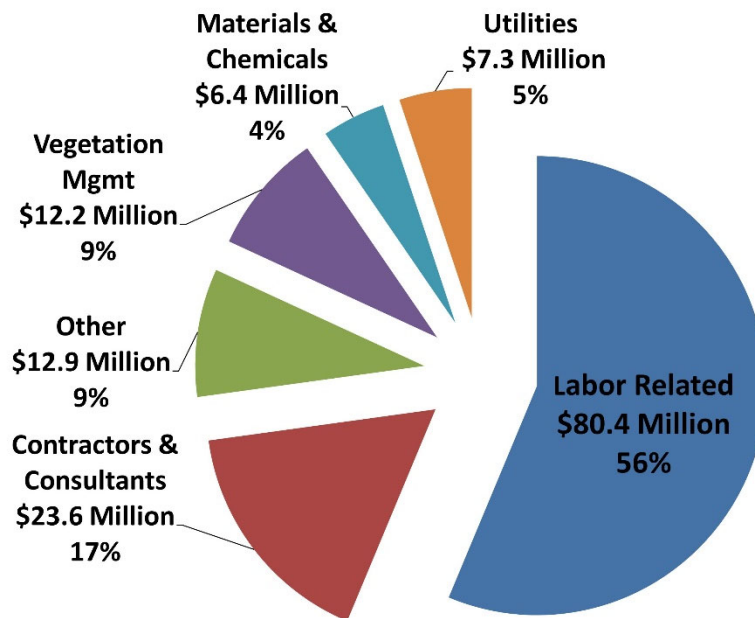
- Taxes and tax equivalents increased \$1.6 million or 4.4 percent. Tax equivalent payments to taxing jurisdictions in which KUB’s utility systems are located are based on a combination of net plant values and margin from energy sales.

Fiscal Year 2020 Compared to Fiscal Year 2019

Operating expenses (excluding wholesale purchased energy expense) decreased \$0.8 million compared to fiscal year 2019. Operating expenses include operations and maintenance (O&M) expense, depreciation, and taxes/tax equivalents. O&M expenses can be further classified as treatment, distribution and collection, customer service, and administrative and general.

- Treatment expenses were consistent with the prior year.
- Distribution and collection expenses increased \$4.2 million or 6.4 percent, primarily due to vegetation management costs.
- Customer service expenses decreased \$1.7 million, primary due to lower expenses associated with meter reading contractors and technology consultants.
- Administrative and general expenses decreased \$0.9 million, primarily due to a decrease in insurance costs.

FY 2020 Consolidated O&M Expense = \$142.8 Million

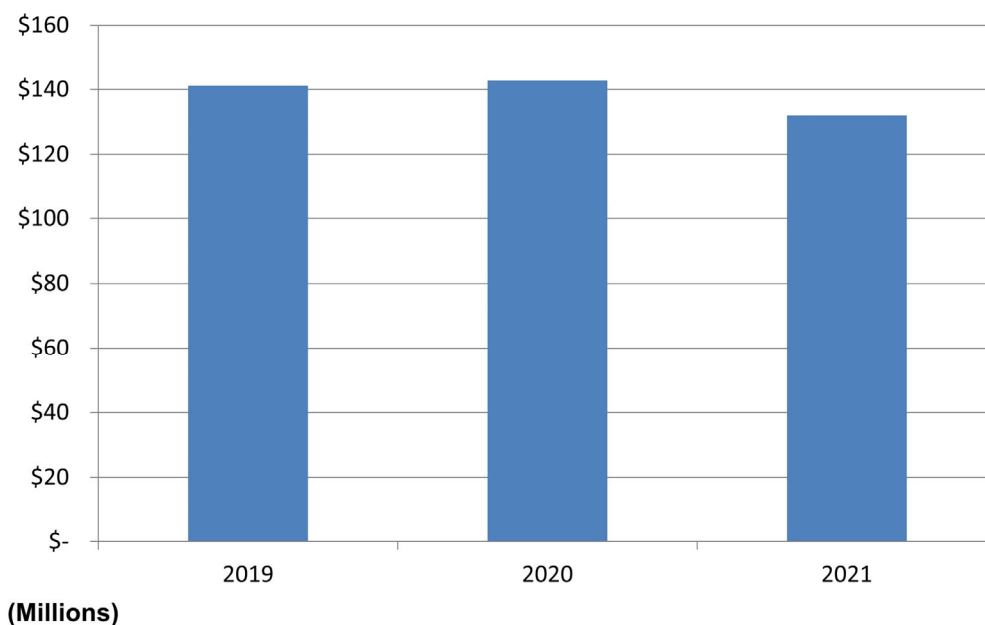


- Depreciation expense decreased \$1.9 million or 2.5 percent. KUB added \$135.4 million in assets during fiscal year 2019. A full year of depreciation expense was recorded on these capital investments and a partial year of depreciation expense was incurred on \$161.1 million in assets placed in service during fiscal year 2020. In addition, \$46.8 million of assets were retired during fiscal year 2020.

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- Taxes and tax equivalents decreased \$0.4 million or 1.2 percent. Tax equivalent payments to taxing jurisdictions in which KUB’s utility systems are located are based on a combination of net plant values and margin from energy sales.

Consolidated Operation & Maintenance Expense



Other Income and Expense

Fiscal Year 2021 Compared to Fiscal Year 2020

Interest income decreased \$3.9 million compared to the prior fiscal year, reflecting lower short-term interest rates over the prior fiscal year.

Interest expense decreased \$1.3 million or 3 percent, reflecting the net impact of interest expense from new revenue bonds sold during the fiscal year and savings on refunding of outstanding bonds.

Other expense (net) increased \$4.9 million, primarily due to loss on disposal of property.

Capital contributions by developers were \$0.6 million higher due to an increase in donated utility assets compared to the prior fiscal year.

Fiscal Year 2020 Compared to Fiscal Year 2019

Interest income decreased \$1.9 million compared to the prior fiscal year, reflecting lower short-term interest rates over the prior fiscal year.

Interest expense decreased \$0.5 million or 1.1 percent, reflecting the net impact of interest expense from new revenue bonds sold during the fiscal year and savings on refunding of outstanding bonds.

Other income (net) decreased \$0.7 million, primarily due to mark-to-market adjustments on investments.

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Capital contributions by developers were \$0.7 million lower due to a decrease in donated utility assets compared to the prior fiscal year.

Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

<i>(in thousands of dollars)</i>	2021	2020	2019
Production Plant (Intakes)	\$ 7	\$ 7	\$ 7
Pumping and Treatment Plant	220,317	216,136	209,281
Distribution and Collection Plant			
Mains and metering	\$ 904,584	\$ 865,744	\$ 837,277
Services and meters	164,537	168,800	152,554
Electric station equipment	62,704	57,564	52,974
Poles, towers and fixtures	157,575	140,424	137,804
Overhead conductors	133,419	110,865	108,965
Line transformers	61,575	61,725	61,784
Other accounts	194,011	191,009	187,759
Total Distribution & Collection Plant	<u>\$ 1,678,405</u>	<u>\$ 1,596,131</u>	<u>\$ 1,539,117</u>
General Plant	<u>100,917</u>	<u>75,934</u>	<u>54,690</u>
Total Plant Assets	\$ 1,999,646	\$ 1,888,208	\$ 1,803,095
Work In Progress	189,508	247,572	217,074
Total Net Plant	<u>\$ 2,189,154</u>	<u>\$ 2,135,780</u>	<u>\$ 2,020,169</u>

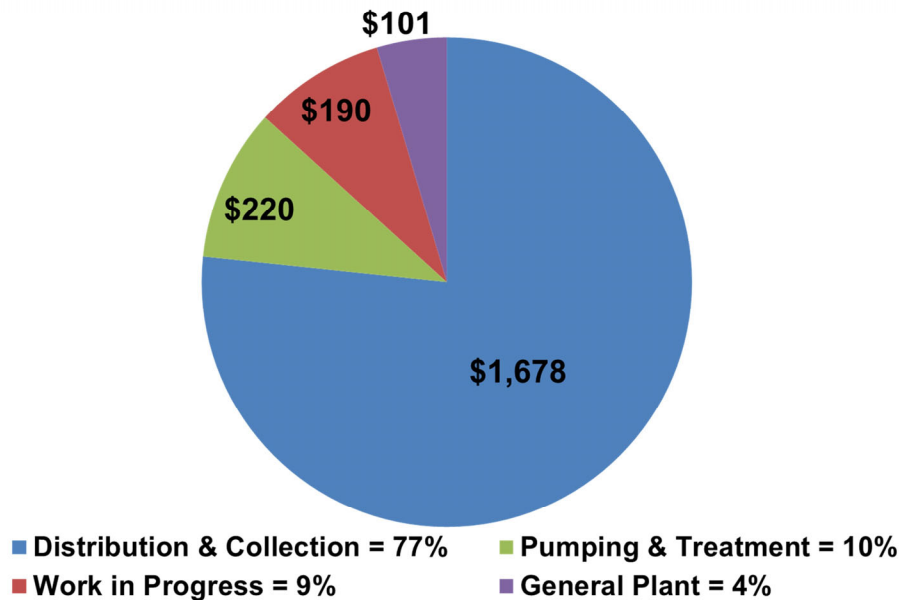
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Fiscal Year 2021 Compared to Fiscal Year 2020

As of June 30, 2021, KUB had \$2.2 billion invested in capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of \$53.4 million or 2.5 percent over the end of the last fiscal year. Spending on capital assets was slowed this year to allow for better financial liquidity in response to the pandemic.

FY 2021 Consolidated Capital Assets = \$2.2 Billion (in Millions)



Major capital asset additions during the year were as follows:

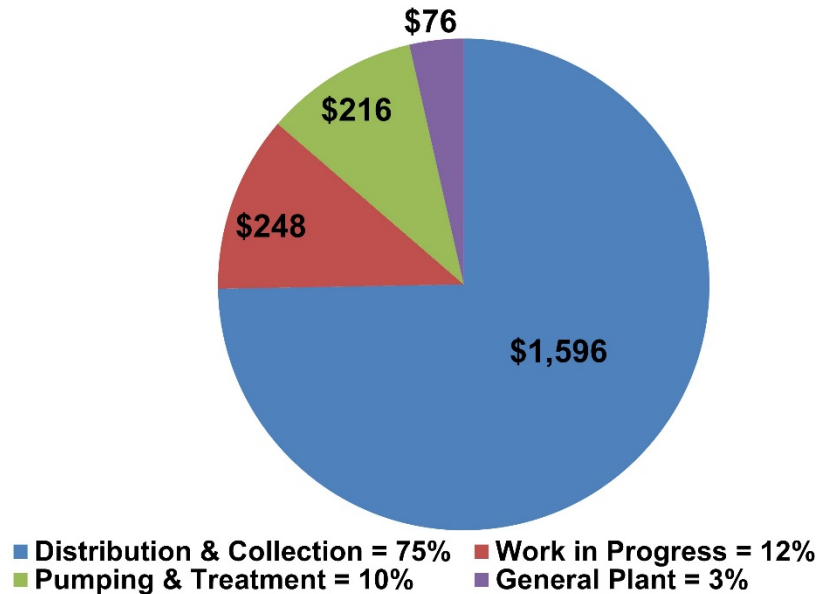
- \$35.2 million related to wastewater Century II projects
 - \$18.7 million for wastewater treatment plant upgrades
 - \$8.6 million for sewer mini-basin rehabilitation and replacement
 - \$5.1 million for pump station construction and improvements
 - \$1.5 million for short line projects
 - \$1.3 million for sewer trunk line rehabilitation and replacement
- \$23.9 million for various electric distribution system improvements
- \$10.3 million for water main replacements
- \$6.9 million for building improvements including a new Engineering Building
- \$6.5 million for the construction of gas mains
- \$6.1 million for Grid Modernization and advanced metering, including SCADA system upgrades, for the electric system
- \$5.6 million for pole replacements for the electric system

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Fiscal Year 2020 Compared to Fiscal Year 2019

As of June 30, 2020, KUB had \$2.1 billion invested in capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of \$115.6 million or 5.7 percent over the end of the last fiscal year.

FY 2020 Consolidated Capital Assets = \$2.1 Billion
(in Millions)



Major capital asset additions during the year were as follows:

- \$46 million related to wastewater Century II projects
 - \$20.2 million for wastewater treatment plant upgrades
 - \$9.1 million for sewer mini-basin rehabilitation and replacement
 - \$5.2 million for rehabilitation projects
 - \$3.9 million for pump station construction and improvements
 - \$3.9 million for short line projects
 - \$3.7 million for sewer trunk line rehabilitation and replacement
- \$24.1 million for various electric distribution system improvements
- \$11.4 million for building improvements including a new Engineering Building
- \$10.5 million for Grid Modernization and advanced metering, including SCADA system upgrades, for the electric, gas and water systems
- \$9.6 million for water main replacements
- \$9.3 million for the construction of gas mains
- \$7.3 million for pole replacements for the electric system

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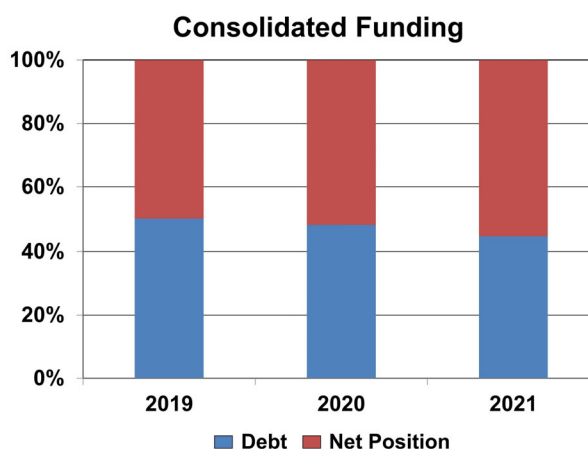
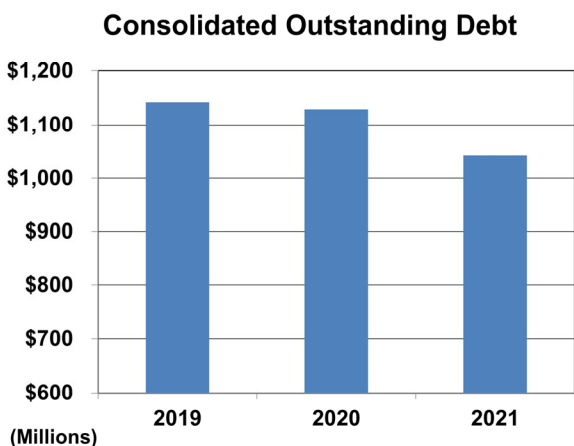
Debt Administration

KUB's outstanding debt was \$1.04 billion at June 30, 2021. Debt as a percentage of capital structure was 44.8 percent in 2021, 48.3 percent in 2020, and 50.2 percent at the end of fiscal year 2019.

Outstanding Debt As of June 30

(in thousands of dollars)

	2021	2020	2019
Revenue bonds	\$ 1,042,270	\$ 1,128,795	\$ 1,141,925
Total outstanding debt	\$ 1,042,270	\$ 1,128,795	\$ 1,141,925



KUB will pay \$434.2 million in principal payments over the next ten years, representing 41.7 percent of outstanding bonds.

Fiscal Year 2021 Compared to Fiscal Year 2020

As of June 30, 2021, KUB had \$1.04 billion in outstanding debt (including the current portion of revenue bonds) compared to \$1.13 billion last year, a decrease of \$86.5 million. As of June 30, 2021, KUB's weighted average cost of debt was 3.88 percent (3.84 percent including the impact of Build America Bonds rebates).

KUB sold \$70.2 million in electric system revenue refunding bonds in March 2021 for the purpose of refinancing existing electric system revenue bonds. KUB will realize a total debt service savings of \$14.3 million over the life of the bonds (\$11.9 million on a net present value basis), with \$16.2 million of the savings as a reduction of outstanding principal. The true interest cost of the bonds, which were sold through a competitive bidding process, was 1.91 percent. The bonds have a final maturity in fiscal year 2045.

KUB sold \$41.9 million in gas system revenue refunding bonds in March 2021 for the purpose of refinancing existing gas system revenue bonds. KUB will realize a total debt service savings of \$7.9 million over the life of the bonds (\$7.2 million on a net present value basis), with \$7.2 million of the savings as a reduction of outstanding principal. The true interest cost of the bonds, which were sold through a competitive bidding process, was 1.47 percent. The bonds have a final maturity in fiscal year 2033.

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KUB sold \$9 million in water system revenue bonds in October 2020 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 2.36 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2050.

KUB sold \$33.2 million in water system revenue refunding bonds in March 2021 for the purpose of refinancing existing water system revenue bonds. KUB will realize a total debt service savings of \$10.2 million over the life of the bonds (\$9.1 million on a net present value basis), with \$8 million of the savings as a reduction of outstanding principal. The true interest cost of the bonds, which were sold through a competitive bidding process, was 1.92 percent. The bonds have a final maturity in fiscal year 2044.

KUB sold \$27.5 million in wastewater system revenue bonds in October 2020 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 2.41 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2050.

KUB sold \$190.8 million in wastewater system revenue refunding bonds in March 2021 for the purpose of refinancing existing wastewater system revenue bonds. KUB will realize a total debt service savings of \$47.2 million over the life of the bonds (\$41.8 million on a net present value basis), with \$47.8 million of the savings as a reduction of outstanding principal. The true interest cost of the bonds, which were sold through a competitive bidding process, was 1.91 percent. The bonds have a final maturity in fiscal year 2049.

KUB's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2021, Standard & Poor's rated the revenue bonds of the Water Division AAA, the Wastewater Division AA+, and the revenue bonds of the Electric Division 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 2020 Compared to Fiscal Year 2019

As of June 30, 2020, KUB had \$1.13 billion in outstanding debt (including the current portion of revenue bonds) compared to \$1.14 billion last year, a decrease of \$13.1 million. The decrease is attributable to new revenue and refunding bonds issued during the fiscal year offset by the scheduled repayment of debt. As of June 30, 2020, KUB's weighted average cost of debt was 3.65 percent (3.55 percent including the impact of Build America Bonds rebates).

KUB sold \$14.4 million in electric system revenue refunding bonds in April 2020 for the purpose of refinancing existing electric system revenue bonds at lower interest rates. KUB will realize a total debt service savings of \$2.4 million over the life of the bonds (\$2.2 million on a net present value basis). The true interest cost of the bonds, which were sold through a competitive bidding process, was 1.50 percent. The bonds mature over a period of 10 years with a final maturity in fiscal year 2031.

KUB sold \$6.8 million in gas system revenue refunding bonds in April 2020 for the purpose of refinancing existing gas system revenue bonds at lower interest rates. KUB will realize a total debt service savings of \$1.8 million over the life of the bonds (\$1.3 million on a net present value basis). The true interest cost of the bonds, which were sold through a competitive bidding process, was 1.60 percent. The bonds mature over a period of 10 years with a final maturity in fiscal year 2030.

KUB sold \$20 million in water system revenue bonds in July 2019 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 2.79 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2049.

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KUB sold \$19.5 million in water system revenue refunding bonds in April 2020 for the purpose of refinancing existing water system revenue bonds at lower interest rates. KUB will realize a total debt service savings of \$3.9 million over the life of the bonds (\$3.1 million on a net present value basis). The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.55 percent. The bonds mature over a period of 20 years with a final maturity in fiscal year 2040.

KUB sold \$16 million in wastewater system revenue bonds in July 2019 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 2.79 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2049.

KUB sold \$28.2 million in wastewater system revenue refunding bonds in April 2020 for the purpose of refinancing existing wastewater system revenue bonds at lower interest rates. KUB will realize a total debt service savings of \$18.9 million over the life of the bonds (\$8.8 million on a net present value basis). The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.66 percent. The bonds mature over a period of 25 years with a final maturity in fiscal year 2045.

KUB's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2020, Standard & Poor's rated the revenue bonds of the Water Division AAA, the Wastewater Division AA+, and the revenue bonds of the Electric Division 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 a net increase of 3,675 customers during fiscal year 2022.

During March 2020, a global pandemic was declared related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). While the disruption is currently expected to be temporary, there is uncertainty around its duration and the ultimate future impact, if any, on results of operations, financial position, liquidity or capital resources.

In March 2020, KUB executed a new Long-Term Partnership Agreement with TVA, extending the term of its five-year evergreen power supply contract with TVA to a 20-year evergreen contract. In return for signing the longer-term agreement with TVA, KUB will receive an annual partnership credit of 3.1% on TVA's wholesale base rates, estimated to be around \$9.5 million per year. Among other things, the new partnership agreement also provides KUB with the flexibility to self-generate up to five percent of its annual power supply through renewable sources.

KUB will be using a portion of the annual partnership credit, around \$1.6 million annually, to purchase 502MW of solar power to meet the needs of its electric system customers through TVA's Green Invest Program. This first of its kind agreement in the TVA region will provide 1 million megawatt-hours of solar output and represent about eight percent of KUB's electric system load. The solar developments providing the 502MW of solar energy are due to be completed in fiscal year 2024.

During the period of October 2020 to September 2021, TVA is providing a Pandemic Relief Credit to local power companies. KUB has 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. An estimated \$6.6 million is available to residential and small business customers through the COVID Utility Relief Effort (CURE) fund.

TVA has announced an additional year of Pandemic Recovery Credits to be provided to local power companies from October 2021 to September 2022. KUB estimates the Standard Service portion of the

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Pandemic Recovery Credits to be \$7.3 million. Subject to Board approval, KUB will exclude \$1.3 million of the Standard Service credit to provide utility bill assistance to KUB customers, particularly those with past due balances accrued during the pandemic crisis. The remaining credit will flow through the Purchased Power Adjustment to lower rates for all standard service customers; it is estimated to lower the average residential customer's electric bill by \$1.40/month for a period of twelve months.

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.

On June 17, 2021, the KUB Board formally approved KUB's entry into the broadband services market to the fullest extent permitted by law, and requested City Council approval. On June 29, 2021, the City Council of Knoxville formally approved KUB's entry into the broadband services market to the fullest extent permitted by law. The Board also voted to establish a 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. 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.

The fiber network is an integral component of a \$702 million ten-year Enhanced Grid Modernization effort for the Electric Division. The \$702 million ten-year program will be funded by a combination of electric rate increases, new bonds, and projected payments from the new Fiber Division. On August 19, 2021, the Board approved three consecutive 3% annual electric rate increases to be effective April 2022, April 2023, and April 2024.

KUB will receive an estimated refund of \$2.5 million from East Tennessee Natural Gas for natural gas transportation costs, due to a settlement reached with shippers regarding a Federal Energy Regulatory Commission Section 4 rate case. KUB expects payment in fiscal year 2022 and will flow these dollars back to gas customers through its Purchased Gas Adjustment.

KUB expects to receive remaining reimbursements in fiscal year 2022 from the Federal Emergency Management Agency (FEMA) to partially offset the cost of the 2019 storm and flood event.

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 \$3,665,168 for the fiscal year ending June 30, 2022, based on the Plan's current funding policy. Subsequent to June 30, 2021, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$2,624,373 for the fiscal year ending June 30, 2023, based on the Plan's current funding policy. For the Plan year beginning January 1, 2021, the Plan's actuarial funded ratio is 105.56 percent, and the market value funded ratio is 120.37 percent.

The OPEB Plan actuarial valuation resulted in an actuarially determined contribution of \$489,066 for the fiscal year ending June 30, 2022, based on the Plan's current funding policy. Subsequent to June 30, 2021, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$1,413,392 for the fiscal year ending June 30, 2023, based on the Plan's current funding policy. The Plan's actuarial funded ratio is 89.85 percent, and the market value funded ratio is 95.93 percent.

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2021 and 2020

GASB Statement No. 87, *Leases*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, is effective for fiscal years beginning after December 15, 2020. GASB Statement No. 91, *Conduit Debt Obligations*, is effective for fiscal years beginning after December 15, 2021. GASB Statement No. 92, *Omnibus 2020*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 93, *Replacement of Interbank Offered Rates*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, is effective for fiscal years beginning after June 15, 2021. 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 2021.

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, 2021 and 2020. 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, 2021 and 2020

	2021	2020
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	\$ 119,377,875	\$ 99,445,520
Short-term investments	-	12,578,300
Short-term contingency fund investments	75,997,614	94,270,579
Other current assets	1,299,611	1,801,954
Accrued interest receivable	6,782	49,263
Accounts receivable, less allowance of uncollectible accounts of \$684,529 in 2021 and \$594,422 in 2020	79,806,900	76,694,933
Inventories	15,194,524	15,349,955
Prepaid expenses	919,217	867,359
Gas storage	6,459,730	6,296,386
Total current assets	<u>299,062,253</u>	<u>307,354,249</u>
Restricted assets:		
Bond funds	33,585,649	35,991,556
Other funds	1,515	1,514
Total restricted assets	<u>33,587,164</u>	<u>35,993,070</u>
Plant in service	2,999,084,673	2,834,424,004
Less accumulated depreciation	<u>(999,438,900)</u>	<u>(946,215,640)</u>
	1,999,645,773	1,888,208,364
Retirement in progress	3,370,207	4,733,893
Construction in progress	186,137,702	242,837,988
Net plant in service	<u>2,189,153,682</u>	<u>2,135,780,245</u>
Other assets:		
Net pension asset	45,099,288	19,121,375
Net OPEB asset	5,931,828	-
Long-term contingency fund investments	35,024,905	16,935,949
TVA conservation program receivable	1,103,185	1,933,798
Under recovered purchased gas cost	1,371,776	1,513,434
Other	10,250,096	12,371,684
Total other assets	<u>98,781,078</u>	<u>51,876,240</u>
Total assets	<u>2,620,584,177</u>	<u>2,531,003,804</u>
Deferred outflows of resources:		
Pension outflow	8,251,618	8,123,085
OPEB outflow	21,401	4,178,710
Unamortized bond refunding costs	15,733,160	20,934,777
Total deferred outflows of resources	<u>24,006,179</u>	<u>33,236,572</u>
Total assets and deferred outflows of resources	<u>\$ 2,644,590,356</u>	<u>\$ 2,564,240,376</u>

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

Knoxville Utilities Board
Consolidated Statements of Net Position
June 30, 2021 and 2020

	2021	2020
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	\$ 42,545,000	\$ 43,125,000
Sales tax collections payable	1,393,779	1,375,324
Accounts payable	78,611,167	74,337,079
Accrued expenses	24,220,522	21,443,876
Customer deposits plus accrued interest	21,157,409	21,690,456
Accrued interest on revenue bonds	11,831,762	13,807,353
Total current liabilities	<u>179,759,639</u>	<u>175,779,088</u>
Other liabilities:		
TVA conservation program	1,158,556	2,023,948
Accrued compensated absences	10,341,485	10,280,214
Customer advances for construction	10,373,106	9,658,968
Net pension liability	18,714	20,236
Net OPEB liability	-	7,589,447
Over recovered purchased power cost	427,351	1,848,630
Other	225,278	263,388
Total other liabilities	<u>22,544,490</u>	<u>31,684,831</u>
Long-term debt:		
Revenue bonds	999,725,000	1,085,670,000
Unamortized premiums/discounts	112,620,811	40,419,199
Total long-term debt	<u>1,112,345,811</u>	<u>1,126,089,199</u>
Total liabilities	<u>1,314,649,940</u>	<u>1,333,553,118</u>
Deferred inflows of resources:		
Pension inflow	36,182,182	20,568,586
Unamortized bond refunding costs	154,540	-
OPEB inflow	7,958,606	-
Total deferred inflows of resources	<u>44,295,328</u>	<u>20,568,586</u>
Total liabilities and deferred inflows of resources	<u>1,358,945,268</u>	<u>1,354,121,704</u>
Net position		
Net investment in capital assets	1,049,323,580	990,228,184
Restricted for:		
Debt service	21,753,887	22,184,203
Other	1,515	1,514
Unrestricted	214,566,106	197,704,771
Total net position	<u>1,285,645,088</u>	<u>1,210,118,672</u>
Total liabilities, deferred inflows, and net position	<u>\$ 2,644,590,356</u>	<u>\$ 2,564,240,376</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
June 30, 2021 and 2020

	2021	2020
Operating revenues		
Electric	\$ 546,207,862	\$ 538,808,337
Gas	115,049,382	102,265,243
Water	61,181,218	61,882,169
Wastewater	99,860,307	100,795,468
Total operating revenues	<u>822,298,769</u>	<u>803,751,217</u>
Operating expenses		
Purchased power	390,194,970	393,246,624
Purchased gas	52,104,072	42,989,092
Treatment	17,097,542	16,305,741
Distribution and collection	69,388,270	70,822,228
Customer service	14,098,263	14,007,340
Administrative and general	31,452,707	41,668,181
Provision for depreciation	90,066,649	72,825,673
Taxes and tax equivalents	37,447,961	35,862,712
Total operating expenses	<u>701,850,434</u>	<u>687,727,591</u>
Operating income	<u>120,448,335</u>	<u>116,023,626</u>
Non-operating revenues (expenses)		
Contributions in aid of construction	5,092,513	4,826,784
Interest income	828,787	4,739,605
Interest expense	(41,816,131)	(43,127,332)
Amortization of debt costs	1,346,562	195,502
Write-down of plant for costs recovered through contributions	(5,092,513)	(4,826,784)
Other	(6,264,127)	(247,449)
Total non-operating revenues (expenses)	<u>(45,904,909)</u>	<u>(38,439,674)</u>
Change in net position before capital contributions	74,543,426	77,583,952
Capital contributions	982,990	417,071
Change in net position	75,526,416	78,001,023
Net position, beginning of year	<u>1,210,118,672</u>	<u>1,132,117,649</u>
Net position, end of year	<u>\$ 1,285,645,088</u>	<u>\$ 1,210,118,672</u>

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

Knoxville Utilities Board

Consolidated Statements of Cash Flows

June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash receipts from customers	\$ 815,283,810	\$ 800,678,418
Cash receipts from other operations	14,289,365	15,674,228
Cash payments to suppliers of goods or services	(527,882,626)	(499,147,360)
Cash payments to employees for services	(65,242,719)	(57,577,942)
Payment in lieu of taxes	(32,469,103)	(30,924,835)
Cash receipts from collections of TVA conservation loan program participants	917,979	1,171,803
Cash payments for TVA Conservation loan program	(952,757)	(1,203,172)
Net cash provided by operating activities	<u>203,943,949</u>	<u>228,671,140</u>
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	39,682,480	37,863,502
Principal paid on revenue bonds	(43,885,000)	(42,619,999)
Interest paid on revenue bonds	(44,680,050)	(43,995,934)
Acquisition and construction of plant	(157,774,379)	(196,870,532)
Changes in bond funds, restricted	2,405,906	(43,093)
Customer advances for construction	957,757	1,558,719
Proceeds received on disposal of plant	519,515	283,021
Cash received from developers and individuals for capital purposes	5,092,513	4,826,784
Net cash used in capital and related financing activities	<u>(197,681,258)</u>	<u>(238,997,532)</u>
Cash flows from investing activities:		
Purchase of investment securities	(50,151,769)	(93,646,469)
Maturities of investment securities	62,155,073	106,545,000
Interest received	1,091,427	5,071,875
Other property and investments	574,933	161,566
Net cash provided by investing activities	<u>13,669,664</u>	<u>18,131,972</u>
Net increase in cash and cash equivalents	19,932,355	7,805,580
Cash and cash equivalents, beginning of year	<u>99,445,520</u>	<u>91,639,940</u>
Cash and cash equivalents, end of year	<u>\$ 119,377,875</u>	<u>\$ 99,445,520</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 120,448,335	\$ 116,023,626
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	93,229,383	75,652,541
Changes in operating assets and liabilities:		
Accounts receivable	(3,111,967)	(5,842)
Inventories	155,432	6,777,500
Prepaid expenses	(215,202)	961,947
TVA conservation program receivable	830,613	1,027,513
Other assets	92,796	(62,267)
Sales tax collections payable	18,455	(47,543)
Accounts payable and accrued expenses	(4,787,725)	29,359,322
TVA conservation program payable	(865,392)	(1,058,881)
Unrecovered purchased power cost	(1,421,279)	(825,836)
Underrecovered gas costs	141,658	(174,012)
Customer deposits plus accrued interest	(533,047)	1,016,287
Other liabilities	(38,111)	26,785
Net cash provided by operating activities	<u>\$ 203,943,949</u>	<u>\$ 228,671,140</u>
Noncash capital activities:		
Acquisition of plant assets through developer contributions	\$ 982,990	\$ 417,071

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

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric 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, 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.

Recently Adopted New Accounting Pronouncements

In January 2017, the GASB issued GASB Statement No. 84 (Statement No. 84), *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 is effective for fiscal years beginning after December 15, 2019. Adoption of this Statement did not have a significant impact on KUB's financial statements.

In August 2018, the GASB issued GASB Statement No. 90 (Statement No. 90), *Major Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Statement No. 90 is effective for fiscal years beginning after December 15, 2019. Adoption of this Statement did not have a significant impact on KUB's financial statements.

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Principles of Consolidation

The consolidated financial statements include the accounts of the Electric, 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, 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 "Provision for depreciation" in the consolidated Statements of Revenues, Expenses and Changes in Net Position does not include depreciation for transportation equipment of \$3,162,734 in fiscal year 2021 and \$2,826,868 in fiscal year 2020. Under regulatory accounting, interest costs are expensed as incurred with construction of plant assets.

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 \$2,814,225 in fiscal year 2021 and \$1,917,715 in fiscal year 2020.

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.

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, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, 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.

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

- 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 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 Plan

KUB's employees hired prior to July 1, 1999, who are retired and who (prior to retirement) qualified for retiree medical insurance by meeting the Rule of 80 (age plus years of service) with a minimum of 20 years of service and were enrolled in medical coverage on their last day, are eligible for post-employment health care. KUB's OPEB Trust was established by KUB's Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. 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, 2021 and 2020 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a June 30, 2021 and 2020 measurement date, respectively. The net OPEB asset is \$5,931,828 as of June 30, 2021, and the net OPEB liability is \$7,589,447 as of June 30, 2020.

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 10). 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, 2021 and 2020 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a December 31, 2020 and 2019 measurement date, respectively. The net pension asset is \$45,099,288 as of June 30, 2021, and \$19,121,375 as of June 30, 2020.

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 11). As required by GASB Statement No. 73, KUB measures the total pension liability of the QEBA. The amounts reported

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

as of June 30, 2021 and 2020 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a December 31, 2020 and 2019 measurement date, respectively. The total pension liability of the QEBA is \$18,714 as of June 30, 2021, and \$20,236 as of June 30, 2020.

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, pension trust valuations, OPEB trust valuations, insurance liability reserves, and potential losses from contingencies and litigation. Actual results could differ from those estimates.

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.

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.

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.

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.

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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.

Subsequent Events

In August 2021, KUB approved the addition of a Retiree Health Reimbursement Arrangement (HRA) to the OPEB Trust, effective January 1, 2022, to be available to KUB retirees who have a benefits service date on or after July 1, 1999 and retire or die in service on or after January 1, 2021 having met the Rule of 80. Those covered by the existing Retiree Medical Benefit will not be eligible for the HRA. Each HRA eligible retiree will be eligible for \$50,000 to be used exclusively for reimbursement of qualified medical expenses of the retiree and his or her spouse and dependents. Any unused amounts will remain assets of the OPEB Trust. The aggregate HRA and Retiree Medical Benefit liability will be funded by KUB through the existing OPEB Trust.

TVA has announced an additional year of Pandemic Recovery Credits to be provided to local power companies from October 2021 to September 2022. KUB estimates the Standard Service portion of the Pandemic Recovery Credits to be \$7.3 million. Subject to Board approval, KUB will exclude \$1.3 million of the Standard Service credit to provide utility bill assistance to KUB customers, particularly those with past due balances accrued during the pandemic crisis. The remaining credit will flow through the Purchased Power Adjustment to lower rates for all standard service customers; it is estimated to lower the average residential customer's electric bill by \$1.40/month.

KUB will receive an estimated refund of \$2.5 million from East Tennessee Natural Gas for natural gas transportation costs, due to a settlement reached with shippers regarding a Federal Energy Regulatory Commission Section 4 rate case. KUB expects payment in fiscal year 2022 and will flow these dollars back to gas customers through its Purchased Gas Adjustment.

After gaining the required approvals from TVA, the State of Tennessee, KUB's Board and City Council, KUB launched its new Fiber Division. In August 2021, the Board authorized the first \$10 million loan of a proposed \$35 million loan from the Electric Division to the Fiber Division. The interdivisional loan was approved by TVA and was recorded in October 2021. KUB will begin extending fiber infrastructure to make broadband service available to electric customers in 2022.

Broadband services will be enabled by a high-speed fiber optic network that will be owned and maintained by the Electric Division. In addition to enabling the provision of broadband services by the Fiber Division, the fiber optic network will allow for the implementation of advanced technologies that will improve the reliability of the electric system.

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The construction of the fiber network is an integral part of a \$702 million Enhanced Grid Modernization initiative of the Electric Division, which is to be funded by electric rate increases, new bonds, and payments from the Fiber Division for the use of the fiber network in providing broadband services.

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.

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 is providing a Pandemic Relief Credit to local power companies. KUB has 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 is available to residential and small business customers through the COVID Utility Relief Effort (CURE) fund.

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 \$427,351 on June 30, 2021, and \$1,848,630 on June 30, 2020.

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

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passed on to KUB's gas system customers. The amount of over/(under) recovered cost was (\$1,371,776) on June 30, 2021, and (\$1,513,434) on June 30, 2020.

Recently Issued Accounting Pronouncements

In June 2017, the GASB issued GASB Statement No. 87 (Statement No. 87), *Leases*. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset. Statement No. 87 is effective for fiscal years beginning after June 15, 2021.

In June 2018, the GASB issued GASB Statement No. 89 (Statement No. 89), *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and to simplify accounting for interest cost incurred before the end of a construction period. Statement No. 89 is effective for fiscal years beginning after December 15, 2020.

In May 2019, the GASB issued GASB Statement No. 91 (Statement No. 91), *Conduit Debt Obligations*. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. Statement No. 91 is effective for fiscal years beginning after December 15, 2021.

In January 2020, the GASB issued GASB Statement No. 92 (Statement No. 92), *Omnibus 2020*. 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. Certain provisions of Statement No. 92 were effective immediately. Paragraphs 6, 7, 8, 9, and 12 are effective for fiscal years beginning after June 15, 2021.

In March 2020, the GASB issued GASB Statement No. 93 (Statement No. 93), *Replacement of Interbank Offered Rates*. This Statement establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. Statement No. 93 is effective for fiscal years beginning after June 15, 2021.

In March 2020, the GASB issued GASB Statement No. 94 (Statement No. 94), *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to better meet the information needs of financial statement users by improving the comparability of financial statements among governments that enter in PPPs and APAs. Statement No. 94 is effective for fiscal years beginning after June 15, 2022.

In May 2020, the GASB issued GASB Statement No. 96 (Statement No. 96), *Subscription-Based Information Technology Arrangements*. The objective of this Statement is to better meet the information needs of financial statement users by (a) establishing uniform accounting and financial reporting requirements for SBITAs; (b) improving the comparability of financial statements among governments that have entered into SBITAs; and (c) enhancing the understandability, reliability, relevance, and consistency of information about SBITAs. Statement No. 96 is effective for fiscal years beginning after June 15, 2022.

In June 2020, the GASB issued GASB Statement No. 97 (Statement No. 97), *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The objectives of this Statement are to (a) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the

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duties that a governing board typically would perform; (b) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (c) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Statement No. 97 is effective for fiscal years beginning after June 15, 2021.

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 are 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.

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Classification of deposits and investments per Statement of Net Position:

	2021	2020
Current assets		
Cash and cash equivalents	\$ 119,377,875	\$ 99,445,520
Short-term investments	-	12,578,300
Short-term contingency fund investments	75,997,124	94,257,567
Other assets		
Long-term contingency fund investments	34,899,420	16,590,303
Restricted assets		
Bond fund	33,585,649	35,991,556
Other funds	1,515	1,514
	<u>\$ 263,861,583</u>	<u>\$ 258,864,760</u>

The above amounts do not include accrued interest of \$125,975 in fiscal year 2021 and \$358,658 in fiscal year 2020. 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, 2021:

	Deposit and Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	\$ 143,103,790	\$ 143,103,790	\$ -
State Treasurer's Investment Pool	74,921,297	74,921,297	-
Agency Bonds	51,289,958	16,390,538	34,899,420
	<u>\$ 269,315,045</u>	<u>\$ 234,415,625</u>	<u>\$ 34,899,420</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, 2021:

- U.S. Agency bonds of \$34,899,420, 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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4. Accounts Receivable

Accounts receivable consists of the following:

	2021	2020
Wholesale and retail customers		
Billed services	\$ 48,400,501	\$ 46,716,972
Unbilled services	29,315,698	28,284,426
Other	2,775,230	2,287,957
Allowance for uncollectible accounts	<u>(684,529)</u>	<u>(594,422)</u>
	<u>\$ 79,806,900</u>	<u>\$ 76,694,933</u>

5. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

	2021	2020
Trade accounts	\$ 78,611,167	\$ 74,337,079
Salaries and wages	3,960,533	3,721,785
Advances on pole rental	1,379,998	1,262,510
Self-insurance liabilities	1,936,244	1,720,620
Other current liabilities	<u>16,943,747</u>	<u>14,738,961</u>
	<u>\$ 102,831,689</u>	<u>\$ 95,780,955</u>

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Knoxville Utilities Board

Notes to Consolidated Financial Statements

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6. Long-Term Obligations

	Balance June 30, 2020	Additions	Payments	Defeased	Balance June 30, 2021	Amounts Due Within One Year
Electric						
Z-2010 - 1.45 - 6.35%	\$ 1,425,000	\$ -	\$ 1,425,000	\$ -	\$ -	\$ -
AA-2012 - 3.0 - 5.0%	22,880,000	-	3,100,000	16,510,000	3,270,000	3,270,000
BB-2012 - 3.0 - 4.0%	30,375,000	-	800,000	800,000	28,750,000	825,000
CC-2013 - 3.0 - 4.0%	7,585,000	-	515,000	6,530,000	540,000	540,000
DD-2014 - 2.0 - 4.0%	36,325,000	-	825,000	34,625,000	875,000	875,000
EE-2015 - 2.0 - 5.0%	25,900,000	-	2,135,000	-	23,765,000	2,235,000
FF-2015 - 2.0 - 5.0%	32,150,000	-	775,000	-	31,375,000	800,000
GG-2016 - 2.0 - 5.0%	37,550,000	-	900,000	-	36,650,000	950,000
HH-2017 - 2.5 - 5.0%	19,510,000	-	2,090,000	-	17,420,000	2,195,000
I-2017 - 3.0 - 5.0%	38,535,000	-	805,000	-	37,730,000	845,000
JJ-2018 - 3.0 - 5.0%	39,220,000	-	815,000	-	38,405,000	855,000
KK-2020 - 5.0%	14,380,000	-	-	-	14,380,000	1,155,000
LL-2021 - 4.0 - 5.0%	-	70,180,000	-	-	70,180,000	-
Total Bonds	\$ 305,835,000	\$ 70,180,000	\$ 14,185,000	\$ 86,415,000	\$ 275,415,000	\$ 14,545,000
Unamortized Premium	13,668,174	16,772,021	1,301,355	3,420,420	25,718,420	-
Total long term debt	\$ 319,503,174	\$ 86,952,021	\$ 15,486,355	\$ 89,835,420	\$ 301,133,420	\$ 14,545,000
Gas						
Q-2012 - 2.0 - 4.0%	\$ 14,005,000	\$ -	\$ 2,350,000	\$ 11,655,000	\$ -	\$ -
R-2012 - 2.0 - 4.0%	7,700,000	-	475,000	7,225,000	-	-
S-2013 - 2.0 - 4.0%	9,005,000	-	695,000	8,310,000	-	-
T-2013 - 2.0 - 4.6%	22,400,000	-	500,000	21,900,000	-	-
U-2015 - 2.0 - 5.0%	9,625,000	-	710,000	-	8,915,000	740,000
V-2016 - 2.125 - 5.0%	11,050,000	-	250,000	-	10,800,000	275,000
W-2017 - 5.0%	6,015,000	-	735,000	-	5,280,000	780,000
X-2017 - 2.0 - 5.0%	11,320,000	-	260,000	-	11,060,000	270,000
Y-2018 - 3.0 - 5.0%	7,635,000	-	160,000	-	7,475,000	170,000
Z-2020 - 4.0 - 5.0%	6,755,000	-	610,000	-	6,145,000	560,000
AA-2021 - 4.0 - 5.0%	-	41,920,000	-	-	41,920,000	4,005,000
Total Bonds	\$ 105,510,000	\$ 41,920,000	\$ 6,745,000	\$ 49,090,000	\$ 91,595,000	\$ 6,800,000
Unamortized Premium	4,893,568	7,207,533	571,736	1,705,698	9,823,667	-
Total long term debt	\$ 110,403,568	\$ 49,127,533	\$ 7,316,736	\$ 50,795,698	\$ 101,418,667	\$ 6,800,000
Water						
X-2012 - 3.0 - 5.0%	\$ 6,460,000	\$ -	\$ 625,000	\$ 5,835,000	\$ -	\$ -
Y-2013 - 3.0 - 4.0%	7,730,000	-	350,000	7,380,000	-	-
Z-2013 - 2.0 - 5.0%	21,600,000	-	575,000	21,025,000	-	-
AA-2014 - 2.0 - 4.0%	7,100,000	-	175,000	6,925,000	-	-
BB-2015 - 2.0 - 5.0%	20,035,000	-	960,000	-	19,075,000	1,000,000
CC-2015 - 2.0 - 4.0%	18,025,000	-	450,000	-	17,575,000	475,000
DD-2016 - 3.0 - 5.0%	23,225,000	-	550,000	-	22,675,000	575,000
EE-2016 - 2.0 - 5.0%	19,585,000	-	1,155,000	-	18,430,000	1,245,000
FF-2017 - 3.0 - 5.0%	3,900,000	-	495,000	-	3,405,000	510,000
GG-2017 - 2.125 - 5.0%	19,025,000	-	415,000	-	18,610,000	440,000
HH-2018 - 3.0 - 5.0%	19,090,000	-	395,000	-	18,695,000	410,000
I-2019 - 3.0 - 5.0%	19,595,000	-	365,000	-	19,230,000	380,000
JJ-2020 - 3.0 - 5.0%	19,520,000	-	630,000	-	18,890,000	495,000
KK-2020 - 3.0 - 5.0%	-	9,045,000	210,000	-	8,835,000	170,000
LL-2021 - 4.0 - 5.0%	-	33,180,000	-	-	33,180,000	1,225,000
Total Bonds	\$ 204,890,000	\$ 42,225,000	\$ 7,350,000	\$ 41,165,000	\$ 198,600,000	\$ 6,925,000
Unamortized Premium	7,909,293	9,021,325	537,209	595,038	15,798,371	-
Total long term debt	\$ 212,799,293	\$ 51,246,325	\$ 7,887,209	\$ 41,760,038	\$ 214,398,371	\$ 6,925,000
Wastewater						
2010C - 1.18 - 6.1%	\$ 58,450,000	\$ -	\$ 1,650,000	\$ 36,550,000	\$ 20,250,000	\$ -
2012A - 2.0 - 4.0%	10,850,000	-	1,085,000	9,765,000	-	-
2012B - 1.25 - 5.0%	58,225,000	-	1,150,000	57,075,000	-	-
2013A - 2.0 - 4.0%	109,115,000	-	710,000	108,405,000	-	-
2014A - 2.0 - 4.0%	27,300,000	-	525,000	26,775,000	-	-
2015A - 3.0 - 5.0%	116,085,000	-	5,460,000	-	110,625,000	5,675,000
2015B - 3.0 - 5.0%	27,475,000	-	525,000	-	26,950,000	550,000
2016 - 2.0 - 5.0%	18,275,000	-	475,000	-	17,800,000	500,000
2017A - 3.0 - 5.0%	7,575,000	-	1,605,000	-	5,970,000	1,685,000
2017B - 2.0 - 5.0%	23,745,000	-	540,000	-	23,205,000	570,000
2018 - 3.0 - 5.0%	11,485,000	-	245,000	-	11,240,000	255,000
2019 - 3.0 - 5.0%	15,750,000	-	300,000	-	15,450,000	315,000
2020A - 3.0 - 5.0%	28,230,000	-	785,000	-	27,445,000	680,000
2020B - 3.0 - 4.0%	-	27,460,000	550,000	-	26,910,000	555,000
2021A - 4.0 - 5.0%	-	190,815,000	-	-	190,815,000	3,490,000
Total Bonds	\$ 512,560,000	\$ 218,275,000	\$ 15,605,000	\$ 238,570,000	\$ 476,660,000	\$ 14,275,000
Unamortized Premium	13,948,164	50,727,997	1,051,517	2,344,292	61,280,352	-
Total long term debt	\$ 526,508,164	\$ 269,002,997	\$ 16,656,517	\$ 240,914,292	\$ 537,940,352	\$ 14,275,000
Consolidated						
Total Bonds	\$ 1,128,795,000	\$ 372,600,000	\$ 43,885,000	\$ 415,240,000	\$ 1,042,270,000	\$ 42,545,000
Total unamortized premium	40,419,199	83,728,876	3,461,817	8,065,448	112,620,811	-
Total long term debt	\$ 1,169,214,199	\$ 456,328,876	\$ 47,346,817	\$ 423,305,448	\$ 1,154,890,811	\$ 42,545,000

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	Balance June 30, 2019	Additions	Payments	Deceased	Balance June 30, 2020	Amounts Due Within One Year
Electric						
Z-2010 - 1.45 - 6.35%	\$ 19,930,000	\$ -	\$ 1,390,000	\$ 17,115,000	\$ 1,425,000	\$ 1,425,000
AA-2012 - 3.0 - 5.0%	25,835,000	-	2,955,000	-	22,880,000	3,100,000
BB-2012 - 3.0 - 4.0%	31,125,000	-	750,000	-	30,375,000	800,000
CC-2013 - 3.0 - 4.0%	8,085,000	-	500,000	-	7,585,000	515,000
DD-2014 - 2.0 - 4.0%	37,125,000	-	800,000	-	36,325,000	825,000
EE-2015 - 2.0 - 5.0%	27,975,000	-	2,075,000	-	25,900,000	2,135,000
FF-2015 - 2.0 - 5.0%	32,900,000	-	750,000	-	32,150,000	775,000
GG-2016 - 2.0 - 5.0%	38,400,000	-	850,000	-	37,550,000	900,000
HH-2017 - 2.5 - 5.0%	21,500,000	-	1,990,000	-	19,510,000	2,090,000
II-2017 - 3.0 - 5.0%	39,300,000	-	765,000	-	38,535,000	805,000
JJ-2018 - 3.0 - 5.0%	39,995,000	-	775,000	-	39,220,000	815,000
KK-2020 - 5.0%	-	14,380,000	-	-	14,380,000	-
Total bonds	\$ 322,170,000	\$ 14,380,000	\$ 13,600,000	\$ 17,115,000	\$ 305,835,000	\$ 14,185,000
Unamortized Premium	11,673,884	2,896,021	901,731	-	13,668,174	-
Total long term debt	\$ 333,843,884	\$ 17,276,021	\$ 14,501,731	\$ 17,115,000	\$ 319,503,174	\$ 14,185,000
Gas						
P-2010 - 3.3 - 6.2%	\$ 10,295,000	\$ -	\$ 620,000	\$ 9,675,000	\$ -	\$ -
Q-2012 - 2.0 - 4.0%	16,265,000	-	2,260,000	-	14,005,000	2,350,000
R-2012 - 2.0 - 4.0%	8,150,000	-	450,000	-	7,700,000	475,000
S-2013 - 2.0 - 4.0%	9,650,000	-	645,000	-	9,005,000	695,000
T-2013 - 2.0 - 4.6%	22,900,000	-	500,000	-	22,400,000	500,000
U-2015 - 2.0 - 5.0%	10,305,000	-	680,000	-	9,625,000	710,000
V-2016 - 2.125 - 5.0%	11,300,000	-	250,000	-	11,050,000	250,000
W-2017 - 5.0%	6,720,000	-	705,000	-	6,015,000	735,000
X-2017 - 2.0 - 5.0%	11,565,000	-	245,000	-	11,320,000	260,000
Y-2018 - 3.0 - 5.0%	7,790,000	-	155,000	-	7,635,000	160,000
Z-2020 - 4.0 - 5.0%	-	6,755,000	-	-	6,755,000	610,000
Total bonds	\$ 114,940,000	\$ 6,755,000	\$ 6,510,000	\$ 9,675,000	\$ 105,510,000	\$ 6,745,000
Unamortized Premium	4,193,696	1,164,700	397,369	67,459	4,893,568	-
Total long term debt	\$ 119,133,696	\$ 7,919,700	\$ 6,907,369	\$ 9,742,459	\$ 110,403,568	\$ 6,745,000
Water						
W-2011 - 2.0 - 5.0%	\$ 21,150,000	\$ -	\$ 550,000	\$ 20,600,000	\$ -	\$ -
X-2012 - 3.0 - 5.0%	7,050,000	-	590,000	-	6,460,000	625,000
Y-2013 - 3.0 - 4.0%	8,070,000	-	340,000	-	7,730,000	350,000
Z-2013 - 2.0 - 5.0%	22,150,000	-	550,000	-	21,600,000	575,000
AA-2014 - 2.0 - 4.0%	7,275,000	-	175,000	-	7,100,000	175,000
BB-2015 - 2.0 - 5.0%	20,985,000	-	950,000	-	20,035,000	960,000
CC-2015 - 2.0 - 4.0%	18,450,000	-	425,000	-	18,025,000	450,000
DD-2016 - 3.0 - 5.0%	23,750,000	-	525,000	-	23,225,000	550,000
EE-2016 - 2.0 - 5.0%	20,675,000	-	1,090,000	-	19,585,000	1,155,000
FF-2017 - 3.0 - 5.0%	4,375,000	-	475,000	-	3,900,000	495,000
GG-2017 - 2.125 - 5.0%	19,420,000	-	395,000	-	19,025,000	415,000
HH-2018 - 3.0 - 5.0%	19,470,000	-	380,000	-	19,090,000	395,000
II-2019 - 3.0 - 5.0%	-	19,995,000	400,000	-	19,595,000	365,000
JJ-2020 - 3.0 - 5.0%	-	19,520,000	-	-	19,520,000	630,000
Total bonds	\$ 192,820,000	\$ 39,515,000	\$ 6,845,000	\$ 20,600,000	\$ 204,890,000	\$ 7,140,000
Unamortized Premium	5,847,325	2,660,942	402,958	196,016	7,909,293	-
Total long term debt	\$ 198,667,325	\$ 42,175,942	\$ 7,247,958	\$ 20,796,016	\$ 212,799,293	\$ 7,140,000
Wastewater						
2010 - 6.3 - 6.5%	\$ 30,000,000	\$ -	\$ -	\$ 30,000,000	\$ -	\$ -
2010C - 1.18 - 6.1%	60,050,000	-	1,600,000	-	58,450,000	1,650,000
2012A - 2.0 - 4.0%	11,800,000	-	950,000	-	10,850,000	1,085,000
2012B - 1.25 - 5.0%	59,325,000	-	1,100,000	-	58,225,000	1,150,000
2013A - 2.0 - 4.0%	109,800,000	-	685,000	-	109,115,000	710,000
2014A - 2.0 - 4.0%	27,800,000	-	500,000	-	27,300,000	525,000
2015A - 3.0 - 5.0%	121,390,000	-	5,305,000	-	116,085,000	5,460,000
2015B - 3.0 - 5.0%	28,000,000	-	525,000	-	27,475,000	525,000
2016 - 2.0 - 5.0%	18,750,000	-	475,000	-	18,275,000	475,000
2017A - 3.0 - 5.0%	9,100,000	-	1,525,000	-	7,575,000	1,605,000
2017B - 2.0 - 5.0%	24,260,000	-	515,000	-	23,745,000	540,000
2018 - 3.0 - 5.0%	11,720,000	-	235,000	-	11,485,000	245,000
2019 - 3.0 - 5.0%	-	16,000,000	250,000	-	15,750,000	300,000
2020 - 3.0 - 5.0%	-	28,230,000	-	-	28,230,000	785,000
Total bonds	\$ 511,995,000	\$ 44,230,000	\$ 13,665,000	\$ 30,000,000	\$ 512,560,000	\$ 15,055,000
Unamortized Premium	11,356,966	3,388,697	640,486	157,013	13,948,164	-
Total long term debt	\$ 523,351,966	\$ 47,618,697	\$ 14,305,486	\$ 30,157,013	\$ 526,508,164	\$ 15,055,000
Consolidated						
Total bonds	\$ 1,141,925,000	\$ 104,880,000	\$ 40,620,000	\$ 77,390,000	\$ 1,128,795,000	\$ 43,125,000
Total unamortized premium	33,071,871	10,110,360	2,342,545	420,488	40,419,199	-
Total long term debt	\$ 1,174,996,871	\$ 114,990,360	\$ 42,962,545	\$ 77,810,488	\$ 1,169,214,199	\$ 43,125,000

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

Fiscal Year	Principal	Interest	Total
2022	\$ 42,545,000	\$ 38,262,178	\$ 80,807,178
2023	42,340,000	38,112,847	80,452,847
2024	43,005,000	36,116,161	79,121,161
2025	44,190,000	34,295,786	78,485,786
2026	42,630,000	32,543,864	75,173,864
2027-2031	219,445,000	136,040,823	355,485,823
2032-2036	195,760,000	95,238,792	290,998,792
2037-2041	215,855,000	58,030,442	273,885,442
2042-2046	153,275,000	21,330,331	174,605,331
2047-2050	43,225,000	2,574,471	45,799,471
Total	<u>\$ 1,042,270,000</u>	<u>\$ 492,545,695</u>	<u>\$ 1,534,815,695</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, 2021, these requirements had been satisfied.

During fiscal year 2020, KUB's Electric Division issued Series KK 2020 bonds to retire a portion of outstanding Series Z 2010 bonds. On May 22, 2020, \$14.4 million in revenue refunding bonds with an average interest rate of 5 percent were issued to advance refund \$17.1 million of outstanding bonds with an average interest rate of 5.8 percent. The net proceeds of \$17.1 million (after payment of \$0.2 million in issuance costs plus premium of \$2.9 million) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the bonds, with the exception of the July 1, 2020 debt service payment. As a result, the remaining bonds are considered to be refunded and the liability of \$17.1 million for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 11 years by \$2.4 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2.2 million.

During fiscal year 2021, KUB's Electric Division issued Series LL 2021 bonds to retire a portion of outstanding Series AA 2012, BB 2012, CC 2013 and DD 2014 bonds. On April 19, 2021, \$70.2 million in revenue refunding bonds with an average interest rate of 4.4 percent were issued to advance refund \$86.4 million of outstanding bonds with an average interest rate of 3.5 percent. The net proceeds of \$87.8 million (after payment of \$0.5 million in issuance costs plus premium of \$16.7 million and an additional issuer equity contribution of \$1.4 million) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the bonds, with the exception of the July 1, 2021 debt service payment. As a result, the remaining bonds are considered to be refunded and the liability of \$86.4 million for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 24 years by \$14.3 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$11.9 million.

During fiscal year 2020, KUB's Gas Division issued Series Z 2020 bonds to retire a portion of outstanding Series P 2010 bonds. On May 22, 2020, \$6.8 million in revenue refunding bonds with an average interest rate of 4.7 percent were issued to currently refund \$9.7 million of outstanding bonds with an average interest rate of 6.1 percent. The net proceeds of \$9.8 million (after payment of \$0.1 million in issuance costs plus premium of \$1.1 million and an additional issuer equity contribution of

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\$2 million) were used to refund the bonds. As a result, the bonds are considered to be refunded and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 12 years by \$1.8 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1.3 million.

During fiscal year 2021, KUB's Gas Division issued Series AA 2021 bonds to retire outstanding Series Q 2012, R 2012, S 2013 and T 2013 bonds. On April 19, 2021, \$41.9 million in revenue refunding bonds with an average interest rate of 4.4 percent were issued to currently refund \$49.1 million of outstanding bonds with an average interest rate of 3.9 percent. The net proceeds of \$49.3 million (after payment of \$0.3 million in issuance costs plus premium of \$7.2 million and an additional issuer equity contribution of \$0.5 million) were used to refund the bonds. As a result, the bonds are considered to be refunded and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 14 years by \$7.9 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$7.2 million.

During fiscal year 2020, KUB's Water Division issued Series II 2019 bonds to fund water system capital improvements. KUB's Water Division also issued Series JJ 2020 bonds to retire a portion of outstanding Series W 2011 bonds. On May 22, 2020, \$19.5 million in revenue refunding bonds with an average interest rate of 3.2 percent were issued to currently refund \$20.6 million of outstanding bonds with an average interest rate of 4 percent. The net proceeds of \$20.8 million (after payment of \$0.2 million in issuance costs plus premium of \$1.5 million) were used to refund the bonds. As a result, the bonds are considered to be refunded and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 20 years by \$3.9 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$3.1 million.

During fiscal year 2021, KUB's Water Division issued Series KK 2020 bonds to fund water system capital improvements. KUB's Water Division also issued Series LL 2021 bonds to retire outstanding Series X 2012, Y 2013, Z 2013 and AA 2014 bonds. On April 19, 2021, \$33.2 million in revenue refunding bonds with an average interest rate of 4.3 percent were issued to currently refund \$41.2 million of outstanding bonds with an average interest rate of 4.3 percent. The net proceeds of \$41.4 million (after payment of \$0.3 million in issuance costs plus premium of \$8.1 million and an additional issuer equity contribution of \$0.4 million) were used to refund the bonds. As a result, the bonds are considered to be refunded and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 23 years by \$10.2 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$9.1 million.

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, 2020, the effective reduction in rebate is 5.7 percent.

During fiscal year 2020, KUB's Wastewater Division issued Series 2019 bonds to fund wastewater system capital improvements. KUB's Wastewater Division also issued Series 2020A bonds to retire a portion of outstanding Series 2010 bonds. On May 22, 2020, \$28.2 million in revenue refunding bonds with an average interest rate of 3.3 percent were issued to currently refund \$30 million of outstanding bonds with an average interest rate of 6.4 percent. The net proceeds of \$30.3 million (after payment of \$0.3 million in issuance costs plus premium of \$2.4 million) were used to refund the bonds. As a result, the bonds are considered to be refunded and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 25 years by \$18.9 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$8.8 million.

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During fiscal year 2021, KUB's Wastewater Division issued Series 2020B bonds to fund wastewater system capital improvements. KUB's Wastewater Division also issued Series 2021A bonds to retire Series 2012A, 2012B, 2013A and 2014A and \$36.6 million of outstanding Series 2010C bonds. On April 19, 2021, \$190.8 million in revenue refunding bonds with an average interest rate of 4.2 percent were issued to currently refund \$238.6 million of outstanding bonds with an average interest rate of 3.6 percent. The net proceeds of \$239 million (after payment of \$0.8 million in issuance costs plus premium of \$48.1 million and an additional issuer equity contribution of \$0.9 million) were used to refund the bonds. As a result, the bonds are considered to be refunded and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 28 years by \$47.2 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$41.8 million.

Other liabilities consist of the following:

	Balance June 30, 2020	Increase	Decrease	Balance June 30, 2021
TVA conservation program	\$ 2,023,948	\$ 113,417	\$ (978,809)	\$ 1,158,556
Accrued compensated absences	10,280,214	16,389,835	(16,328,564)	10,341,485
Customer advances for construction	9,658,968	3,444,365	(2,730,227)	10,373,106
Other	263,388	519,256	(557,366)	225,278
	<u>\$ 22,226,518</u>	<u>\$ 20,466,873</u>	<u>\$ (20,594,966)</u>	<u>\$ 22,098,425</u>

	Balance June 30, 2019	Increase	Decrease	Balance June 30, 2020
TVA conservation program	\$ 3,082,829	\$ 176,370	\$ (1,235,251)	\$ 2,023,948
Accrued compensated absences	9,184,481	16,101,901	(15,006,168)	10,280,214
Customer advances for construction	8,144,729	3,467,243	(1,953,004)	9,658,968
Other	236,604	448,069	(421,285)	263,388
	<u>\$ 20,648,643</u>	<u>\$ 20,193,583</u>	<u>\$ (18,615,708)</u>	<u>\$ 22,226,518</u>

7. Lease Commitments

KUB has non-cancelable operating lease commitments for office equipment, property, and vehicles, summarized for the following fiscal years:

2022	\$ 330,247
2023	61,614
2024	53,014
2025	53,014
2026	39,300
Total operating minimum lease payments	<u>\$ 537,189</u>

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8. Capital Assets

Capital asset activity was as follows:

	Balance				Balance	
	June 30, 2020		Increase		Decrease	June 30, 2021
Production Plant (Intakes)	\$ 742,503	\$	-	\$	-	\$ 742,503
Pumping and Treatment Plant	344,536,047		13,417,677		(3,140,729)	354,812,995
Distribution and Collection Plant						
Mains and metering	1,101,692,451		62,950,741		(12,618,284)	1,152,024,908
Services and meters	234,493,396		10,360,509		(8,997,988)	235,855,917
Electric station equipment	172,157,527		11,953,246		(1,767,048)	182,343,725
Poles, towers and fixtures	197,063,098		23,383,197		(776,179)	219,670,116
Overhead conductors	161,568,836		26,461,659		(7,803,177)	180,227,318
Line transformers	105,096,527		2,378,696		(740,100)	106,735,123
Other accounts	302,760,815		11,561,607		(5,556,742)	308,765,680
Total Distribution & Collection P	\$ 2,274,832,650	\$	149,049,655	\$	(38,259,518)	\$ 2,385,622,787
General Plant	214,312,804		44,653,415		(1,059,831)	257,906,388
Total Plant Assets	\$ 2,834,424,004	\$	207,120,747	\$	(42,460,078)	\$ 2,999,084,673
Less Accumulated Depreciation	(946,215,640)		(97,786,338)		44,563,078	(999,438,900)
Net Plant Assets	\$ 1,888,208,364	\$	109,334,409	\$	2,103,000	\$ 1,999,645,773
Work In Progress	247,571,881		151,176,442		(209,240,414)	189,507,909
Total Net Plant	\$ 2,135,780,245	\$	260,510,851	\$	(207,137,414)	\$ 2,189,153,682
	Balance				Balance	
	June 30, 2019		Increase		Decrease	June 30, 2020
Production Plant (Intakes)	\$ 742,503	\$	-	\$	-	\$ 742,503
Pumping and Treatment Plant	330,416,249		16,032,444		(1,912,647)	344,536,046
Distribution and Collection Plant						
Mains and metering	1,059,317,613		52,233,740		(9,858,902)	1,101,692,451
Services and meters	232,626,565		23,499,929		(21,633,098)	234,493,396
Electric station equipment	162,076,580		11,097,794		(1,016,847)	172,157,527
Poles, towers and fixtures	190,331,961		8,214,374		(1,483,237)	197,063,098
Overhead conductors	159,466,936		6,401,128		(4,299,228)	161,568,836
Line transformers	103,617,680		2,488,983		(1,010,136)	105,096,527
Other accounts	295,372,474		11,447,667		(4,059,326)	302,760,815
Total Distribution & Collection Plant	\$ 2,202,809,809	\$	115,383,615	\$	(43,360,774)	\$ 2,274,832,650
General Plant	186,152,983		29,647,823		(1,488,001)	214,312,805
Total Plant Assets	\$ 2,720,121,544	\$	161,063,882	\$	(46,761,422)	\$ 2,834,424,004
Less Accumulated Depreciation	(917,026,275)		(76,331,498)		47,142,133	(946,215,640)
Net Plant Assets	\$ 1,803,095,269	\$	84,732,384	\$	380,711	\$ 1,888,208,364
Work In Progress	217,073,804		191,689,791		(161,191,714)	247,571,881
Total Net Plant	\$ 2,020,169,073	\$	276,422,175	\$	(160,811,003)	\$ 2,135,780,245

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9. 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. At June 30, 2021 and June 30, 2020, the amount of these liabilities was \$1,936,245 and \$1,720,620, respectively, resulting from the following changes:

	2021	2020
Balance, beginning of year	\$ 1,720,620	\$ 1,911,512
Current year claims and changes in estimates	15,519,699	14,943,377
Claims payments	<u>(15,304,074)</u>	<u>(15,134,269)</u>
Balance, end of year	<u>\$ 1,936,245</u>	<u>\$ 1,720,620</u>

10. 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.

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

	2020	2019
Inactive plan members:		
Terminated vested participants	11	18
Retirees and beneficiaries	593	592
Active plan members	<u>518</u>	<u>551</u>
Total	<u>1,122</u>	<u>1,161</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.

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 3% of the first \$4,800 of annual earnings and 5% of annual earnings in excess of \$4,800. KUB contributions are determined by the enrolled actuary of the Plan and equal 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.

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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, 2020:

Asset Class	Target Allocation
Domestic equity – large cap	20% - 50%
Domestic equity – mid cap	0% - 15%
Domestic equity – small cap	0% - 15%
Domestic equity – convertible securities	0% - 10%
Non-U.S. equity	0% - 20%
Real estate equity	0% - 10%
Fixed income – aggregate bonds	5% - 25%
Fixed income – long-term bonds	10% - 25%
Cash and deposits	0% - 5%

Contributions of \$3,167,680 and \$2,585,824 for 2019 and 2018, respectively, were made during the Plan sponsor's fiscal years ended June 30, 2021 and 2020, respectively. The fiscal year 2021 contribution was determined as part of the January 1, 2019 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.

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, 2021 and 2020 will be based on the December 31, 2020 and 2019 measurement date, respectively.

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

	2020	2019
Total pension liability	\$ 234,363,021	\$ 226,818,557
Plan fiduciary net position	<u>(279,462,309)</u>	<u>(245,939,932)</u>
Plan's net pension liability (asset)	<u>\$ (45,099,288)</u>	<u>\$ (19,121,375)</u>

Plan fiduciary net position as a percentage of the total pension liability	119.24%	108.43%
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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, 2019	\$ 226,818,557	\$ 245,939,932	\$ (19,121,375)
Changes for the year:			
Service cost	5,227,657	-	5,227,657
Interest	16,393,202	-	16,393,202
Changes of Benefits	-	-	-
Differences between Expected and Actual Experience	1,930,170	-	1,930,170
Changes of Assumptions	-	-	-
Contributions - employer	-	2,876,752	(2,876,752)
Contributions - rollovers	-	2,281,793	(2,281,793)
Contributions - member	-	2,934	(2,934)
Net investment income	-	44,822,654	(44,822,654)
Benefit payments	(16,006,565)	(16,006,565)	-
Administrative expense	-	(455,191)	455,191
Net changes	7,544,464	33,522,377	(25,977,913)
Balances at December 31, 2020	\$ 234,363,021	\$ 279,462,309	\$ (45,099,288)

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, 2020, rolled forward to December 31, 2020; January 1, 2019, rolled forward to December 31, 2019
Discount rate	7.25% as of December 31, 2020 and 2019
Salary increases	From 2.50% to 5.65%, based on years of service as of December 31, 2020 and 2019
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, 2020 and 2019
Inflation	2.5% as of December 31, 2020 and 2019

The actuarial assumptions used in the January 1, 2020 and 2019 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, 2020 and 2019 are

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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.

Asset Class	Long Term Expected Real Rate of Return	
	2020	2019
Domestic equity	5.1%	5.5%
Non-U.S. equity	6.4%	6.4%
Real estate equity	5.6%	5.9%
Debt securities	0.9%	1.5%
Cash and deposits	0.2%	0.6%

Discount rate

The discount rate used to measure the total pension liability was 7.25 percent as of December 31, 2020 and 2019. 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 (asset) of the Plan as of December 31, 2020, calculated using the discount rate of 7.25 percent, as well as what the Plan's net pension liability (asset) would be if it were calculated using a discount rate that is one percent lower (6.25 percent) or one percent higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Plan's net pension liability (asset)	\$ (24,234,936)	\$ (45,099,288)	\$ (63,103,448)

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

For the year ended June 30, 2021, KUB recognized pension expense of (\$7,325,254).

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, 2019, this average was 5.00 years. During the measurement year, there was a liability experience loss of \$1,930,170 with \$386,034 of that recognized in the current year and in each of the next four years, resulting in a deferred outflow of \$1,544,136. Unrecognized liability experience gains from prior periods were \$2,088,302 of which \$996,139 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$1,092,163.

During the measurement year, there were no benefit changes or assumption changes. Unrecognized assumption change losses from prior periods were \$6,778,528, of which \$1,694,632 was recognized as an increase in pension expense in the current year and resulted in a deferred outflow of \$5,083,896. Unrecognized assumption change decreases from prior periods were \$729,629, of which \$658,104 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$71,525.

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 \$27,394,477. \$5,478,895 of that 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 \$17,715,210 of which \$4,635,928 was recognized as a decrease in pension expense in the current year. The combination of unrecognized investment gains this year along with the net unrecognized investment gains from prior periods results in a net difference between projected and actual earnings on pension plan investments as of December 31, 2020 of \$34,994,864. The following table summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years. In addition, KUB recorded a deferred outflow of resources of \$1,583,842 at June 30, 2021 for employer contributions made between December 31, 2020 and June 30, 2021.

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,544,136	\$ 1,092,163
Changes in assumptions	5,083,896	71,525
Net difference between projected and actual earnings on pension plan investments	-	34,994,864
Contributions subsequent to measurement date	1,583,842	-
Total	<u>\$ 8,211,874</u>	<u>\$ 36,158,552</u>

\$1,583,842 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, 2022. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2022	\$ (8,815,508)
2023	(5,035,228)
2024	(10,586,921)
2025	(5,092,863)
Thereafter	-

For the year ended June 30, 2020, KUB recognized pension expense of \$2,673,376.

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, 2018, this average was 5.00 years. During the measurement year, there was an experience gain of \$1,054,117 with \$210,822 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of \$843,295. Unrecognized experience gains from prior periods were \$2,408,388 of which \$1,163,381 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$1,245,007.

During the measurement year, there was an assumption change loss of \$8,473,160 with \$1,694,632 of that recognized in the current year and each of the next four years, resulting in a deferred outflow of \$6,778,528. Unrecognized assumption change decreases from prior periods were \$1,387,733 of which \$658,104 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$729,629.

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 \$34,889,331, of which \$6,977,866 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 \$15,614,774 of which \$5,418,519 was recognized as an increase in pension expense in the current year. The combination of unrecognized investment gains this year along with the net unrecognized investment losses from prior periods results in a net difference between projected and actual earnings on pension plan investments as of December 31, 2019 of \$17,715,210. The following table summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years. In addition, KUB recorded a deferred outflow of resources of \$1,292,915 at June 30, 2020 for employer contributions made between December 31, 2019 and June 30, 2020.

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,088,302
Changes in assumptions	6,778,528	729,629
Net difference between projected and actual earnings on pension plan investments	-	17,715,210
Contributions subsequent to measurement date	1,292,915	-
Total	<u>\$ 8,071,443</u>	<u>\$ 20,533,141</u>

11. 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, 2021, there are 487 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. There is currently one member receiving benefits under the QEBA. 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, funded by KUB. There are no assets accumulated in a trust that meets the GASB's criteria.

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, 2021 and 2020 are based on a December 31, 2020 and 2019 measurement date, respectively.

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

	2020	2019
Total pension liability	\$18,714	\$20,236
Deferred outflows	(33,660)	(45,559)
Deferred inflows	23,630	35,445
Net impact on Statement of Net Position	<u>\$8,684</u>	<u>\$10,122</u>
Covered payroll	\$41,524,273	\$40,276,197
Total pension liability as a % of covered payroll	0.05%	0.05%

Changes in total pension liability of the QEBA are as follows:

	<u>Increase (Decrease)</u>
	<u>Total Pension Liability</u>
Balances at December 31, 2019	\$ 20,236
Changes for the year:	
Service cost	-
Interest	388
Changes of Benefits	-
Differences between Expected and Actual Experience	10,165
Changes of Assumptions	91
Benefit payments	(12,166)
Net changes	<u>(1,522)</u>
Balances at December 31, 2020	<u>\$ 18,714</u>

Actuarial Assumptions

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

Valuation dates	December 31, 2020 and December 31, 2019
Actuarial cost method	Individual entry age
Salary increase	From 2.50% to 5.65%, based on years of service as of December 31, 2020 and 2019
Mortality	115% and 110% of the Public Sector General Healthy Annuitant Mortality Table (PubG-2010), 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, 2020 and 2019
Inflation	2.5% as of December 31, 2020 and 2019

The actuarial assumptions used in the December 31, 2020 and 2019 valuations were based on the results of an actuarial experience study for the period January 1, 2014 through December 31, 2018.

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Discount rate

The QEBA is not funded. In accordance with paragraph 31 of GASB 73, the discount rate is based on the Bond Buyer 20-Bond GO index. This rate was 2.12% at December 31, 2020 and 2.74% at December 31, 2019.

Sensitivity of the total pension liability to changes in the discount rate

The following presents the total pension liability of the QEBA as of December 31, 2020, calculated using the discount rate of 2.12 percent, as well as what the QEBA's total pension liability would be if it were calculated using a discount rate that is one percent lower (1.12 percent) or one percent higher (3.12 percent) than the current rate:

	1% Decrease (1.12%)	Current Discount Rate (2.12%)	1% Increase (3.12%)
QEBA's total pension liability	\$ 18,864	\$ 18,714	\$ 18,568

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

For the year ended June 30, 2021, KUB recognized pension expense of \$21,436 for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$22,874), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [\$8,684 - \$10,122 + \$22,874].

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, 2019, this average was 5 years. During the measurement year, there was an experience loss of \$10,165, with \$2,033 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$8,132. There was a deferred inflow at the end of the measurement year of \$14,450 from experience gains in prior years and a deferred outflow of \$2,756 from experience losses in prior years.

During the measurement year, there was an assumption change loss of \$91, with \$18 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$73. There was a deferred inflow at the end of the measurement year of \$9,180 and a deferred outflow of \$22,699 from assumption changes in prior years. In addition, KUB recorded a deferred outflow of resources of \$6,084 at June 30, 2021 for contributions between December 31, 2020 and June 30, 2021.

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	\$ 10,888	\$ 14,450
Changes in assumptions	22,772	9,180
Contributions subsequent to measurement date	6,084	-
Total	<u>\$ 39,744</u>	<u>\$ 23,630</u>

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\$6,084 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2022	\$ 10,340
2023	(7,089)
2024	4,727
2025	2,052
Thereafter	-

For the year ended June 30, 2020, KUB recognized pension expense of (\$199,098) for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$17,636), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [\$10,122 - \$226,856 + \$17,636].

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, 2018, this average was 5 years. During the measurement year, there was an experience loss of \$34, with \$7 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$27. There was a deferred inflow at the end of the measurement year of \$21,675 from experience gains in prior years and a deferred outflow of \$5,473 from experience losses in prior years.

During the measurement year, the Plan was amended to provide automatic increases to retirees for benefits limited under Code §415(d), resulting in a change in benefits of \$218,272 that was recognized in the current year. There was an increase in the total pension liability due to assumption changes of \$13,342, with \$2,668 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$10,674. There was a deferred inflow at the end of the measurement year of \$13,770 and a deferred outflow of \$29,385 from assumption changes in prior years. In addition, KUB recorded a deferred outflow of resources of \$6,083 at June 30, 2020 for contributions between December 31, 2019 and June 30, 2020.

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	\$ 5,500	\$ 21,675
Changes in assumptions	40,059	13,770
Contributions subsequent to measurement date	6,083	-
Total	\$ 51,642	\$ 35,445

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12. 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 3 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 3 percent. They also receive a nonelective KUB contribution of 3 percent to 6 percent, depending on years of service, whether they contribute or not.

KUB funded 401(k) matching contributions and nonelective contributions of \$2,984,314 and \$2,469,273, respectively, for the years ended June 30, 2021 and 2020.

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13. 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 July 1, 1999, KUB closed the OPEB Plan such that persons employed or re-employed by KUB on or after July 1, 1999, are not eligible to participate, but that eligible employees hired prior to July 1, 1999, who are retired and who (prior to retirement) qualified for retiree medical insurance by meeting the “Rule of 80”, the sum of age and at least 20 years of qualified service equal or exceed 80, accrue benefits under the Plan.

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

	<u>2021</u>	<u>2020</u>
Retirees	538	555
Dependents of retirees	579	576
Eligible active employees	160	181
Total	<u>1,277</u>	<u>1,312</u>

Benefits

Other post-employment benefits 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. Only medical and pharmacy are currently provided to eligible retirees.

Contributions and Plan 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.

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

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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 plan 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 \$262.50 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 \$262.50 for single coverage and \$525 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.

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, 2021:

Asset Class	Target Allocation
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 \$757,226 and \$311,324 were made to the OPEB Trust in fiscal years ended June 30, 2021 and 2020, respectively. These were based on the OPEB Plan’s actuarial valuations as of January 1, 2019, and 2018.

Net OPEB Liability (Asset)

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

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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, 2021 and 2020 and the Total OPEB Liability as of the valuation date, January 1, 2020 updated to June 30, 2021, and January 1, 2019 updated to June 30, 2020, respectively.

The components of the net OPEB liability (asset) of the Trust are as follows as of June 30:

	2021	2020
Total OPEB liability	\$ 51,515,118	\$ 54,544,240
Plan fiduciary net position	57,446,946	46,954,793
Net OPEB (asset) liability	<u>\$ (5,931,828)</u>	<u>\$ 7,589,447</u>
Plan fiduciary net position as a percentage of the total OPEB liability	111.51%	86.09%

Changes in Net OPEB Liability (Asset) are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2020	\$ 54,544,240	\$ 46,954,793	\$ 7,589,447
Changes for the year:			
Service cost	283,786	-	283,786
Interest	3,861,304	-	3,861,304
Changes of Benefits	-	-	-
Differences between Expected and Actual Experience	42,802	-	42,802
Changes of Assumptions	(4,105,835)	-	(4,105,835)
Contributions - employer	-	757,226	(757,226)
Contributions - member	-	-	-
Net investment income	-	12,890,602	(12,890,602)
Benefit payments	(3,111,179)	(3,111,179)	-
Administrative expense	-	(44,496)	44,496
Net changes	<u>(3,029,122)</u>	<u>10,492,153</u>	<u>(13,521,275)</u>
Balances at June 30, 2021	<u>\$ 51,515,118</u>	<u>\$ 57,446,946</u>	<u>\$ (5,931,828)</u>

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, 2020, rolled forward to June 30, 2021; January 1, 2019, rolled forward to June 30, 2020
Discount rate:	7.25% as of January 1, 2020 and 2019
Healthcare cost trend rates:	Pre-Medicare: 6.75% grading down to 4.04% over 20 years as of January 1, 2020; 7.83% grading down to 4.50% over 19 years as of January 1, 2019 Medicare: 6.30% grading down to 4.04% over 20 years as of January 1, 2020; 6.88% grading down to 4.50% over 19 years as of January 1, 2019 Administrative expenses: 3.0% per year

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Salary increases:	From 2.50% to 5.65%, based on years of service as of January 1, 2020 and 2019
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 Healthy Annuitant Mortality Table, both projected using scale MP2018 fully generational as of January 1, 2020 and 2019
Inflation:	2.50% as of January 1, 2020 and 2019

The actuarial assumptions used in the January 1, 2020 and January 1, 2019 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.

Asset Class	Long Term Expected Real Rate of Return	
	2021	2020
Domestic equity	4.9%	5.4%
International equity	5.9%	6.4%
Emerging Market equity	8.4%	9.3%
Real estate equity	5.4%	5.8%
Debt securities	0.5%	0.2%
Cash and deposits	(0.1%)	(0.2%)

Discount rate

The discount rate used to measure the total OPEB liability was 7.25 percent as of June 30, 2021 and 2020. 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 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.

Knoxville Utilities Board
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

Sensitivity of the net OPEB liability (asset) to changes in the discount rate.

The following presents the net OPEB liability (asset) of the Trust as of June 30, 2021, calculated using the discount rate of 7.25 percent, as well as what the Trust's net OPEB liability (asset) would be if it were calculated using a discount rate that is 1 percent lower (6.25 percent) or 1 percent higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net OPEB liability (asset)	\$(1,051,843)	\$(5,931,828)	\$(10,060,704)

Sensitivity of the net OPEB liability (asset) to changes in the healthcare cost trend rates.

The following presents the net OPEB liability (asset) of the Trust as of June 30, 2021, as well as what the Trust's net OPEB liability(asset) would be if it were calculated using a healthcare cost trend rate that is 1 percent lower or 1 percent higher than the current rate:

	1% Decrease	Baseline Trends	1% Increase
Net OPEB liability (asset)	\$(10,845,460)	\$(5,931,828)	\$(217,229)

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

For the year ended June 30, 2021, KUB recognized OPEB expense of (\$648,134).

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 2.0 years. During the measurement year, there was an experience loss of \$42,802, with \$21,401 of that recognized in the current year and the remaining amount will be recognized in the next year, resulting in a deferred outflow of resources of \$21,401. Unrecognized experience losses from prior periods were \$21,951, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there was a decrease in the Total OPEB Liability due to assumption changes of \$4,105,835, with \$2,052,918 of that recognized in the current year and in the next year, resulting in a deferred inflow of \$2,052,917. Unrecognized assumption changes from prior periods were \$1,802,421, of which the entire amount is recognized as an increase in OPEB expense in the current year.

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 \$9,571,802, of which \$1,914,360 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 \$2,354,338, of which \$602,585 was recognized as an increase in OPEB expense in the current year. The combination of unrecognized gains this year along with the net unrecognized investment losses from prior periods results in a net difference between projected and actual earnings on OPEB plan investments as of June 30, 2021 of \$5,905,689. The following table summarizes the current balances of deferred outflows and deferred inflows of resources.

Knoxville Utilities Board
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 21,401	\$ -
Changes in assumptions	-	2,052,917
Net difference between projected and actual earnings on OPEB plan investments	-	5,905,689
Total	<u>\$ 21,401</u>	<u>\$ 7,958,606</u>

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

Year ended June 30:	
2022	\$ (3,343,290)
2023	(1,281,013)
2024	(1,398,540)
2025	(1,914,362)
2026	-
Thereafter	-

For the year ended June 30, 2020, KUB recognized OPEB expense of \$4,767,499.

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 2.0 years. During the measurement year, there was an experience loss of \$43,902, with \$21,951 of that recognized in the current year and the remaining amount will be recognized in the next year, resulting in a deferred outflow of resources of \$21,951. Unrecognized experience losses from prior periods were \$499,549, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there were benefit changes that decreased the expense by \$202,408. There was an increase in the Total OPEB Liability due to assumption changes of \$3,604,843, with \$1,802,422 of that recognized in the current year and in the next year, resulting in a deferred outflow of \$1,802,421. Unrecognized assumption changes from prior periods were \$1,615,800, of which the entire amount is recognized as an increase in OPEB expense in the current year.

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 \$2,579,092, of which \$515,818 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred outflow of resources as of June 30, 2020 of \$2,063,274. Net unrecognized investment losses from prior periods were \$377,831, of which \$86,767 was recognized as an increase in OPEB expense in the current year and resulting in a net deferred outflow of \$291,064. The following table summarizes the current balances of deferred outflows and deferred inflows of resources.

Knoxville Utilities Board
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 21,951	\$ -
Changes in assumptions	1,802,421	-
Net difference between projected and actual earnings on OPEB plan investments	<u>2,354,338</u>	<u>-</u>
Total	<u>\$ 4,178,710</u>	<u>\$ -</u>

14. 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, 2021 and 2020 are summarized as follows:

	2021	2020
City of Knoxville		
Amounts billed by KUB for utilities and related services	\$ 12,420,849	\$ 12,615,466
Payments by KUB in lieu of property tax	21,003,825	20,036,911
Payments by KUB for services provided	3,354,318	1,721,989

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

	2021	2020
Accounts receivable	\$ 914,091	\$ 773,461

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Knoxville Utilities Board
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

15. Natural Gas Supply Contract Commitments

For fiscal year 2021, the Gas Division hedged 22.8 percent of its total gas purchases via gas supply contracts. As of June 30, 2021, the Gas Division had hedged the price on approximately 9 percent of its anticipated gas purchases for fiscal year 2022.

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

Firm obligations related to purchased gas – demand

	2022	2023	2024	2025	2026
Transportation					
Tennessee Gas Pipeline	\$ 3,400,632	\$ 3,400,632	\$ 3,400,632	\$ 3,400,632	\$ 1,133,544
East Tennessee Natural Gas	16,430,230	16,430,230	16,430,230	16,430,230	4,486,060
Texas Eastern	328,500	328,500	328,500	328,500	109,500
Storage					
Tennessee Gas Pipeline	1,565,472	1,565,472	1,565,472	1,565,472	521,824
East Tennessee Natural Gas	1,678,900	1,678,900	1,678,900	1,678,900	-
Saltville Natural Gas	2,000,160	1,655,130	620,040	465,030	-
Bobcat	162,000	54,000	-	-	-
Demand Total	<u>\$ 25,565,894</u>	<u>\$ 25,112,864</u>	<u>\$ 24,023,774</u>	<u>\$ 23,868,764</u>	<u>\$ 6,250,928</u>

Firm obligations related to purchased gas – commodity

	2022	2023	2024	2025	2026	2027-2052
Baseload						
Shell Energy North America	\$ 491,648	\$ -	\$ -	\$ -	\$ -	\$ -
ConocoPhillips	1,564,540	-	-	-	-	-
BP Energy Company	481,160	-	-	-	-	-
CNX	3,345,708	-	-	-	-	-
Sequent Energy Management	2,248,772	-	-	-	-	-
Tennergy Corporation	<u>2,184,282</u>	<u>2,598,519</u>	<u>2,382,181</u>	<u>2,410,209</u>	<u>2,382,534</u>	<u>65,737,338</u>
Commodity Total	<u>\$ 10,316,110</u>	<u>\$ 2,598,519</u>	<u>\$ 2,382,181</u>	<u>\$ 2,410,209</u>	<u>\$ 2,382,534</u>	<u>\$ 65,737,338</u>

The total commodity values presented here are based upon firm supply obligations with each individual natural gas supplier. The firm obligations value for BP Energy Company, ConocoPhillips, and Shell Energy North America are based upon firm supply obligations and locked prices with those suppliers. The firm obligations value for CNX and Sequent Energy Management are based upon firm supply obligations and the applicable Transco Zone 5 and NYMEX strip prices on June 30, 2021. The firm obligations value for Tennergy Corporation is based upon a 30 year prepay gas contract valued at the applicable Tennessee Zone 0 strip prices on June 30, 2021.

16. 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.

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

In February 2005, a Consent Decree was entered into federal court regarding the operation of KUB's wastewater system. Under the terms of the Consent Decree, the remediation of identified sanitary sewer overflows (SSOs) on KUB's wastewater system had to be completed by June 30, 2016. KUB completed all the requirements of the Consent Decree for the collection system two years in advance of the deadline.

The Consent Decree also required KUB to perform an evaluation of the wet weather performance and capacity of its wastewater treatment plants. In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB's Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provides for a biologically enhanced high-rate clarification (the BEHRC) secondary treatment system to be installed at the Fourth Creek treatment plant and at the Kuwahee treatment plant. KUB successfully completed the installation of the BEHRC system at the Fourth Creek treatment plant. Work is currently ongoing at the Kuwahee treatment plant and project completion is scheduled for early 2022. The total cost of such improvements at the Kuwahee treatment plant is estimated to be approximately \$50 million.

KUB's funding plan for the Consent Decree includes long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all types of wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2021, the Wastewater Division had issued \$583.7 million in bonds to fund wastewater system capital improvements since the inception of the Consent Decree. The Board approved two 50 percent rate increases, which went into effect in April 2005 and January 2007. The Board also approved an 8 percent rate increase, which was effective in September 2008, two 12 percent rate increases, which were effective in April 2011 and October 2012, three 6 percent rate increases, which were effective October 2014, October 2015, and October 2016, and three 5 percent rate increases, which were effective July 2017, July 2018, and July 2019. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

KUB successfully completed the first cycle of Maintenance Operation Management (MOM) requirements one year before the deadline by inspecting manholes and gravity mains, smoke testing gravity mains, performing required inspections of pump stations and the related force mains, and completing all Corrective Action Plan/Engineering Report (CAP/ER) projects. KUB initiated the second MOM cycle that continues to focus on the prevention of SSOs. As part of the Century II initiative, formally known as the PACE10 program, KUB has installed storage tanks providing 34 million gallons of wastewater storage to control wet weather overflows and rehabilitated or replaced 423 miles of collection system pipe. KUB also continues to maintain a proactive operations and maintenance plan for the wastewater collection system including inspection, grease control, and private lateral enforcement. The result of the PACE10/Century II initiative has been an 80 percent reduction in SSOs.

As of June 30, 2021, the Wastewater Division had completed its 17th full year under the Consent Decree, spending \$575.9 million on capital investments to meet Consent Decree requirements.

KUB's management anticipates the full completion of final required projects under the Consent Decree in fiscal year 2022, and the closure of the Consent Decree by the applicable regulatory authorities.

Knoxville Utilities Board
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

17. Risks and Uncertainties

During March 2020, a global pandemic was declared related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). The pandemic has significantly impacted the economic conditions across the nation as federal, state, and local governments react to the public health crisis, creating significant uncertainties in the economy. This situation is rapidly changing, and additional impacts may arise. While the disruption is currently expected to be temporary, there is uncertainty around its duration. The ultimate future impact, if any, of the pandemic on results of operations, financial position, liquidity or capital resources cannot be reasonably estimated at this time.

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Knoxville Utilities Board
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

18. 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

	2021			
	Electric	Gas	Water	Wastewater
Assets and Deferred Outflows of Resources				
Current assets	\$ 137,403,146	\$ 50,974,811	\$ 40,263,646	\$ 70,420,649
Restricted assets	18,921,704	2,711,802	4,287,800	7,665,859
Net capital assets	691,360,855	316,892,582	370,925,234	809,975,010
Other assets	38,245,118	20,155,994	19,909,856	20,470,113
Total assets	\$ 885,930,823	\$ 390,735,189	\$ 435,386,536	\$ 908,531,631
Deferred outflows of resources	3,971,049	1,406,413	3,601,619	15,027,097
Total assets and deferred outflows of resources	\$ 889,901,872	\$ 392,141,602	\$ 438,988,155	\$ 923,558,728
Liabilities and Deferred Inflows of Resources				
Current liabilities	\$ 124,553,560	\$ 18,348,480	\$ 12,748,598	\$ 24,109,000
Other liabilities	14,177,091	4,204,821	1,803,216	2,359,361
Long-term debt	286,588,420	94,618,668	207,473,371	523,665,353
Total liabilities	\$ 425,319,071	\$ 117,171,969	\$ 222,025,185	\$ 550,133,714
Deferred inflows of resources	21,248,513	7,597,539	5,738,303	9,710,973
Total liabilities and deferred inflows of resources	\$ 446,567,584	\$ 124,769,508	\$ 227,763,488	\$ 559,844,687
Net position				
Net investment in capital assets	\$ 384,825,723	\$ 214,218,766	\$ 161,247,461	\$ 289,031,630
Restricted	14,545,852	1,733,025	2,145,297	3,331,229
Unrestricted	43,962,713	51,420,303	47,831,909	71,351,182
Total net position	\$ 443,334,288	\$ 267,372,094	\$ 211,224,667	\$ 363,714,041

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Knoxville Utilities Board
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

Condensed Statement of Net Position

	2020			
	Electric	Gas	Water	Wastewater
Assets and Deferred Outflows of Resources				
Current assets	\$ 142,596,498	\$ 56,645,627	\$ 47,015,529	\$ 61,096,595
Restricted assets	19,873,861	3,332,858	4,461,765	8,324,586
Net capital assets	677,193,326	308,721,806	363,225,158	786,639,955
Other assets	19,023,379	8,707,713	7,624,866	16,520,282
Total assets	\$ 858,687,064	\$ 377,408,004	\$ 422,327,318	\$ 872,581,418
Deferred outflows of resources	8,535,096	3,059,739	4,534,363	17,107,374
Total assets and deferred outflows of resources	\$ 867,222,160	\$ 380,467,743	\$ 426,861,681	\$ 889,688,792
Liabilities and Deferred Inflows of Resources				
Current liabilities	\$ 120,647,893	\$ 17,800,407	\$ 13,412,671	\$ 23,918,117
Other liabilities	19,638,654	5,372,728	2,778,648	3,894,801
Long-term debt	305,318,174	103,658,568	205,659,293	511,453,164
Total liabilities	\$ 445,604,721	\$ 126,831,703	\$ 221,850,612	\$ 539,266,082
Deferred inflows of resources	9,872,921	3,496,660	2,673,916	4,525,089
Total liabilities and deferred inflows of resources	\$ 455,477,642	\$ 130,328,363	\$ 224,524,528	\$ 543,791,171
Net position				
Net investment in capital assets	\$ 356,245,321	\$ 198,777,130	\$ 155,728,467	\$ 279,477,265
Restricted	14,185,852	2,113,135	2,240,297	3,646,433
Unrestricted	41,313,345	49,249,115	44,368,389	62,773,923
Total net position	\$ 411,744,518	\$ 250,139,380	\$ 202,337,153	\$ 345,897,621

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Knoxville Utilities Board
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

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

	2021			
	Electric	Gas	Water	Wastewater
Operating revenues	\$ 553,901,761	\$ 115,415,560	\$ 61,800,494	\$ 100,362,719
Operating expenses	470,503,655	79,373,288	31,025,410	40,063,197
Provision for depreciation	40,182,922	15,394,291	11,547,547	22,941,889
Total operating expenses	<u>510,686,577</u>	<u>94,767,579</u>	<u>42,572,957</u>	<u>63,005,086</u>
Operating income	43,215,184	20,647,981	19,227,537	37,357,633
Non-operating expense	<u>(11,625,414)</u>	<u>(3,433,849)</u>	<u>(10,661,431)</u>	<u>(20,184,213)</u>
Change in net position before capital contributions	31,589,770	17,214,132	8,566,106	17,173,420
Capital contributions	-	18,582	321,408	643,000
Change in net position	<u>31,589,770</u>	<u>17,232,714</u>	<u>8,887,514</u>	<u>17,816,420</u>
Net position				
Beginning of year	411,744,518	250,139,380	202,337,153	345,897,621
End of year	<u>\$ 443,334,288</u>	<u>\$ 267,372,094</u>	<u>\$ 211,224,667</u>	<u>\$ 363,714,041</u>

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

	2020			
	Electric	Gas	Water	Wastewater
Operating revenues	\$ 547,686,983	\$ 102,565,268	\$ 62,473,524	\$ 101,335,524
Operating expenses	481,441,378	70,871,519	31,203,340	41,695,761
Provision for depreciation	29,994,212	12,910,308	10,039,955	19,881,198
Total operating expenses	<u>511,435,590</u>	<u>83,781,827</u>	<u>41,243,295</u>	<u>61,576,959</u>
Operating income	36,251,393	18,783,441	21,230,229	39,758,565
Non-operating expense	<u>(9,723,555)</u>	<u>(3,005,797)</u>	<u>(6,961,046)</u>	<u>(18,749,276)</u>
Change in net position before capital contributions	26,527,838	15,777,644	14,269,183	21,009,289
Capital contributions	169,009	-	56,388	191,674
Change in net position	<u>26,696,847</u>	<u>15,777,644</u>	<u>14,325,571</u>	<u>21,200,963</u>
Net position				
Beginning of year	385,047,671	234,361,736	188,011,582	324,696,658
End of year	<u>\$ 411,744,518</u>	<u>\$ 250,139,380</u>	<u>\$ 202,337,153</u>	<u>\$ 345,897,621</u>

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Knoxville Utilities Board
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

Condensed Statement of Cash Flows

	2021			
	Electric	Gas	Water	Wastewater
Net cash provided by operating activities	\$ 78,765,085	\$ 34,626,665	\$ 30,062,416	\$ 60,489,783
Net cash used in capital and related financing activities	(82,847,278)	(34,425,173)	(28,004,235)	(52,404,572)
Net cash provided by (used in) investing activities	729,457	(357,609)	2,731,612	10,566,205
Net increase (decrease) in cash and cash equivalents	(3,352,736)	(156,117)	4,789,793	18,651,416
Cash and cash equivalents, beginning of year	43,327,171	24,154,798	20,235,168	11,728,383
Cash and cash equivalents, end of year	<u>\$ 39,974,435</u>	<u>\$ 23,998,681</u>	<u>\$ 25,024,961</u>	<u>\$ 30,379,799</u>

Condensed Statement of Cash Flows

	2020			
	Electric	Gas	Water	Wastewater
Net cash provided by operating activities	\$ 101,059,249	\$ 35,346,474	\$ 33,606,169	\$ 58,659,248
Net cash used in capital and related financing activities	(98,741,103)	(42,362,688)	(27,054,805)	(70,838,936)
Net cash provided by (used in) investing activities	15,551,456	(16,935)	922,460	1,674,991
Net increase (decrease) in cash and cash equivalents	17,869,602	(7,033,149)	7,473,824	(10,504,697)
Cash and cash equivalents, beginning of year	25,457,569	31,187,947	12,761,344	22,233,080
Cash and cash equivalents, end of year	<u>\$ 43,327,171</u>	<u>\$ 24,154,798</u>	<u>\$ 20,235,168</u>	<u>\$ 11,728,383</u>

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Knoxville Utilities Board
Required Supplementary Information - Schedule of Changes in Net Pension Liability and Related Ratios
June 30, 2021

	*Year ended December 31						
	2020	2019	2018	2017	2016	2015	2014
Total pension liability							
Service cost	\$ 5,227,657	\$ 6,142,213	\$ 5,095,488	\$ 4,607,486	\$ 4,226,985	\$ 4,157,062	\$ 4,092,808
Interest	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	1,930,170	(1,054,117)	(605,649)	(1,087,161)	(2,233,762)	(1,890,334)	-
Changes of assumptions	-	8,473,160	-	(357,633)	(2,932,883)	-	-
Benefit payments, including refunds of member contributions	(16,006,565)	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)	(15,533,167)
Net change in total pension liability	7,544,464	14,660,606	4,559,218	3,207,995	(111,612)	1,728,586	3,258,298
Total pension liability - beginning	226,818,557	212,157,951	207,598,733	204,390,738	204,502,350	202,773,764	199,515,466
Total pension liability - ending (a)	\$ 234,363,021	\$ 226,818,557	\$ 212,157,951	\$ 207,598,733	\$ 204,390,738	\$ 204,502,350	\$ 202,773,764
Plan fiduciary net position							
Contributions - employer	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541
Contributions - participants	2,284,727	3,170,825	2,081,125	1,488,632	555,075	487,546	475,854
Net investment income	44,814,914	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)	22,292,369
Other additions	7,740	13,579	62,616	82,239	45,848	30,879	29,733
Benefit payments, including refunds of member contributions	(15,962,565)	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)	(15,405,167)
Administrative expense	(455,191)	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)	(378,085)
Death benefits	(44,000)	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)	(128,000)
Net change in plan fiduciary net position**	33,522,377	40,431,737	(21,868,910)	22,862,426	5,052,489	(9,333,204)	12,795,245
Plan fiduciary net position - beginning**	245,939,932	205,508,195	227,377,105	204,514,679	199,462,190	208,795,394	196,000,149
Plan fiduciary net position - ending (b)**	\$ 279,462,309	\$ 245,939,932	\$ 205,508,195	\$ 227,377,105	\$ 204,514,679	\$ 199,462,190	\$ 208,795,394
Plan's net pension liability - ending (a) - (b)	\$ (45,099,288)	\$ (19,121,375)	\$ 6,649,756	\$ (19,778,372)	\$ (123,941)	\$ 5,040,160	\$ (6,021,630)
Plan fiduciary net position as a percentage of the total pension liability	119.24%	108.43%	96.87%	109.53%	100.06%	97.54%	102.97%
Covered payroll	\$ 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	(108.61%)	(47.48%)	15.78%	(45.67%)	(0.28%)	11.34%	(13.66%)

Notes to Schedule:

* Information not reflected prior to 2014 due to changes in actuary methodologies required under GASB 67, which was implemented in 2014.

** 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, 2021

	*Year ended December 31						
	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 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	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	\$ 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	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, 2019 and January 1, 2018

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Individual entry age

Asset valuation method: 5-year smoothed market

Amortization method: Level dollar, 30-year closed period with 22 years remaining (23 years as of January 1, 2018), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2019 and 2018, the unfunded liability was negative.

Discount rate: 7.5%

Salary increases: As of January 1, 2019: 2.50% to 5.65%, based on years of service
As of January 1, 2018: 2.80% to 5.15%, based on years of service

Mortality: As of January 1, 2019: 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
As of January 1, 2018: Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA

Inflation: 2.5% as of January 1, 2019 and 2.8% as of January 1, 2018

* Schedule of Employer Contribution information is not reflected prior to 2014 due to changes in actuary methodologies required under GASB 67, which was implemented 2014. 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, 2021

	*Year ended June 30			
	2021	2020	2019	2018
Total OPEB liability				
Service cost	\$ 283,786	\$ 256,270	\$ 270,515	\$ 202,603
Interest	3,861,304	3,672,291	3,624,737	3,295,240
Change of benefit terms	-	(202,408)	-	-
Differences between expected and actual experience	42,802	43,902	999,098	1,324,769
Changes of assumptions	(4,105,835)	3,604,843	3,231,601	(397,180)
Benefit payments	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Net change in total OPEB liability	<u>(3,029,122)</u>	<u>4,346,302</u>	<u>4,593,507</u>	<u>1,126,693</u>
Total OPEB liability - beginning	54,544,240	50,197,938	45,604,431	44,477,738
Total OPEB liability - ending (a)	<u>\$ 51,515,118</u>	<u>\$ 54,544,240</u>	<u>\$ 50,197,938</u>	<u>\$ 45,604,431</u>
Plan fiduciary net position				
Contributions - employer	\$ 757,226	\$ 311,324	\$ -	\$ -
Net investment income	12,890,602	975,155	2,981,928	3,705,473
Benefit payments	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	(44,496)	(53,286)	(54,787)	(51,668)
Net change in plan fiduciary net position	<u>10,492,153</u>	<u>(1,795,403)</u>	<u>(605,303)</u>	<u>355,066</u>
Plan fiduciary net position - beginning	46,954,793	48,750,196	49,355,499	49,000,433
Plan fiduciary net position - ending (b)	<u>\$ 57,446,946</u>	<u>\$ 46,954,793</u>	<u>\$ 48,750,196</u>	<u>\$ 49,355,499</u>
Net OPEB liability (asset) - ending (a) - (b)	<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	111.51%	86.09%	97.12%	108.23%
Covered employee payroll	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	(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.

See accompanying Independent Auditor's Report

Knoxville Utilities Board
Required Supplementary Information – Schedule of Employer OPEB Contributions
June 30, 2021

	*Year ended June 30			
	2021	2020	2019	2018
Actuarially determined contribution	\$ 757,226	\$ 311,324	\$ -	\$ -
Contribution in relation to the annual required contribution	<u>757,226</u>	<u>311,324</u>	<u>-</u>	<u>-</u>
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Contributions as a percentage of covered employee payroll	3.51%	1.33%	0.00%	0.00%

Notes to Schedule:

Valuation Date:	January 1, 2019 and January 1, 2018
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:	Level dollar, 30-year closed period with 17 years remaining as of January 1, 2019 (18 years as of January 1, 2018), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2019, the unfunded liability was positive and negative as of January 1, 2018
Discount rate:	7.5%
Healthcare cost trend rate:	Pre-Medicare: 7.83% grading down to 4.50% over 19 years as of January 1, 2019; 8.00% grading down to 4.50% over 20 years as of January 1, 2018 Medicare: 6.88% grading down to 4.50% over 19 years as of January 1, 2019; 7.00% grading down to 4.50% over 20 years as of January 1, 2018 Administrative expenses: 3.0% per year
Salary increases:	From 2.50% to 5.65%, based on years of service as of January 1, 2019; From 2.80% to 5.15%, based on years of service as of January 1, 2018
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 as of January 1, 2019; Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA as of January 1, 2018
Inflation:	2.5% as of January 1, 2019; 2.8% as of January 1, 2018
Investment rate of return:	7.5%
Retirement age:	2% at ages 50-57 at January 1, 2019 and January 1, 2018, 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, 2021

	*Year ended December 31				
	2020	2019	2018	2017	2016
Total pension liability					
Service cost	\$ -	\$ -	\$ 941	\$ 584	\$ -
Interest (includes interest on service cost)	388	9,181	9,676	7,535	-
Changes of benefit terms	-	(218,272)	-	-	185,077
Differences between expected and actual experience	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)	(15,932)	-	-	-
Net change in total pension liability	(1,522)	(211,647)	(48,458)	95,264	185,077
Total pension liability - beginning	20,236	231,883	280,341	185,077	-
Total pension liability - ending	<u>\$ 18,714</u>	<u>\$ 20,236</u>	<u>\$ 231,883</u>	<u>\$ 280,341</u>	<u>\$ 185,077</u>
Covered payroll	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747
Total pension liability as a percentage of covered payroll	0.05%	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 and
State Financial Assistance
June 30, 2021

<u>Federal Grantor/ Pass-Through Grantor</u>	<u>Program Name</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	PA-04-TN-4427-PW-00438	\$ 213,806
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	PA-04-TN-4427-PW-00478	\$ 365,429
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	PA-04-TN-4427-PW-00563	\$ 13,160
Total Program 97.036				<u>\$ 592,395</u>
Total Federal Awards				<u>\$ 592,395</u>

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards and State Financial Assistance includes the federal award related grant activity of Knoxville Utilities Board and is presented on the accrual basis of accounting. The expenditures reported in the Schedule of Expenditures and State Financial Assistance were incurred in fiscal years 2019 and 2020. In accordance with the requirements of CFDA 97.036, the expenditures have been reported in fiscal year 2021 when the grant was approved by the Federal Emergency Management Association. 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, 2021
(Unaudited)

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.

Pollution Legal Liability

New conditions coverage for losses exceeding specified amount per occurrence (\$1,000,000). Limits of coverage - \$20,000,000.

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 sublimits); \$2,500,000 deductible per occurrence.

Travel Accident

Covers losses related to employees' business travel. Limits of coverage - \$3,000,000 aggregate.

Excess Insurance for General Liability

As a government entity, KUB's liability is limited under the Tennessee Governmental Tort Liability Act (TCA §29-20-403). KUB is self-insured for up to the first \$700,000 of any accident and has insurance of \$1,000,000 above this 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 in excess of \$600,000 per individual participant.

Cyber Security Liability

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

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, 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, 2021, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements, and have issued our report thereon dated October 25, 2021.

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 may exist that have not been identified.

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

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 25, 2021

Knoxville Utilities Board
Schedule of Findings and Questioned Costs
June 30, 2021

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
Noncompliance material to financial statements:	No

Section II -- Financial Statement Findings

None reported.

Section III -- Findings Required by the State of Tennessee Audit Manual

None reported.

Section IV -- Summary Schedule of Prior Year Audit Findings

Not applicable as there were no prior year findings reported.