



Consolidated

Financial Statements and Supplemental Information June 30, 2024 and 2023

KUB Board of Commissioners

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Knoxville Utilities Board

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Independent Auditor's Report

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 27 and the required supplementary information on pages 74 through 78 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Knoxville Utilities Board
Knoxville, Tennessee

Supplemental Information

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

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2024, on our consideration of KUB’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KUB’s internal control over financial reporting and compliance.

Coulter & Justus, P. C.

Knoxville, Tennessee
October 23, 2024

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2024 and 2023

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

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

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

Consolidated Highlights

System Highlights

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

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

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

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

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

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

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

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

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

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

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

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

Century II Infrastructure Program

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

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

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

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

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Management's Discussion and Analysis

June 30, 2024 and 2023

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

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

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

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

Fiber Network

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

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

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

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Management's Discussion and Analysis

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

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

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

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

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

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

Financial Highlights

Fiscal Year 2024 Compared to Fiscal Year 2023

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

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

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

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

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

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

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2024 and 2023

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

Fiscal Year 2023 Compared to Fiscal Year 2022

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

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

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

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

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

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

Knoxville Utilities Board Consolidated Financial Statements

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

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

Statement of Net Position

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

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Management's Discussion and Analysis

June 30, 2024 and 2023

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

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

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

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

Statement of Revenues, Expenses and Changes in Net Position

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

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

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

Statement of Cash Flows

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

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

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

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

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

Normal Impacts on Statement of Net Position

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

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

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2024 and 2023

Impacts and Analysis

Current, Restricted, Intangible, and Other Assets

Fiscal Year 2024 Compared to Fiscal Year 2023

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

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

Fiscal Year 2023 Compared to Fiscal Year 2022

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

Capital Assets

Fiscal Year 2024 Compared to Fiscal Year 2023

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

Fiscal Year 2023 Compared to Fiscal Year 2022

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

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

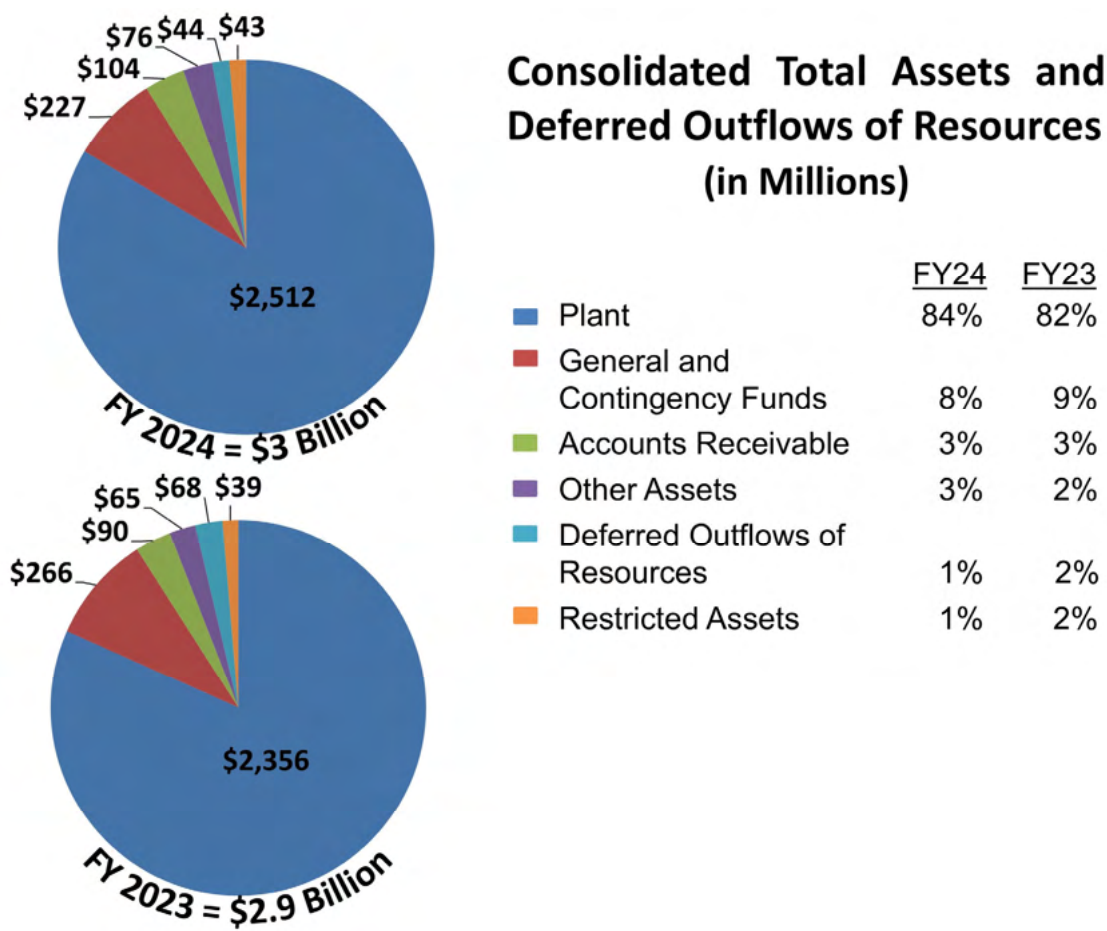
Deferred Outflows of Resources

Fiscal Year 2024 Compared to Fiscal Year 2023

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

Fiscal Year 2023 Compared to Fiscal Year 2022

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



Current and Other Liabilities

Fiscal Year 2024 Compared to Fiscal Year 2023

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

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

Fiscal Year 2023 Compared to Fiscal Year 2022

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

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

Long-term Debt

Fiscal Year 2024 Compared to Fiscal Year 2023

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

Fiscal Year 2023 Compared to Fiscal Year 2022

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

Deferred Inflows of Resources

Fiscal Year 2024 Compared to Fiscal Year 2023

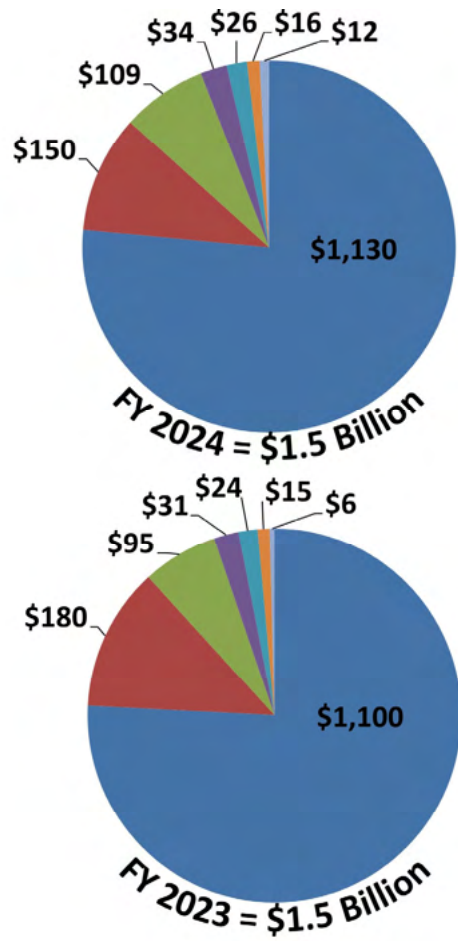
Deferred inflows increased \$6.4 million compared to the prior fiscal year, primarily due to a \$4.8 million increase in lease inflow and a \$1.8 million increase in OPEB inflow.

Fiscal Year 2023 Compared to Fiscal Year 2022

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

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

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

Net Position

Fiscal Year 2024 Compared to Fiscal Year 2023

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

Fiscal Year 2023 Compared to Fiscal Year 2022

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

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Statement of Revenues, Expenses and Changes in Net Position

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

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

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

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

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

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

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

Impacts and Analysis

Change in Net Position

Fiscal Year 2024 Compared to Fiscal Year 2023

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

Fiscal Year 2023 Compared to Fiscal Year 2022

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

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Margin from Sales

Fiscal Year 2024 Compared to Fiscal Year 2023

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

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

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

Fiscal Year 2023 Compared to Fiscal Year 2022

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

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

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

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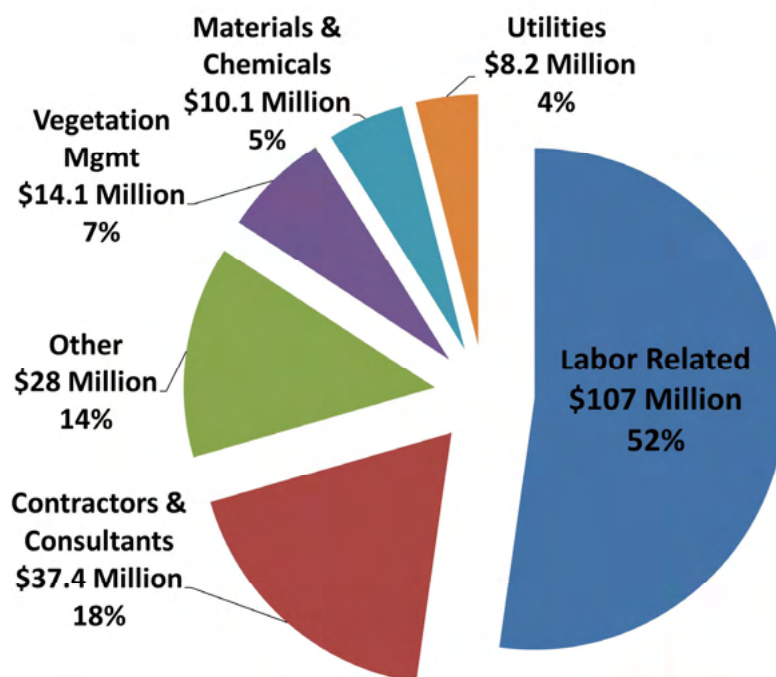
Operating Expenses

Fiscal Year 2024 Compared to Fiscal Year 2023

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

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

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



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

Fiscal Year 2023 Compared to Fiscal Year 2022

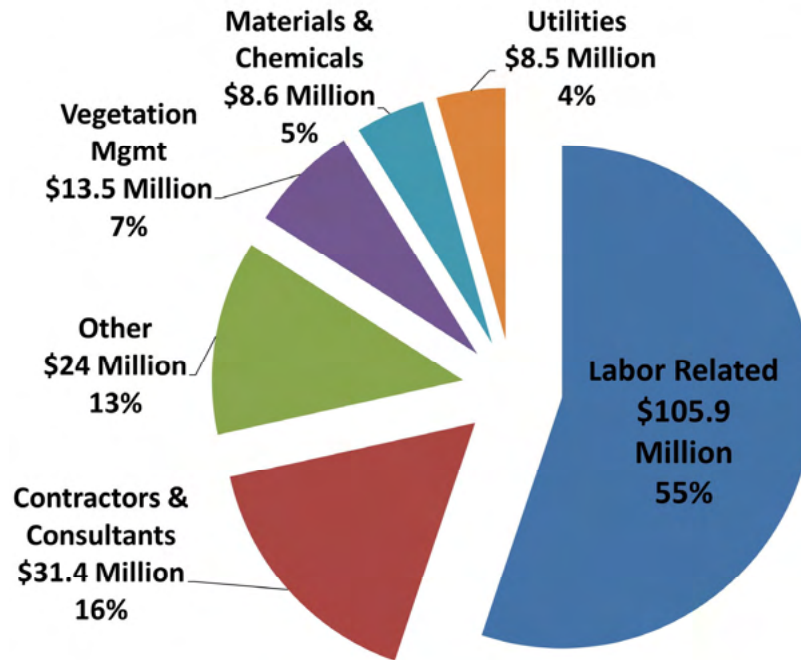
Operating expenses (excluding wholesale purchased energy expense) increased \$51.1 million compared to fiscal year 2022. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as treatment, fiber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

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

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

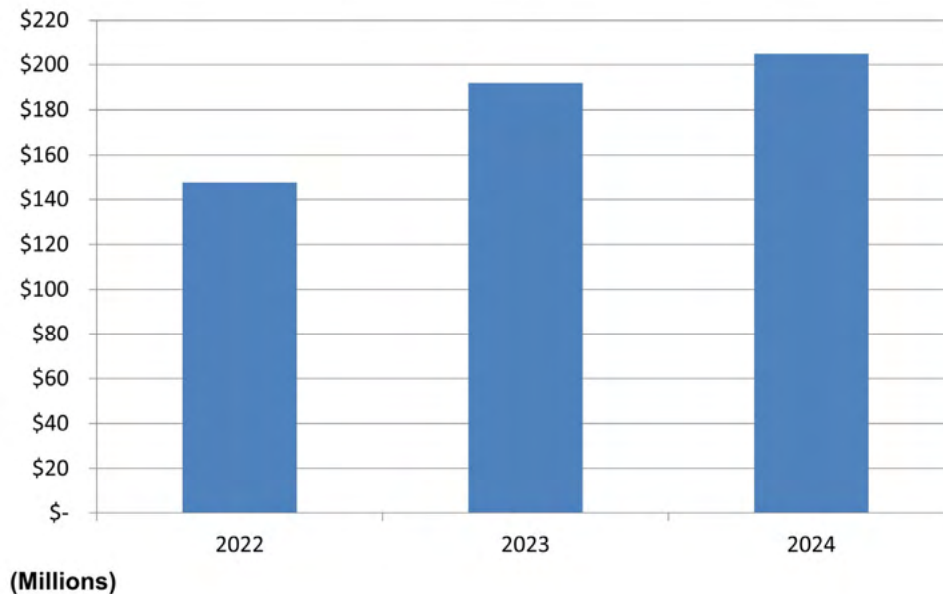


- Depreciation and amortization expense increased \$5.8 million or 6.6 percent. KUB added \$137.4 million in assets during fiscal year 2023. A partial year of depreciation expense was recorded on these capital investments and a full year of depreciation expense was incurred on \$182.5 million in assets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

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Consolidated Operation & Maintenance Expense



Other Income and Expense

Fiscal Year 2024 Compared to Fiscal Year 2023

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

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

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

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

Fiscal Year 2023 Compared to Fiscal Year 2022

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

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

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

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

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Capital Assets

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

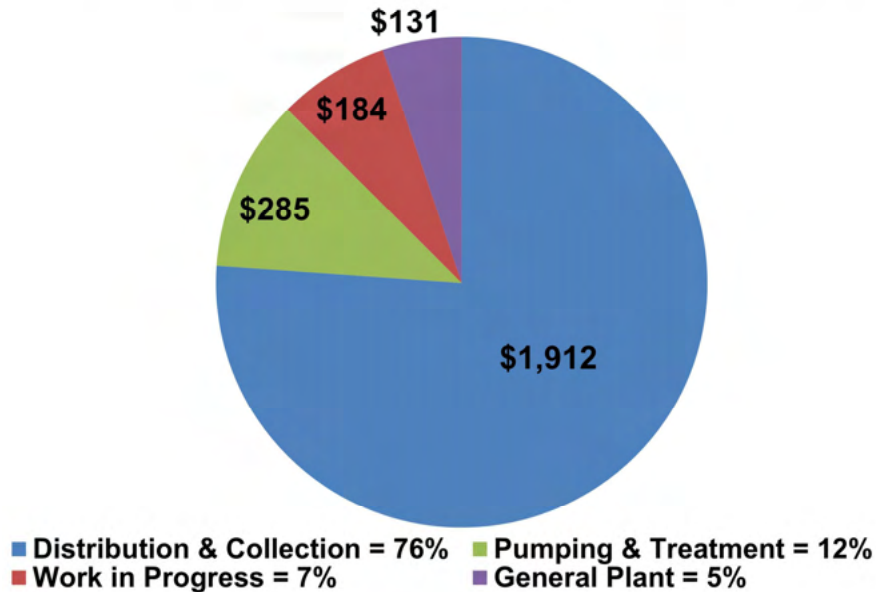
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Fiscal Year 2024 Compared to Fiscal Year 2023

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

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



Major capital asset additions during the year were as follows:

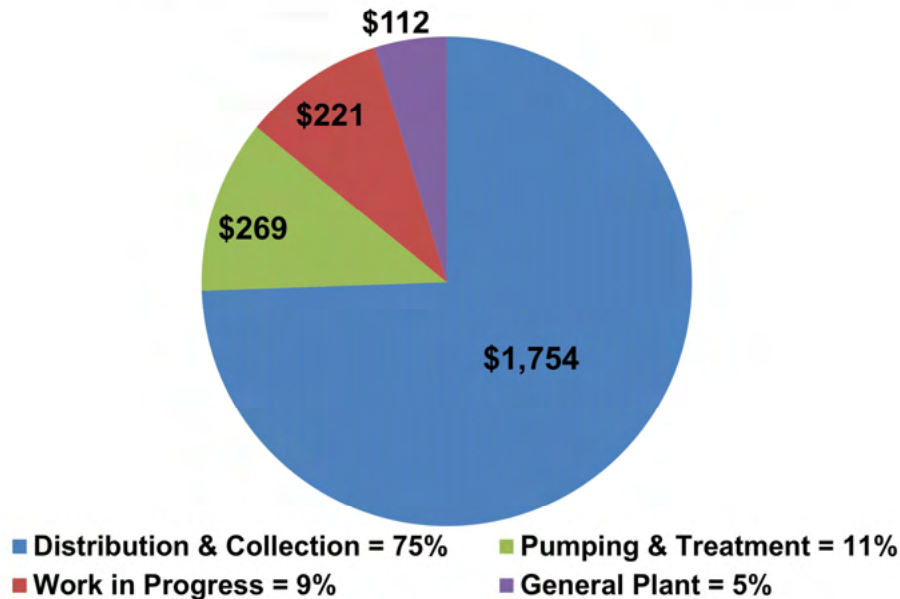
- \$67.7 million for fiber network buildout
- \$32.3 million for various electric distribution system improvements
- \$21 million related to wastewater Century II projects
 - \$4.4 million for pump station construction and improvements
 - \$7.2 million for sewer mini-basin rehabilitation and replacement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

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Fiscal Year 2023 Compared to Fiscal Year 2022

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

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



Major capital asset additions during the year were as follows:

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

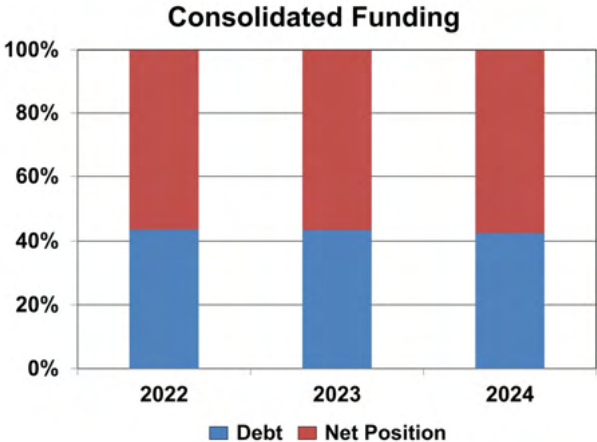
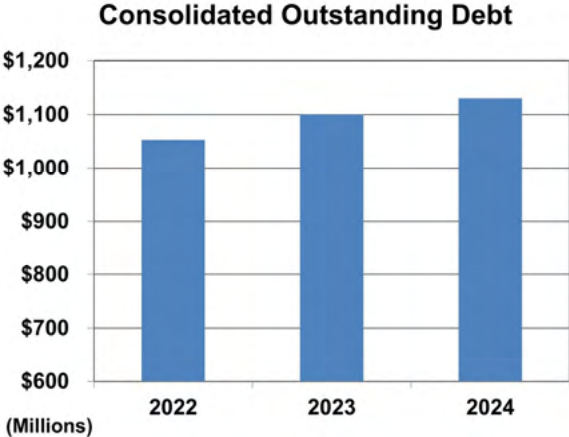
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Debt Administration

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

**Outstanding Debt
As of June 30**

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



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

Fiscal Year 2024 Compared to Fiscal Year 2023

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

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

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

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

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

Fiscal Year 2023 Compared to Fiscal Year 2022

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

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

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

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

Impacts on Future Financial Position

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Contact

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

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

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

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

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

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

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

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

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

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

Knoxville Utilities Board

Consolidated Statements of Cash Flows

Years Ended June 30, 2024 and 2023

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

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

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

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

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

Knoxville Utilities Board

Statements of Changes in Fiduciary Net Position

June 30, 2024 and 2023

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

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

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2024 and 2023

1. Description of Business

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

2. Significant Accounting Policies

Basis of Accounting

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

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

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

Recently Adopted New Accounting Pronouncements

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

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2024 and 2023

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

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

Principles of Consolidation

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

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

Plant

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

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

Operating Revenue

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

Non-operating Revenue

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

Expense

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

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2024 and 2023

Net Position

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

These classifications are defined as follows:

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

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

OPEB Trust

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

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2024 and 2023

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

Pension Plan and Qualified Excess Benefit Arrangement

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

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

Investments

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

Self-Insurance

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

Estimates

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

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Restricted and Designated Assets

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

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

Cash Equivalents

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

Leases

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

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

Subscription-Based Information Technology Arrangements

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

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

Deferred Outflows and Inflows of Resources

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

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

Debt Premium/Discount

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

Debt Issuance Costs

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

Deferred Gain/Loss on Refunding of Debt

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

Compensated Absences

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

TVA Conservation Program

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

Reclassification

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

Subsequent Events

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

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

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

Purchased Power Adjustment

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

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

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

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

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

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

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

Purchased Gas Adjustment

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

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

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

Recently Issued Accounting Pronouncements

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

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

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

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

3. Deposits and Investments

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

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

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

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

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

Knoxville Utilities Board
Notes to Consolidated Financial Statements
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Classification of deposits and investments per Statement of Net Position:

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

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

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

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

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

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

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

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

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Knoxville Utilities Board
Notes to Consolidated Financial Statements
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4. Accounts Receivable

Accounts receivable consists of the following:

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

5. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

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

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Knoxville Utilities Board
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6. Long-Term Obligations

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

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

Knoxville Utilities Board
Notes to Consolidated Financial Statements
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Debt service over remaining term of the debt is as follows:

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

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

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

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

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

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

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

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

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

Other liabilities consist of the following:

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

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

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

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

7. Lease Receivables

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

8. Lease Liability

Changes in lease liabilities are summarized as follows:

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

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

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

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

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

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

9. Subscription-Based Information Technology Agreement Liabilities

Changes in SBITA liabilities are summarized as follows:

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

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

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

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

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

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

10. Capital and Intangible Assets

Capital and intangible asset activity was as follows:

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

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Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2024 and 2023

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

11. Risk Management

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

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

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

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

12. Pension Plan

Description of Plan

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

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

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

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

Retirement Benefits

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

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

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

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2024 and 2023

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

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

Contributions

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

Plan Funding

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

Investments

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

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

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

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Net Pension Liability (Asset)

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

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

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

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

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

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Actuarial Assumptions

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

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

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

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

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

Discount rate

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

13. Qualified Excess Benefit Arrangement

Description

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

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

Total Pension Liability of the QEBA

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14. Defined Contribution Plan

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

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

Vesting

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

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

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

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

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

Forfeitures

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

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15. Other Post-Employment Benefits (OPEB)

Description of Trust

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

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

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

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

Benefits

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

Contributions and Funding

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

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

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

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

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

Investments

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

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

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

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Net OPEB Liability

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

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

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

Changes in Net OPEB Liability are as follows:

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

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Actuarial assumptions

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

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

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

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

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

Discount rate

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During the measurement year, there were no benefit changes.

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

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

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

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

16. Related Party Transactions

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

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

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

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

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Notes to Consolidated Financial Statements
June 30, 2024 and 2023

17. Natural Gas Supply Contract Commitments

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

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

Firm obligations related to purchased gas – demand

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

Firm obligations related to purchased gas – commodity

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

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

18. Other Commitments and Contingencies

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

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Notes to Consolidated Financial Statements
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19. Segment Information

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

Condensed Statement of Net Position

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

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

Condensed Statement of Net Position

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

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Knoxville Utilities Board
Notes to Consolidated Financial Statements
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**Condensed Statement of Revenues, Expenses
and Changes in Net Position**

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

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

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

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Condensed Statement of Cash Flows

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

Condensed Statement of Cash Flows

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

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

June 30, 2024

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

Notes to Schedule:

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board

Required Supplementary Information - Schedule of Employer Pension Contributions

June 30, 2024

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

Notes to Schedule:

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

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

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Individual entry age

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

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

Discount rate: 7.25%

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

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

Inflation: 2.5%

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board

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

June 30, 2024

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

Notes to Schedule:

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

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board

Required Supplementary Information – Schedule of Employer OPEB Contributions

June 30, 2024

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

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

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

Notes to Schedule:

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

Key methods and assumptions used to determine contribution rates:

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

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

See accompanying Independent Auditor's Report

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

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

Notes to Schedule:

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

See accompanying Independent Auditor's Report

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

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

NOTE 1 - BASIS OF PRESENTATION

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

See accompanying Independent Auditor's Report

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

Crime

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

Directors' and Officers' Liability Insurance

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

Employment Practices Liability

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

Fiduciary

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

Environmental and Pollution Legal Liability

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

Property Insurance

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

Travel Accident

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

Excess Insurance for General Liability

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

Excess Insurance for Workers' Compensation

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

Employee Health Plan Stop Loss Coverage

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

Cyber Security Liability

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

Drone

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

See accompanying Independent Auditor's Report

Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the Knoxville Utilities Board (KUB), a component unit of the City of Knoxville, Tennessee, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements, and have issued our report thereon dated October 23, 2024.

Report on Internal Control over Financial Reporting

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

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

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

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether KUB's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Coulter & Justus, P. C.

Knoxville, Tennessee
October 23, 2024



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

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

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

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

Basis for Opinion on Each Major Federal Program

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

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

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Report on Internal Control Over Compliance

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

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

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

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

Coulter & Justus, P. C.

Knoxville, Tennessee
October 23, 2024

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

Section I -- Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs: Material weakness(es) identified?	No						
Significant deficiency(s) identified not considered to be material weaknesses?	None reported						
Type of auditors' report issued on compliance for major programs:	Unmodified						
Any audit findings disclosed that are required to be reported in accordance with Section 200.516 of the Uniform Guidance?	No						
Identification of major programs:	<table> <thead> <tr> <th><u>CFDA</u></th> <th><u>Name of Program</u></th> </tr> </thead> <tbody> <tr> <td>21.027</td> <td>Coronavirus State and Local Fiscal Recovery Funds</td> </tr> <tr> <td>97.036</td> <td>Disaster Grants – Public Assistance</td> </tr> </tbody> </table>	<u>CFDA</u>	<u>Name of Program</u>	21.027	Coronavirus State and Local Fiscal Recovery Funds	97.036	Disaster Grants – Public Assistance
<u>CFDA</u>	<u>Name of Program</u>						
21.027	Coronavirus State and Local Fiscal Recovery Funds						
97.036	Disaster Grants – Public Assistance						
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000						
Auditee qualified as low-risk auditee?	No						

Section II -- Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

None reported.

Section IV -- Summary Schedule of Prior Year Audit Findings

Not applicable as there were no prior year findings reported.

Section V – Corrective Action Plan

Not applicable as there were no current year findings reported.



Electric Division

Financial Statements and Supplemental Information
June 30, 2024 and 2023

KUB Board of Commissioners

Adrienne Simpson-Brown, Chair **Claudia Caballero** **Kathy Hamilton** **Dr. Craig Pickett, Jr.**
Ron Feinbaum, Vice Chair **Cynthia Gibson** **Celeste Herbert**

Management

Gabriel Bolas II

President and Chief Executive Officer

Mark Walker

Senior Vice President and Chief Financial Officer

Jamie Davis

Senior Vice President Fiber and Chief Technology Officer

Susan Edwards

Senior Vice President and Chief Administrative Officer

Tiffany Martin

Senior Vice President and Chief Customer Officer

John Williams

Senior Vice President and Chief Infrastructure and Compliance Officer

John Gresham

Senior Vice President and Chief Engineering and Operations Officer

Knoxville Utilities Board Electric Division
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June 30, 2024 and 2023

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Independent Auditor's Report

Board of Commissioners
Electric Division of the Knoxville Utilities Board
Knoxville, Tennessee

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Electric Division (the Division) of the Knoxville Utilities Board, a component unit of the City of Knoxville, Tennessee, as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the index.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Division as of June 30, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Board of Commissioners
Electric Division of the Knoxville Utilities Board
Knoxville, Tennessee

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 26 and the required supplementary information on pages 67 through 71 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Commissioners
Electric Division of the Knoxville Utilities Board
Knoxville, Tennessee

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Division's basic financial statements. The supplemental information, 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 supplemental information 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Electric Division and do not purport to, and do not, present fairly the financial position of the Knoxville Utilities Board, as of June 30, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2024, on our consideration of the Division'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 the Division's internal control over financial reporting and compliance.

Coulter & Justus, P.C.

Knoxville, Tennessee
October 23, 2024

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

Knoxville Utilities Board (KUB), comprised of the Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. The Electric Division (Division) provides services to certain customers in Knox County and in seven surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Electric Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board as of June 30, 2024, and 2023, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

Electric Division Highlights

System Highlights

KUB experienced normal operations this fiscal year as progress continues on the construction of its fiber network. Fiscal year 2024 marks the third year of the seven-year deployment.

KUB serves 221,945 electric customers over a 689 square mile service area and maintains 5,530 miles of service lines and 64 electric substations to provide 6 million megawatt hours to its customers annually.

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

In January 2024, KUB's electric system set a new record peak in demand of 1,350.5 megawatt hours.

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

KUB has added 8,937 electric system customers over the past three years, representing annual growth of 1.4 percent. In fiscal year 2024, 3,601 customers were added.

The typical residential customer's average monthly electric bill was \$124.24 as of June 30, 2024, representing a decrease of \$3.29 compared to June 30, 2023. Bill levels are based on 1,000 kwh of monthly power use. The decrease in the monthly bill during fiscal year 2024 was the net result of the flow through of TVA wholesale rate adjustments, prior year over recovered wholesale power costs, offset by increased residential volume, and both the April 2023 and the April 2024 rate increase.

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

On August 24, 2023, TVA's board approved a 4.5 percent electric base rate increase effective October 1, 2023. The increase flowed directly to KUB's electric customers.

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

KUB's electric system maintains a Diamond Level designation by the American Public Power Association's (APPA) Reliable Public Power Provider (RsP3) program, the highest level of recognition of the program.

Century II Infrastructure Program

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

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

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

During the fiscal year, KUB replaced 6.7 miles of transmission lines, and 5.8 miles of underground cable and stayed within the Electric Division's total capital budget.

Fiber Network

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

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

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

Knoxville Utilities Board Electric Division

Management's Discussion and Analysis

June 30, 2024 and 2023

\$5 million was provided in May 2024, all maturing in June 2030. In May 2024, an additional interdivisional loan of \$2 million was provided to the Fiber Division by the Electric Division, maturing in June 2032.

In fiscal year 2022, KUB began the seven-year buildout on extending fiber infrastructure to make broadband service available to electric customers. The first broadband customers began receiving service in September 2022.

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

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

Financial Highlights

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's Change in Net Position increased \$47 million in fiscal year 2024. Comparatively, net position increased \$31.4 million in fiscal year 2023.

Operating revenue decreased \$3.2 million or 0.5 percent over the prior fiscal year. The decrease in operating revenue was the net result of a 0.6 percent increase in billed sales, additional revenue from the April 2024 rate increase, and a decrease to wholesale power costs. KUB flows changes to wholesale power rates directly through to its retail electric rates via its Purchased Power Adjustment.

Seventy percent of Electric Division sales revenue was used to purchase electric power from TVA for the fiscal year ended June 30, 2024. Purchased power expense decreased \$28.9 million compared to last fiscal year due to lower wholesale power costs.

Margin on electric sales (operating revenue less purchased power expense) increased \$25.7 million or 13.9 percent, reflecting lower purchased power expense.

Operating expenses (excluding purchased power expense) increased \$12.5 million. Operating and maintenance (O&M) expenditures increased \$7.4 million. Depreciation and amortization expense increased \$3.4 million or 8.4 percent. Taxes and tax equivalents were \$1.7 million higher than the prior fiscal year.

Interest income was \$1.8 million higher than the prior fiscal year, due to higher interest rates throughout the year. Interest expense increased \$3 million or 21.9 percent, reflecting interest expense from new revenue bonds sold during fiscal year 2024.

Total capital assets (net) increased \$98.8 million or 12.6 percent over the end of the last fiscal year, reflecting the fiber network buildout and other distribution system improvements as part of KUB's Century II electric program.

KUB sold \$55 million in electric system revenue bonds in November 2023 for the purpose of funding electric system capital improvements.

Long-term debt represented 42.6 percent of the Division's capital structure as of June 30, 2024, compared to 42.3 percent last year. Capital structure equals long-term debt (including the current and long-term portion of any revenue bonds) plus net position.

Knoxville Utilities Board Electric Division

Management's Discussion and Analysis

June 30, 2024 and 2023

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Debt coverage for the current fiscal year was 4.01. Maximum debt service coverage for future fiscal years is 3.55.

Fiscal Year 2023 Compared to Fiscal Year 2022

The Division's Change in Net Position increased \$31.4 million in fiscal year 2023. Comparatively, net position increased by \$29.2 million in fiscal year 2022.

Operating revenue increased \$53.9 million or 8.9 percent over the prior fiscal year. The increase in operating revenue was the net result of a one percent decrease in billed sales, additional revenue from the April 2023 rate increase, and an increase to wholesale power costs. KUB flows changes to wholesale power rates directly through to its retail electric rates via its Purchased Power Adjustment.

Seventy-four percent of Electric Division sales revenue was used to purchase electric power from TVA for the fiscal year ended June 30, 2023. Purchased power expense increased \$36.8 million compared to last fiscal year due to higher wholesale power costs.

Margin on electric sales (operating revenue less purchased power expense) increased \$17.1 million or 10.2 percent, reflecting additional revenue from the April 2023 rate increase.

Operating expenses (excluding purchased power expense) increased \$22.6 million. Operating and maintenance (O&M) expenditures increased \$20.2 million. Depreciation and amortization expense increased \$1.8 million or 4.6 percent. Taxes and tax equivalents were \$0.6 million higher than the prior fiscal year.

Interest income was \$4.2 million higher than the prior fiscal year, due to rising interest rates throughout the year. Interest expense increased \$2.8 million or 26.1 percent, reflecting interest expense from new revenue bonds sold during fiscal year 2023.

Total capital assets (net) increased \$71.5 million or 10 percent over the end of the last fiscal year, reflecting the fiber network buildout and other distribution system improvements as part of KUB's Century II electric program.

KUB sold \$79 million in electric system revenue bonds in November 2022 for the purpose of funding electric system capital improvements.

Long-term debt represented 42.3 percent of the Division's capital structure as of June 30, 2023, compared to 39.2 percent last year. Capital structure equals long-term debt (including the current and long-term portion of any revenue bonds) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Debt coverage for the current fiscal year was 4.09. Maximum debt service coverage for future fiscal years is 3.24.

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

Knoxville Utilities Board Electric Division - Financial Statements

The Division's financial performance is reported under three basic 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

The Division 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, electric plant in service, intangible, 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 the Division has done with its accumulated earnings, not just the balance.

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

Restricted net position includes assets that have been limited to specific uses by the Division'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

The Division 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

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

The statement indicates the Division's 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 back to operating income as it appears on the Statement of Revenues, Expenses and Changes in Net Position.

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

Condensed Financial Statements

Statement of Net Position

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

Statements of Net Position
As of June 30

<i>(in thousands of dollars)</i>	2024	2023	2022 as restated
Current, restricted, intangible, and other assets	\$ 268,835	\$ 261,254	\$ 267,675
Capital assets, net	883,282	784,490	712,994
Deferred outflows of resources	<u>14,930</u>	<u>25,734</u>	<u>6,234</u>
Total assets and deferred outflows of resources	<u>1,167,047</u>	<u>1,071,478</u>	<u>986,903</u>
Current and other liabilities	184,859	179,110	172,339
Long-term debt outstanding	424,501	384,667	319,888
Deferred inflows of resources	<u>6,778</u>	<u>3,755</u>	<u>22,151</u>
Total liabilities and deferred inflows of resources	<u>616,138</u>	<u>567,532</u>	<u>514,378</u>
Net position			
Net investment in capital assets	433,775	376,865	373,317
Restricted	17,321	15,471	14,041
Unrestricted	<u>99,813</u>	<u>111,610</u>	<u>85,167</u>
Total net position	<u>\$ 550,909</u>	<u>\$ 503,946</u>	<u>\$ 472,525</u>

Normal Impacts on Statement of Net Position

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

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

Knoxville Utilities Board Electric Division

Management's Discussion and Analysis

June 30, 2024 and 2023

Impacts and Analysis

Current, Restricted, Intangible, and Other Assets

Fiscal Year 2024 Compared to Fiscal Year 2023

Current, restricted, intangible, and other assets increased \$7.6 million or 2.9 percent. The change reflects an \$11.6 million increase in accounts receivable, a \$5.2 million increase in notes receivable, a \$3.6 million increase in inventories, a \$2.9 million increase in electric bond fund, and a \$2.4 million increase in lease receivables. These increases were offset by a \$22.3 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments).

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

Fiscal Year 2023 Compared to Fiscal Year 2022

Current, restricted, intangible, and other assets decreased \$6.4 million or 2.4 percent. The change reflects a \$30 million decrease in the actuarially determined net pension asset and a decrease of \$4.6 million in accounts receivable. These decreases were offset by a \$19.1 million increase in notes receivable, a \$6.3 million increase in inventories, and a \$4.1 million increase in electric bond fund.

Capital Assets

Fiscal Year 2024 Compared to Fiscal Year 2023

Capital assets, net of depreciation, increased \$98.8 million or 12.6 percent. Major capital expenditures included \$67.7 million for the fiber network buildout, \$32.3 million for distribution system improvements, \$17.6 million for installation or replacement of electric services, \$7.3 million for pole replacements, \$3.9 million for auto and truck purchases, and \$2.5 million for building improvements. Electric system assets of \$20.1 million were retired in fiscal year 2024.

Fiscal Year 2023 Compared to Fiscal Year 2022

Capital assets, net of depreciation, increased \$71.5 million or 10 percent. Major capital expenditures included \$46 million for the fiber network buildout, \$30.5 million for distribution system improvements, \$13.9 million for installation or replacement of electric services, \$6.6 million for pole replacements, \$4.5 million for auto and truck purchases, and \$2.6 million for building improvements. Electric system assets of \$8.8 million were retired in fiscal year 2023.

Deferred Outflows of Resources

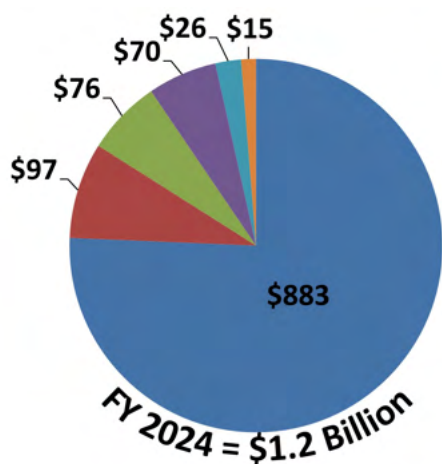
Fiscal Year 2024 Compared to Fiscal Year 2023

Deferred outflows of resources decreased \$10.8 million compared to the prior fiscal year, due to a decrease in pension outflow of \$9.6 million and a decrease in OPEB outflow of \$1.2 million.

Fiscal Year 2023 Compared to Fiscal Year 2022

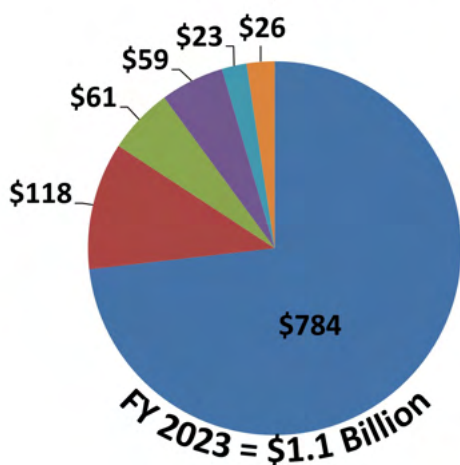
Deferred outflows of resources increased \$19.5 million compared to the prior fiscal year, due to an increase in pension outflow of \$19.4 million and an increase in OPEB outflow of \$0.1 million.

**Knoxville Utilities Board Electric Division
Management’s Discussion and Analysis
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**Electric Division Total Assets and Deferred Outflows of Resources
(in Millions)**

	<u>FY24</u>	<u>FY23</u>
Plant	76%	73%
General and Contingency Funds	8%	11%
Other Assets	7%	6%
Accounts Receivable	6%	6%
Restricted Assets	2%	2%
Deferred Outflows of Resources	1%	2%



Current and Other Liabilities

Fiscal Year 2024 Compared to Fiscal Year 2023

Current and other liabilities increased \$5.7 million. Payables increased \$13.2 million, the current portion of revenue bonds increased \$1.9 million, accrued expenses increased \$1.5 million, and accrued interest on revenue bonds increased \$1 million. These increases were offset by a decrease of \$7 million in the actuarially determined net pension liability, a \$3.5 million decrease in over recovered purchased power cost, and a \$1.6 million decrease in the actuarially determined net OPEB liability. The outstanding balance on TVA conservation loans declined by \$0.2 million, as KUB ceased issuance of any new loans in fiscal year 2016.

Fiscal Year 2023 Compared to Fiscal Year 2022

Current and other liabilities increased \$6.8 million. The actuarially determined net pension liability increased \$10.6 million, accrued interest on revenue bonds increased \$2.6 million, and the current portion of revenue bonds increased \$1.4 million. These increases were offset by an \$8.1 million decrease in accrued expenses and a \$4.5 million decrease in accounts payable. The outstanding balance on TVA conservation loans declined by \$0.3 million, as KUB ceased issuance of any new loans in fiscal year 2016.

KUB over recovered \$3.5 million in wholesale power costs from its customers in fiscal year 2023, as compared to a \$2.4 million under recovery in fiscal year 2022. This over recovery of costs will be credited

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

to KUB's electric customers during the next fiscal year through adjustments to rates via the Purchased Power Adjustment.

Long-Term Debt

Fiscal Year 2024 Compared to Fiscal Year 2023

Long-term debt increased \$39.8 million or 10.4 percent. The increase is due in part to the net impact of the issuance of \$55 million of electric system revenue bonds in November 2023 offset by the scheduled repayment of debt.

Fiscal Year 2023 Compared to Fiscal Year 2022

Long-term debt increased \$64.8 million or 20.3 percent. The increase is due in part to the net impact of the issuance of \$79 million of electric system revenue bonds in November 2022 offset by the scheduled repayment of debt.

Deferred Inflows of Resources

Fiscal Year 2024 Compared to Fiscal Year 2023

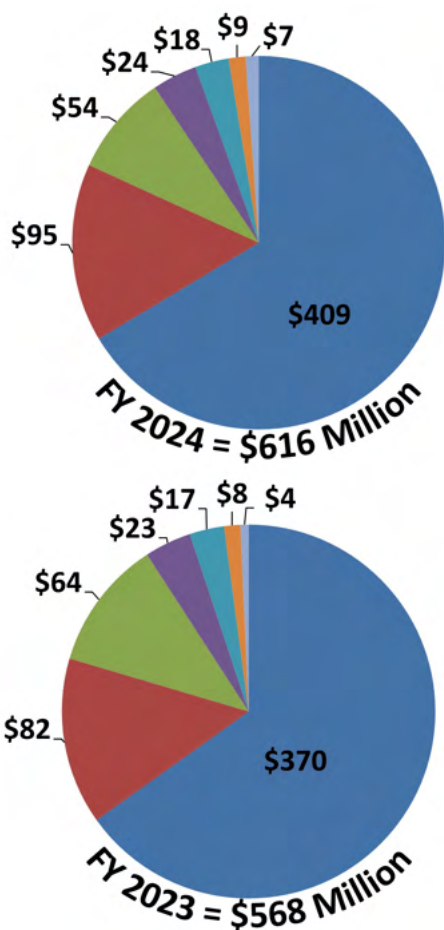
Deferred inflows increased \$3 million compared to the prior fiscal year, due to an increase to lease inflow of \$2.3 million, and an increase to OPEB inflow of \$0.8 million.

Fiscal Year 2023 Compared to Fiscal Year 2022

Deferred inflows decreased \$18.4 million compared to the prior fiscal year, due to a decrease to pension inflow of \$18.2 million and a decrease to lease inflow of \$0.2 million.

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**Knoxville Utilities Board Electric Division
Management’s Discussion and Analysis
June 30, 2024 and 2023**



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

	<u>FY24</u>	<u>FY23</u>
■ Bond Debt	67%	65%
■ Payables	15%	14%
■ Other Liabilities	9%	12%
■ Misc Current	4%	4%
■ Customer Deposits	3%	3%
■ Interest Accrued	1%	1%
■ Deferred Inflows of Resources	1%	1%

Net Position

Fiscal Year 2024 Compared to Fiscal Year 2023

Total net position increased \$47 million or 9.3 percent. Net investment in capital assets increased by \$56.9 million or 15.1 percent. The change was primarily the result of an increase of \$98.8 million in net electric plant additions offset by an increase in the electric revenue bonds outstanding of \$39.5 million. Restricted net position increased \$1.9 million, due to the net increase of the electric bond fund and the associated interest payable. Unrestricted net position decreased \$11.8 million, primarily due to a decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) of \$22.3 million offset by an increase in accounts receivable of \$11.6 million.

Fiscal Year 2023 Compared to Fiscal Year 2022

Total net position increased \$31.4 million or 6.6 percent. Net investment in capital assets increased by \$3.5 million or one percent. The change was primarily the result of an increase of \$71.5 million in net electric plant additions offset by an increase in the electric revenue bonds outstanding of \$65 million. Restricted net position increased \$1.4 million, due to the net increase of the electric bond fund and the associated interest payable. Unrestricted net position increased \$26.4 million, primarily due to an increase in notes receivable of \$19.1 million, and an increase in inventories of \$6.3 million.

**Knoxville Utilities Board Electric Division
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Statement of Revenues, Expenses and Changes in Net Position

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

Statements of Revenues, Expenses and Changes in Net Position			
For the Years Ended June 30			
<i>(in thousands of dollars)</i>	2024	2023	2022 as restated
Operating revenues	\$ 657,035	\$ 660,232	\$ 606,335
Less: Purchased power expense	<u>447,013</u>	<u>475,900</u>	<u>439,115</u>
Margin from sales	<u>210,022</u>	<u>184,332</u>	<u>167,220</u>
Operating expenses			
Distribution	57,375	51,183	43,441
Customer service	3,761	6,102	6,651
Administrative and general	32,025	28,546	15,560
Depreciation and amortization	44,067	40,651	38,871
Taxes and tax equivalents	<u>21,651</u>	<u>19,919</u>	<u>19,294</u>
Total operating expenses	<u>158,879</u>	<u>146,401</u>	<u>123,817</u>
Operating income	<u>51,143</u>	<u>37,931</u>	<u>43,403</u>
Interest income	6,687	4,879	716
Interest expense	(16,498)	(13,538)	(10,739)
Other income/(expense)	<u>5,631</u>	<u>2,149</u>	<u>(4,189)</u>
Change in net position	<u>\$ 46,963</u>	<u>\$ 31,421</u>	<u>\$ 29,191</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 the volume of electric power sales for the fiscal year. Any change (increase/decrease) in retail electric rates would also be a cause of change in operating revenue.
- Purchased power expense is determined by volume of power purchases from TVA for the fiscal year. Also, any change (increase/decrease) in TVA wholesale power rates would result in a change in purchased power expense.
- Operating expenses (distribution, customer service, administrative and general) are normally impacted by changes in areas including, but not limited to, labor costs (staffing, wage rates), active employee and retiree medical costs, and overhead line maintenance (tree trimming, pole inspection, etc.).
- Depreciation and amortization expense is impacted by intangible assets, plant additions and retirements during the fiscal year.
- Taxes and tax equivalents are impacted by plant additions/retirements, changes in property tax rates, and margin (operating revenue less purchased power expense) levels.
- Interest income is impacted by the level of interest rates and investments.

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

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

Impacts and Analysis

Change in Net Position

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's Change in Net Position increased \$47 million in fiscal year 2024. Comparatively, net position increased \$31.4 million in fiscal year 2023.

The higher earnings were attributable to the net effect of a \$25.7 million increase in margin on sales offset by a \$12.5 million increase in operating expenses and a \$2.3 million decrease in non-operating expenses.

Fiscal Year 2023 Compared to Fiscal Year 2022

The Division's Change in Net Position increased \$31.4 million in fiscal year 2023. Comparatively, net position increased \$29.2 million in fiscal year 2022.

The higher earnings were attributable to the net effect of a \$17.1 million increase in margin on sales offset by a \$22.6 million increase in operating expenses and a \$7.7 million decrease in non-operating expenses.

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**Knoxville Utilities Board Electric Division
Management’s Discussion and Analysis
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Margin from Sales

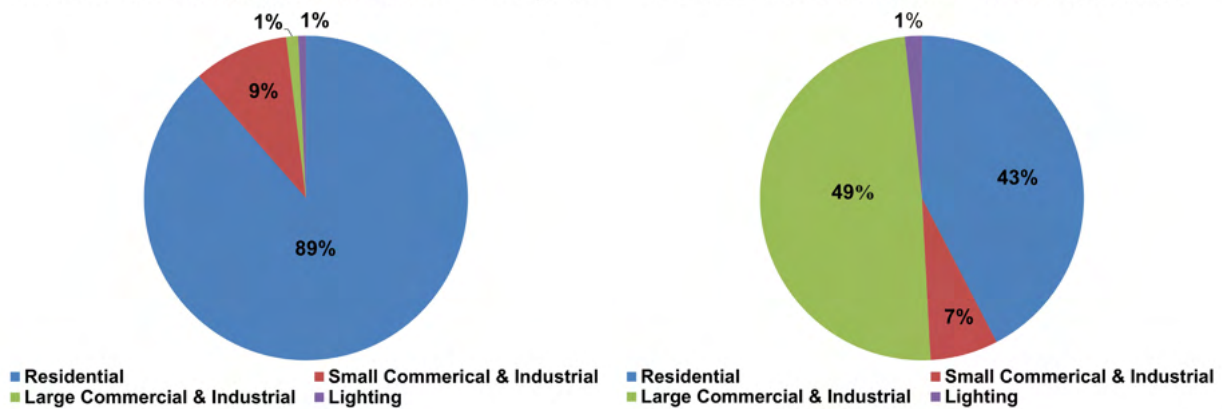
Fiscal Year 2024 Compared to Fiscal Year 2023

Margin on electric sales grew \$25.7 million, reflecting lower purchased power expense.

Operating revenue decreased \$3.2 million or 0.5 percent. Billed power sales increased 0.6 percent compared to fiscal year 2023. Purchased power expense decreased \$28.9 million from the prior year due to changes in wholesale power costs and the flow through of the prior fiscal year’s over recovered purchased power costs. KUB received \$9.7 million as a result of TVA’s Long-Term Partnership Credit, which decreased power expenses in the current fiscal year.

FY 2024 Total Electric Customers = 221,945

FY 2024 Electric Sales = 5.8 million MWh



Residential customers represented 89 percent of total electric system customers and accounted for 43 percent of electric sales volumes for the year. Large commercial and industrial customers accounted for 49 percent of electric sales volumes.

KUB’s ten largest electric customers accounted for 25 percent of KUB’s billed volumes. Those ten customers represent three industrial and seven commercial customers, including four governmental customers. KUB’s largest industrial customer, accounted for 9.1 percent of total electric system sales.

KUB has added 8,937 electric system customers over the past three years, representing annual growth of 1.4 percent. Electric billed sales volumes have increased less than one percent over the past three years. Fiscal year 2024 customer growth was 3,601.

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Knoxville Utilities Board Electric Division Management’s Discussion and Analysis June 30, 2024 and 2023

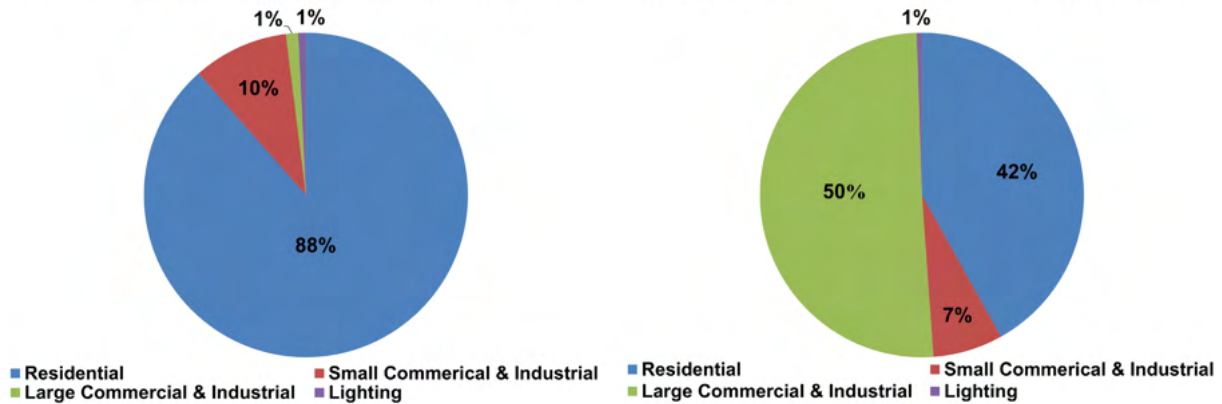
Fiscal Year 2023 Compared to Fiscal Year 2022

Margin on electric sales grew \$17.1 million, reflecting additional revenue from the April 2023 rate increase.

Operating revenue increased \$53.9 million or 8.9 percent. Billed power sales decreased one percent compared to fiscal year 2022. Purchased power expense increased \$36.8 million from the prior year due to higher wholesale power costs. KUB received \$9.1 million as a result of TVA’s Long-Term Partnership Credit, which decreased power expenses in the current fiscal year.

FY 2023 Total Electric Customers = 218,344

FY 2023 Electric Sales = 5.8 million MWh



Residential customers represented 88 percent of total electric system customers and accounted for 42 percent of electric sales volumes for the year. Large commercial and industrial customers accounted for 50 percent of electric sales volumes.

KUB’s ten largest electric customers accounted for 25 percent of KUB’s billed volumes. Those ten customers represent three industrial and seven commercial customers, including three governmental customers. KUB’s largest industrial customer, accounted for 9.4 percent of total electric system sales.

KUB has added 7,951 electric system customers over the past three years, representing annual growth of 1.2 percent. Electric billed sales volumes have increased three percent over the past three years. Fiscal year 2023 customer growth was 3,080.

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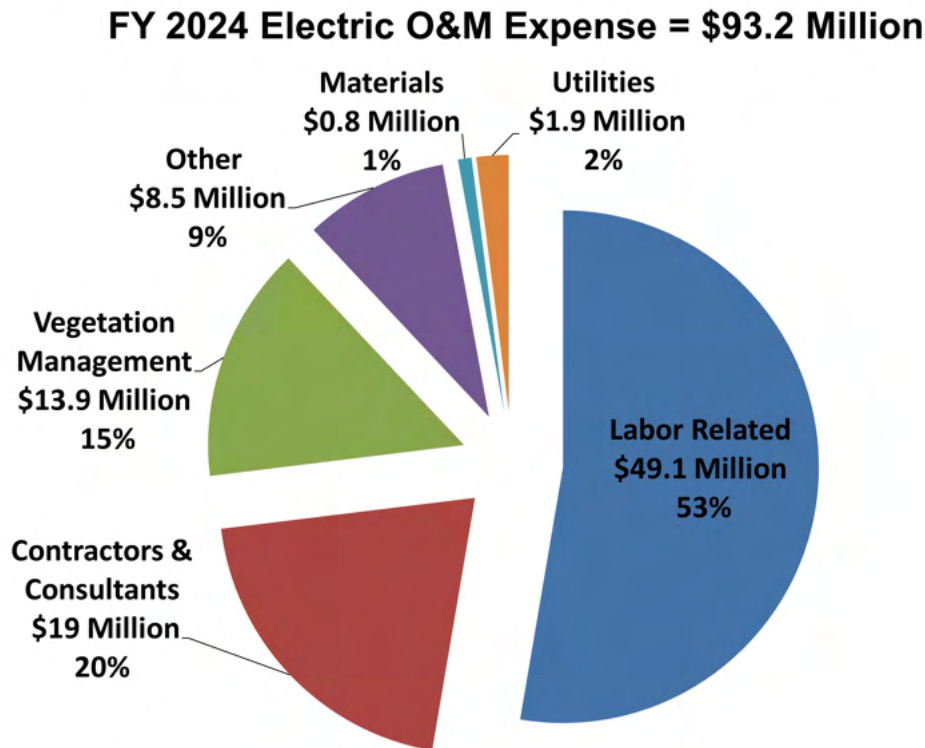
Knoxville Utilities Board Electric Division Management’s Discussion and Analysis June 30, 2024 and 2023

Operating Expenses

Fiscal Year 2024 Compared to Fiscal Year 2023

Operating expenses (excluding purchased power expense) increased \$12.5 million compared to fiscal year 2023. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as distribution, customer service, and administrative and general.

- Distribution expenses increased \$6.2 million or 12.1 percent, primarily due to an increase in labor-related expenses, vegetation management expenses, and outside contractor and consultant costs.
- Customer service expenses were \$2.3 million lower, primarily due to a change in methodology for technology-related costs that resulted in an offsetting increase in administration and general expenses.
- Administrative and general expenses increased \$3.5 million, primarily due to a change in methodology for technology-related costs that resulted in an offsetting decrease in customer service expenses and outside contractor and consultant costs.



- Depreciation and amortization expense increased \$3.4 million or 8.4 percent. KUB added \$176.9 million in assets during fiscal year 2024. A partial year of depreciation expense was recorded on these capital investments and a full year of depreciation expense was incurred on \$77.3 million in assets placed in service during fiscal year 2023. In addition, \$20.1 million of assets were retired in fiscal year 2024.

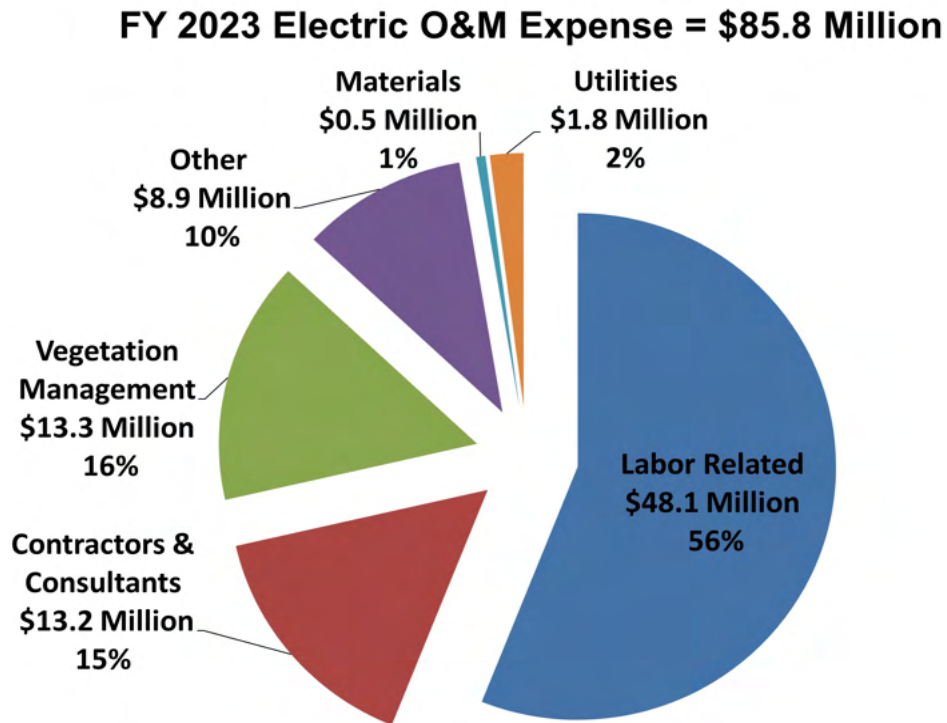
**Knoxville Utilities Board Electric Division
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- Taxes and tax equivalents were \$1.7 million higher than the prior fiscal year, primarily due to increased plant in service levels.

Fiscal Year 2023 Compared to Fiscal Year 2022

Operating expenses (excluding purchased power expense) increased \$22.6 million compared to fiscal year 2022. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as distribution, customer service, and administrative and general.

- Distribution expenses increased \$7.7 million or 17.8 percent, primarily due to an increase in labor-related expenses, vegetation management expenses, and outside consultant expenses.
- Customer service expenses were \$0.5 million lower, primary due to a decrease in computer software expenses due to the implementation of GASB 96.
- Administrative and general expenses increased \$13 million, primarily due to an increase in labor-related expenses, driven by higher pension expenses resulting from investment losses, and legal expenses.

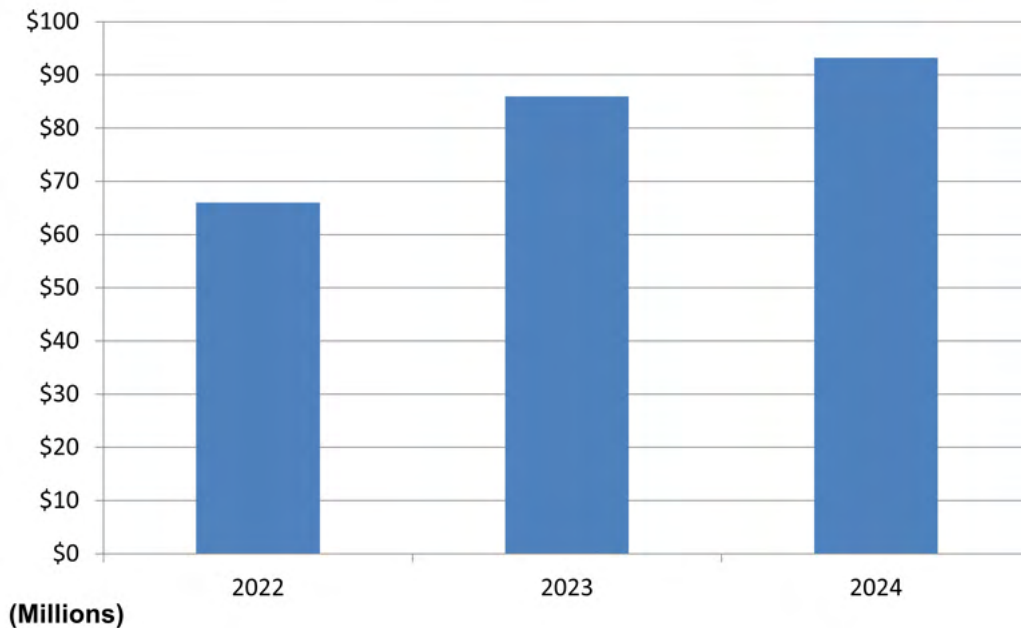


- Depreciation and amortization expense increased \$1.8 million or 4.6 percent. KUB added \$77.3 million in assets during fiscal year 2023. A partial year of depreciation expense was recorded on these capital investments and a full year of depreciation expense was incurred on \$55.8 million in assets placed in service during fiscal year 2022. In addition, \$8.8 million of assets were retired in fiscal year 2023.

**Knoxville Utilities Board Electric Division
Management’s Discussion and Analysis
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- Taxes and tax equivalents were \$0.6 million higher than the prior fiscal year, primarily due to increased plant in service levels and employer Federal Insurance Contributions Act (FICA) taxes.

Electric Division Operation & Maintenance Expense



Other Income and Expense

Fiscal Year 2024 Compared to Fiscal Year 2023

Interest income increased \$1.8 million compared to the prior fiscal year, primarily due to higher interest rates throughout the year.

Interest expense increased \$3 million or 21.9 percent due to new revenue bonds sold during fiscal year 2024.

Other income (net) increased \$3.5 million, primarily due to grant reimbursements.

Fiscal Year 2023 Compared to Fiscal Year 2022

Interest income increased \$4.2 million compared to the prior fiscal year, primarily due to rising interest rates throughout the year.

Interest expense increased \$2.8 million or 26.1 percent due to new revenue bonds sold during fiscal year 2023.

Other income (net) increased \$6.3 million, primarily due mark-to-market adjustments on investments.

Knoxville Utilities Board Electric Division
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Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

<i>(in thousands of dollars)</i>	2024	2023	2022
Distribution Plant			
Services and Meters	\$ 53,243	\$ 44,256	\$ 43,038
Electric Station Equipment	144,074	85,676	61,180
Poles, Towers and Fixtures	175,823	163,802	161,519
Overhead Conductors	174,932	150,166	143,776
Line Transformers	65,160	62,002	61,351
Other Accounts	125,203	113,932	114,399
Total Distribution Plant	\$ 738,435	\$ 619,834	\$ 585,263
General Plant	82,681	67,698	65,544
Total Plant Assets	\$ 821,116	\$ 687,532	\$ 650,807
Work In Progress	62,166	96,958	62,187
Total Net Plant	\$ 883,282	\$ 784,490	\$ 712,994

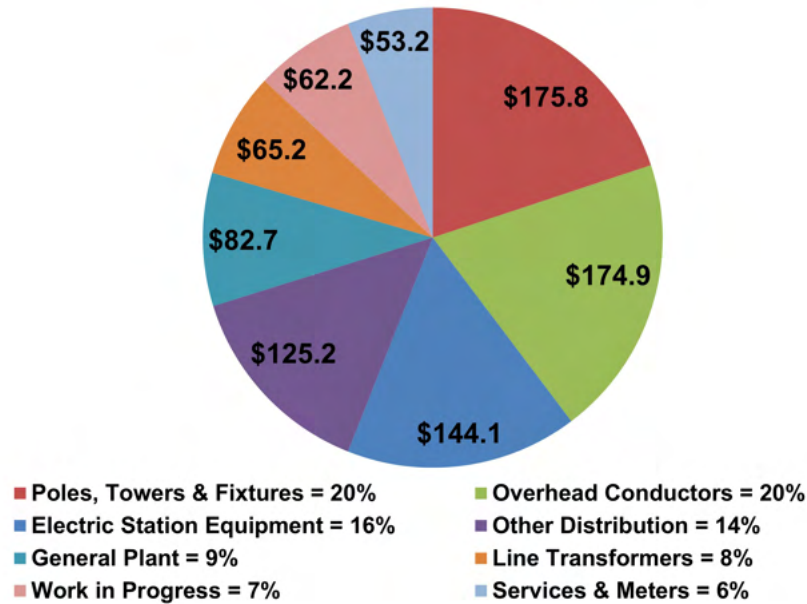
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Knoxville Utilities Board Electric Division Management’s Discussion and Analysis June 30, 2024 and 2023

Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, the Division had \$883.3 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of \$98.8 million or 12.6 percent over the end of the last fiscal year.

FY 2024 Electric Division Capital Assets = \$883.3 Million
(in Millions)



Major capital asset expenditures during the year were as follows:

- \$67.7 million for fiber network buildout
- \$32.3 million for electric distribution system improvements
- \$17.6 million for installation of new electric services and the upgrade or replacement of existing services
- \$7.3 million for pole replacements
- \$3.9 million for auto and truck purchases
- \$2.5 million for building improvements

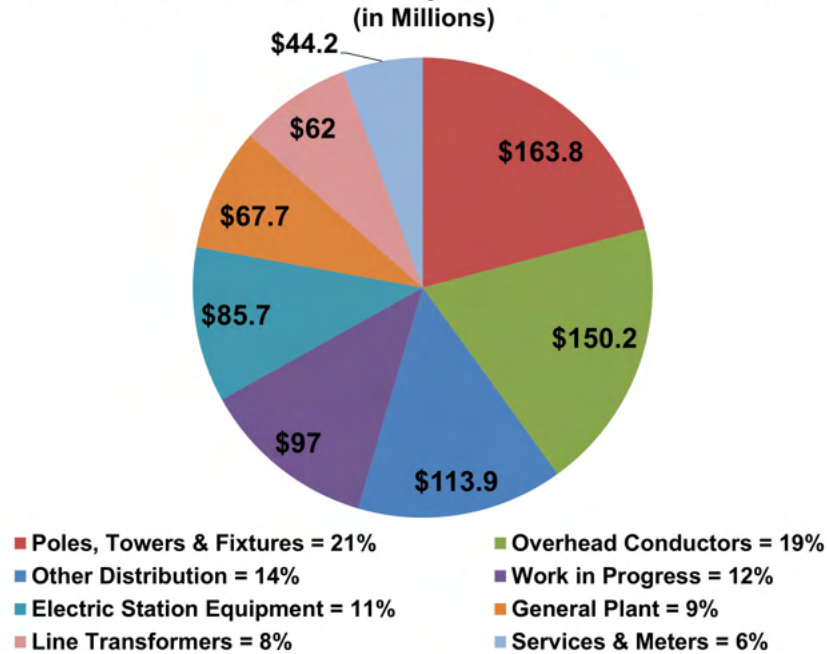
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Knoxville Utilities Board Electric Division Management’s Discussion and Analysis June 30, 2024 and 2023

Fiscal Year 2023 Compared to Fiscal Year 2022

As of June 30, 2023, the Division had \$784.5 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of \$71.5 million or 10 percent over the end of the last fiscal year.

FY 2023 Electric Division Capital Assets = \$784.5 Million



Major capital asset expenditures during the year were as follows:

- \$46 million for fiber network buildout
- \$30.5 million for electric distribution system improvements
- \$13.9 million for installation of new electric services and the upgrade or replacement of existing services
- \$6.6 million for pole replacements
- \$4.5 million for auto and truck purchases
- \$2.6 million for building improvements

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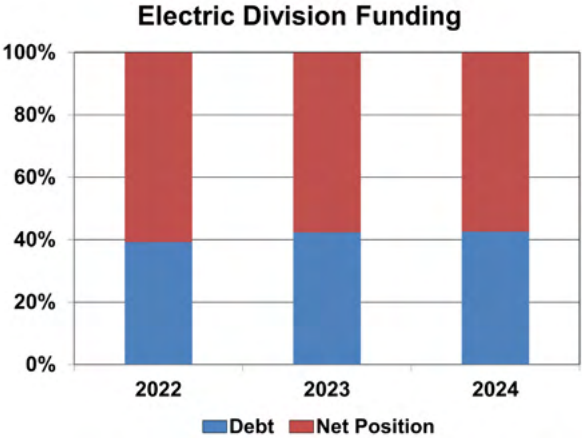
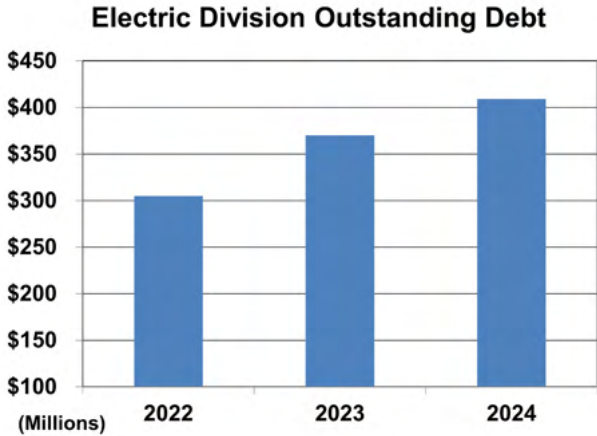
**Knoxville Utilities Board Electric Division
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Debt Administration

The Division’s outstanding debt was \$409.3 million as of June 30, 2024. The bonds are secured solely by revenues of the Electric Division. Debt as a percentage of the Division’s capital structure was 42.6 percent in 2024, 42.3 percent in 2023, and 39.2 percent in 2022. KUB’s Debt Management Policy limits the Division’s debt ratio to 50 percent or less.

**Outstanding Debt
As of June 30**

<i>(in thousands of dollars)</i>	2024	2023	2022
Revenue bonds	\$ 409,325	\$ 369,795	\$ 304,835
Total outstanding debt	\$ <u>409,325</u>	\$ <u>369,795</u>	\$ <u>304,835</u>



The Division will pay \$151.1 million in principal payments over the next ten years, representing 36.9 percent of the outstanding bonds. KUB’s Debt Management Policy requires that a minimum of 30 percent of electric debt principal be repaid over the next ten years.

Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, the Division had \$409.3 million in outstanding debt (including the current portion of revenue bonds), representing an increase of \$39.5 million or 10.7 percent. As of June 30, 2024, the Division’s weighted average cost of debt was 4.13 percent.

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

The Division’s outstanding debt is rated by S&P Global Ratings and Moody’s Investors Service. As of June 30, 2024, the Division’s revenue bonds were rated AA- by S&P Global Ratings and Aa2 by Moody’s Investors Service.

Knoxville Utilities Board Electric Division

Management's Discussion and Analysis

June 30, 2024 and 2023

Fiscal Year 2023 Compared to Fiscal Year 2022

As of June 30, 2023, the Division had \$369.8 million in outstanding debt (including the current portion of revenue bonds), representing an increase of \$65 million or 21.3 percent. As of June 30, 2023, the Division's weighted average cost of debt was 4.02 percent.

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

The Division's outstanding debt is rated by S&P Global Ratings and Moody's Investors Service. As of June 30, 2023, the Division's revenue bonds were rated AA- by S&P Global Ratings and Aa2 by Moody's Investors Service.

Impacts on Future Financial Position

KUB anticipates adding 2,500 additional electric customers in fiscal year 2025.

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

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

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

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

The Pension Plan actuarial valuation resulted in an actuarially determined contribution of \$2,210,234 for the fiscal year ending June 30, 2025, based on the Plan's current funding policy. The Electric Division's portion of this contribution will be determined as part of the actuarial analysis for the December 31, 2024, measurement date. Subsequent to June 30, 2024, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$2,793,313 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. The Electric Division's portion of this contribution will be determined as part of the actuarial analysis for the December 31, 2025, measurement date. For the Plan year beginning January 1, 2024, the Plan's actuarial funded ratio is 105.19 percent, and the market value funded ratio is 96.77 percent.

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

Knoxville Utilities Board Electric Division

Management's Discussion and Analysis

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

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

Financial Contact

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

Knoxville Utilities Board Electric Division
Statements of Net Position
June 30, 2024 and 2023

	2024	2023
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	\$ 47,070,494	\$ 72,488,469
Short-term contingency fund investments	24,514,699	46,249,233
Accrued interest receivable	195,612	234,444
Accounts receivable, less allowance of uncollectible accounts of \$585,736 in 2024 and \$563,258 in 2023	70,181,439	58,562,825
Current portion of lease receivable	413,182	275,129
Current portion of notes receivable	1,850,000	1,500,000
Inventories	25,157,894	21,543,132
Prepaid expenses	932,888	844,561
Total current assets	<u>170,316,208</u>	<u>201,697,793</u>
Restricted assets:		
Electric bond fund	25,943,680	23,046,192
Other funds	701	698
Unused bond proceeds	-	13
Total restricted assets	<u>25,944,381</u>	<u>23,046,903</u>
Electric plant in service	1,361,717,745	1,204,870,069
Less accumulated depreciation	<u>(540,602,236)</u>	<u>(517,337,699)</u>
	821,115,509	687,532,370
Retirement in progress	1,313,060	1,600,620
Construction in progress	<u>60,853,205</u>	<u>95,357,352</u>
Net plant in service	<u>883,281,774</u>	<u>784,490,342</u>
Intangible assets:		
Intangible right of use asset	2,214,770	2,211,509
Intangible subscription asset	2,474,253	2,798,972
Less accumulated amortization	<u>(2,101,178)</u>	<u>(1,432,611)</u>
Net intangible assets	<u>2,587,845</u>	<u>3,577,870</u>
Other assets:		
Long-term contingency fund investments	24,889,914	-
Long-term lease receivable	4,103,237	1,840,780
Notes receivable	32,737,500	27,616,667
TVA conservation program receivable	78,051	250,291
Under recovered purchased power cost	5,057,514	-
Other	3,120,088	3,223,524
Total other assets	<u>69,986,304</u>	<u>32,931,262</u>
Total assets	<u>1,152,116,512</u>	<u>1,045,744,170</u>
Deferred outflows of resources:		
Pension outflow	13,547,110	23,178,444
OPEB outflow	1,383,268	2,555,462
Total deferred outflows of resources	<u>14,930,378</u>	<u>25,733,906</u>
Total assets and deferred outflows of resources	<u>\$ 1,167,046,890</u>	<u>\$ 1,071,478,076</u>

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

Knoxville Utilities Board Electric Division
Statements of Net Position
June 30, 2024 and 2023

	2024	2023
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	\$ 17,320,000	\$ 15,470,000
Current portion of accrued compensated absences	3,360,030	3,180,273
Current portion of lease liability	420,136	391,979
Current portion of subscription liability	339,323	398,116
Sales tax collections payable	1,022,428	1,006,222
Accounts payable	93,822,214	80,599,899
Accrued expenses	20,857,696	19,350,429
Customer deposits plus accrued interest	18,009,828	17,131,418
Accrued interest on revenue bonds	8,623,556	7,576,068
Total current liabilities	<u>163,775,211</u>	<u>145,104,404</u>
Other liabilities:		
TVA conservation program	89,790	271,138
Accrued compensated absences	1,730,925	1,638,322
Customer advances for construction	9,292,003	8,995,706
Lease liability	876,610	1,281,971
Subscription liability	1,107,416	1,649,633
Net pension liability	3,557,274	10,563,017
Net OPEB liability	4,397,612	6,019,220
Over recovered purchased power cost	-	3,548,522
Other	32,160	38,317
Total other liabilities	<u>21,083,790</u>	<u>34,005,846</u>
Long-term debt:		
Electric revenue bonds	392,005,000	354,325,000
Unamortized premiums/discounts	32,495,461	30,341,874
Total long-term debt	<u>424,500,461</u>	<u>384,666,874</u>
Total liabilities	<u>609,359,462</u>	<u>563,777,124</u>
Deferred inflows of resources:		
Pension inflow	163,056	291,384
Unamortized bond refunding costs	1,440,875	1,437,283
OPEB inflow	845,393	-
Lease inflow	4,328,965	2,026,426
Total deferred inflows of resources	<u>6,778,289</u>	<u>3,755,093</u>
Total liabilities and deferred inflows of resources	<u>616,137,751</u>	<u>567,532,217</u>
Net position		
Net investment in capital assets	433,775,494	376,865,221
Restricted for:		
Debt service	17,320,125	15,470,124
Other	701	698
Unrestricted	99,812,819	111,609,816
Total net position	<u>550,909,139</u>	<u>503,945,859</u>
Total liabilities, deferred inflows, and net position	<u>\$ 1,167,046,890</u>	<u>\$ 1,071,478,076</u>

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

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

	2024	2023
Operating revenues	\$ 657,034,681	\$ 660,231,612
Operating expenses		
Purchased power	447,013,007	475,899,728
Distribution	57,375,210	51,183,020
Customer service	3,760,354	6,101,877
Administrative and general	32,025,453	28,545,522
Depreciation and amortization	44,066,858	40,651,472
Taxes and tax equivalents	21,651,025	19,918,570
Total operating expenses	<u>605,891,907</u>	<u>622,300,189</u>
Operating income	<u>51,142,774</u>	<u>37,931,423</u>
Non-operating revenues (expenses)		
Contributions in aid of construction	8,706,900	6,662,468
Interest income	6,686,576	4,879,006
Interest expense	(16,497,703)	(13,538,166)
Amortization of debt costs	1,742,154	1,674,346
Write-down of plant for costs recovered through contributions	(8,706,900)	(6,662,468)
Other	3,889,479	473,821
Total non-operating revenues (expenses)	<u>(4,179,494)</u>	<u>(6,510,993)</u>
Change in net position	46,963,280	31,420,430
Net position, beginning of year	<u>503,945,859</u>	<u>472,525,429</u>
Net position, end of year	<u>\$ 550,909,139</u>	<u>\$ 503,945,859</u>

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

Knoxville Utilities Board Electric Division

Statements of Cash Flows

Years Ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Cash receipts from customers	\$ 635,118,281	\$ 658,686,516
Cash receipts from other operations	9,726,149	15,794,121
Cash payments to suppliers of goods or services	(499,450,070)	(537,312,442)
Cash payments to employees for services	(34,502,092)	(40,462,300)
Payment in lieu of taxes	(18,765,814)	(17,175,635)
Cash receipts from collections of TVA conservation loan program participants	184,825	347,182
Cash payments for TVA conservation loan program	(193,934)	(364,556)
Net cash provided by operating activities	<u>92,117,345</u>	<u>79,512,886</u>
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	58,785,192	81,476,644
Principal paid on revenue bonds	(15,470,000)	(14,040,000)
Decrease (increase) in unused bond proceeds	13	1,298,130
Interest paid on revenue bonds	(14,648,930)	(10,746,078)
Acquisition and construction of electric plant	(153,518,289)	(124,026,082)
Changes in electric bond fund, restricted	(2,897,488)	(4,078,148)
Customer advances for construction	714,381	1,322,218
Proceeds received on disposal of plant	307,483	285,248
Principal paid on lease liabilities	(396,743)	(429,000)
Principal paid on subscription liabilities	(601,010)	(376,935)
Interest paid on lease and subscription liabilities	(119,866)	(143,940)
Cash received from developers and individuals for capital purposes	8,706,900	6,662,468
Net cash used in capital and related financing activities	<u>(119,138,357)</u>	<u>(62,795,475)</u>
Cash flows from investing activities:		
Purchase of investment securities	(40,393,250)	(8,720,000)
Maturities of investment securities	38,200,000	5,600,000
Issuance of notes receivable from Fiber Division	(7,000,000)	(20,000,000)
Payments received on notes receivable from Fiber Division	1,529,167	883,333
Interest received	6,553,048	4,705,409
Other property and investments	2,714,072	(36,450)
Net cash provided by (used in) investing activities	<u>1,603,037</u>	<u>(17,567,708)</u>
Net decrease in cash and cash equivalents	(25,417,975)	(850,297)
Cash and cash equivalents, beginning of year	<u>72,488,469</u>	<u>73,338,766</u>
Cash and cash equivalents, end of year	<u>47,070,494</u>	<u>\$ 72,488,469</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 51,142,774	\$ 37,931,423
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	45,988,267	42,152,113
Changes in operating assets and liabilities:		
Accounts receivable	(11,618,614)	8,294,889
Lease receivable	(2,400,510)	158,090
Inventories	(3,614,761)	(6,304,895)
Prepaid expenses	(88,327)	(28,638)
TVA conservation program receivable	172,240	325,244
Other assets	217,575	51,902
Sales tax collections payable	16,206	(31,659)
Accounts payable and other accrued expenses	20,439,463	(9,340,844)
Unrecovered purchased power cost	(8,606,036)	5,930,945
TVA conservation program payable	(181,348)	(342,619)
Customer deposits plus accrued interest	656,572	730,541
Other liabilities	(6,156)	(13,606)
Net cash provided by operating activities	<u>\$ 92,117,345</u>	<u>\$ 79,512,886</u>
Noncash capital activities:		
Record intangible right of use asset and lease liability	\$ 18,331	\$ 187,374
Record intangible subscription asset and subscription liability	\$ -	\$ 29,645

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

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2024 and 2023

1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions, including setting rates. The Electric Division (Division) provides services to certain customers in Knox County and in seven surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform Division of Accounts of the Federal Energy Regulatory Commission (FERC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Electric Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board as of June 30, 2024, and 2023, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2024 and 2023

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

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

Electric Plant

Electric plant and other property are stated on the basis of original cost. The cost of current repairs and minor replacements is charged to operating expense. The cost of renewals and improvements is 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 electric plant in service is based on the estimated useful lives of the assets, which range from three to forty years, and is computed using the straight-line method. Pursuant to FERC, the caption "Depreciation and amortization" in the Statements of Revenues, Expenses and Changes in Net Position does not include depreciation for transportation equipment. Depreciation for transportation equipment of \$1,921,409 in fiscal year 2024 and \$1,500,641 in fiscal year 2023 is included in operation and maintenance expense.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of the KUB Electric Division. 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 \$1,474,202 in fiscal year 2024 and \$1,610,396 in fiscal year 2023.

Non-operating Revenue

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

Expense

When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is KUB's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net 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 and intangible assets, including restricted capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of any bonds, mortgages, notes, lease and subscription liabilities, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2024 and 2023

are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Net position-restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- Net position-unrestricted – This component of net position consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

OPEB Trust

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

KUB's policy is to fully fund the annual actuarially determined contributions, which are determined by actuarial valuation. As required by GASB Statement No. 75, KUB measures net OPEB liability as total OPEB liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2024, and 2023, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2024, and 2023, are based on a June 30, 2024, and 2023, measurement date, respectively. The net OPEB liability is \$9,373,073 (Division's share \$4,397,612) as of June 30, 2024, and \$12,930,655 (Division's share \$6,019,220) as of June 30, 2023.

Pension Plan and Qualified Excess Benefit Arrangement

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 12). KUB's policy is to fully fund the annual actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net pension

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2024 and 2023

liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2024, and 2023, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2024 and 2023, are based on a December 31, 2023, and 2022, measurement date, respectively. The net pension liability is \$7,452,380 (Division's share \$3,557,274) as of June 30, 2024, and \$22,219,032 (Division's share \$10,563,017) as of June 30, 2023.

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

Investments

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

Self-Insurance

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

Estimates

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

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.

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2024 and 2023

Leases

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

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

Subscription-Based Information Technology Arrangements

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

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

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are items related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. Deferred inflows of resources are items related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. KUB records costs associated with the gain or loss on refunding of debt as either a deferred outflow or inflow based on the parameters of Statement No. 65. Deferred outflows of resources also include employer pension contributions made subsequent to the measurement date of the net pension liability and before the end of the employer's reporting period in accordance with Statement No. 71. Deferred inflows and deferred outflows also include the net difference between projected and actual earnings on pension plan investments and OPEB plan investments, differences between expected and actual experience, and changes in assumptions in accordance with Statements No. 68, 73, and 75. Deferred inflows are also recorded at the commencement of the lease term and recognized as revenue over the course of the lease in accordance with Statement No. 87.

Debt Premium/Discount

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

Debt Issuance Costs

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

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2024 and 2023

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 and is recorded as amortization expense.

Compensated Absences

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

TVA Conservation Program

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

Reclassification

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

Subsequent Events

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

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

Purchased Power Adjustment

In October 2002, the Board adopted a Purchased Power Adjustment (PPA) to address changes in wholesale power costs. The PPA was established in response to an amendment to KUB's power supply contract under which, among other things, TVA relinquished its regulatory authority over KUB's 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 provided a Pandemic Relief Credit to local power companies. KUB excluded the Standard Service portion of this credit from the Purchased Power Adjustment in order to assist customers in need of financial assistance due to the pandemic. \$6,550,000 was made available to residential and small business customers through the COVID Utility Relief Effort (CURE) fund.

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2024 and 2023

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

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

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

Recently Issued Accounting Pronouncements

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

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

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

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

3. Deposits and Investments

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

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

Interest Rate Risk. KUB's primary investment objectives are to place investments in a manner to ensure the preservation of capital, remain sufficiently liquid to meet all operating requirements, and

Knoxville Utilities Board Electric Division

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maximize yield of return. KUB minimizes its exposure to interest rate risk by adhering to Tennessee State law requirements for the investment of public funds. This includes limiting investments to those types described above and limiting maturity horizons. The maximum maturity is four years from the date of investment. KUB also limits its exposure by holding investments to maturity unless cash flow requirements dictate otherwise.

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

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

Classification of deposits and investments per Statement of Net Position:

	2024	2023
Current assets		
Cash and cash equivalents	\$ 47,070,494	\$ 72,488,469
Short-term contingency fund investments	24,223,706	46,178,476
Other assets		
Long-term contingency fund investments	24,889,914	-
Restricted assets		
Unused bond proceeds	-	13
Electric bond fund	25,943,680	23,046,192
Other funds	701	698
	<u>\$ 122,128,495</u>	<u>\$ 141,713,848</u>

The above amounts do not include accrued interest of \$290,993 in fiscal year 2024 and \$70,757 in fiscal year 2023. Interest income is recorded on an accrual basis.

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

	Deposit and Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	\$ 75,711,209	\$ 75,711,209	\$ -
State Treasurer's Investment Pool	19,240,356	19,240,356	-
Agency Bonds	29,873,264	4,983,350	24,889,914
	<u>\$ 124,824,829</u>	<u>\$ 99,934,915</u>	<u>\$ 24,889,914</u>

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

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

- U.S. Agency bonds of \$24,889,914, 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.

4. Accounts Receivable

Accounts receivable consists of the following:

	2024	2023
Wholesale and retail customers		
Billed services	\$ 38,396,037	\$ 32,312,101
Unbilled services	25,122,548	21,686,119
Other	7,248,590	5,127,863
Allowance for uncollectible accounts	<u>(585,736)</u>	<u>(563,258)</u>
	<u>\$ 70,181,439</u>	<u>\$ 58,562,825</u>

5. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

	2024	2023
Trade accounts	\$ 93,822,214	\$ 80,599,899
Current portion of accrued compensated absences	3,360,030	3,180,273
Salaries and wages	1,196,921	838,620
Advances on pole rental	1,527,262	1,482,546
Self-insurance liabilities	1,299,885	1,188,749
Other current liabilities	<u>16,833,628</u>	<u>15,840,514</u>
	<u>\$ 118,039,940</u>	<u>\$ 103,130,601</u>

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6. Long-Term Obligations

Long-term debt consists of the following:

	Balance				Balance		Amounts
	June 30,				June 30,		Due
	2023	Additions	Payments	Defeased	2024	Within	One Year
Electric							
EE-2015 - 2.0 - 5.0%	\$ 19,230,000	\$ -	\$ 2,415,000	\$ -	\$ 16,815,000	\$ 2,555,000	
FF-2015 - 2.0 - 5.0%	850,000	-	850,000	-	-	-	
GG-2016 - 2.0 - 5.0%	34,700,000	-	1,050,000	-	33,650,000	1,100,000	
HH-2017 - 2.5 - 5.0%	12,920,000	-	2,400,000	-	10,520,000	2,460,000	
II-2017 - 3.0 - 5.0%	35,995,000	-	935,000	-	35,060,000	985,000	
JJ-2018 - 3.0 - 5.0%	36,655,000	-	930,000	-	35,725,000	965,000	
KK-2020 - 5.0%	12,010,000	-	1,270,000	-	10,740,000	1,335,000	
LL-2021 - 4.0 - 5.0%	65,570,000	-	4,855,000	-	60,715,000	5,015,000	
MM-2022 - 4.0 - 5.0%	45,650,000	-	765,000	-	44,885,000	805,000	
NN-2022 - 4.0 - 5.0%	27,215,000	-	-	-	27,215,000	825,000	
OO-2022 - 4.0 - 5.0%	79,000,000	-	-	-	79,000,000	1,275,000	
PP-2023 - 5.0%	-	55,000,000	-	-	55,000,000	-	
Total bonds	\$ 369,795,000	\$ 55,000,000	\$ 15,470,000	\$ -	\$ 409,325,000	\$ 17,320,000	
Unamortized Premium	30,341,874	4,074,569	1,920,982	-	32,495,461	-	
Total long term debt	\$ 400,136,874	\$ 59,074,569	\$ 17,390,982	\$ -	\$ 441,820,461	\$ 17,320,000	

	Balance				Balance		Amounts
	June 30,				June 30,		Due
	2022	Additions	Payments	Defeased	2023	Within	One Year
Electric							
EE-2015 - 2.0 - 5.0%	\$ 21,530,000	\$ -	\$ 2,300,000	\$ -	\$ 19,230,000	\$ 2,415,000	
FF-2015 - 2.0 - 5.0%	1,675,000	-	825,000	-	850,000	850,000	
GG-2016 - 2.0 - 5.0%	35,700,000	-	1,000,000	-	34,700,000	1,050,000	
HH-2017 - 2.5 - 5.0%	15,225,000	-	2,305,000	-	12,920,000	2,400,000	
II-2017 - 3.0 - 5.0%	36,885,000	-	890,000	-	35,995,000	935,000	
JJ-2018 - 3.0 - 5.0%	37,550,000	-	895,000	-	36,655,000	930,000	
KK-2020 - 5.0%	13,225,000	-	1,215,000	-	12,010,000	1,270,000	
LL-2021 - 4.0 - 5.0%	70,180,000	-	4,610,000	-	65,570,000	4,855,000	
MM-2022 - 4.0 - 5.0%	45,650,000	-	-	-	45,650,000	765,000	
NN-2022 - 4.0 - 5.0%	27,215,000	-	-	-	27,215,000	-	
OO-2022 - 4.0 - 5.0%	-	79,000,000	-	-	79,000,000	-	
Total bonds	\$ 304,835,000	\$ 79,000,000	\$ 14,040,000	\$ -	\$ 369,795,000	\$ 15,470,000	
Unamortized Premium	29,092,437	3,099,539	1,850,102	-	30,341,874	-	
Total long term debt	\$ 333,927,437	\$ 82,099,539	\$ 15,890,102	\$ -	\$ 400,136,874	\$ 15,470,000	

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Knoxville Utilities Board Electric Division
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Debt service over remaining term of the debt is as follows:

Fiscal Year	Total		Grand Total
	Principal	Interest	
2025	\$ 17,320,000	\$ 16,702,593	\$ 34,022,593
2026	16,440,000	15,790,649	32,230,649
2027	17,140,000	15,050,074	32,190,074
2028	17,820,000	14,326,297	32,146,297
2029	15,825,000	13,650,293	29,475,293
2030-2034	66,520,000	59,114,188	125,634,188
2035-2039	69,095,000	45,364,908	114,459,908
2040-2044	79,575,000	30,488,188	110,063,188
2045-2049	68,310,000	15,214,471	83,524,471
2050-2054	41,280,000	3,987,875	45,267,875
Total	<u>\$ 409,325,000</u>	<u>\$ 229,689,536</u>	<u>\$ 639,014,536</u>

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

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

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

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

Other liabilities consist of the following:

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
TVA conservation program	\$ 271,138	\$ 13,659	\$ (195,007)	\$ 89,790
Accrued compensated absences	1,638,322	3,324,661	(3,232,058)	1,730,925
Customer advances for construction	8,995,706	4,104,911	(3,808,614)	9,292,003
Other	38,317	40,157	(46,314)	32,160
	<u>\$ 10,943,483</u>	<u>\$ 7,483,388</u>	<u>\$ (7,281,993)</u>	<u>\$ 11,144,878</u>

Knoxville Utilities Board Electric Division
Notes to Financial Statements
June 30, 2024 and 2023

	Balance June 30, 2022	Increase	Decrease	Balance June 30, 2023
TVA conservation program	\$ 613,757	\$ 25,487	\$ (368,106)	\$ 271,138
Accrued compensated absences	5,029,077	9,682,169	(13,072,924)	1,638,322
Customer advances for construction	8,170,574	4,171,839	(3,346,707)	8,995,706
Other	51,925	27,639	(41,247)	38,317
	<u>\$ 13,865,333</u>	<u>\$ 13,907,134</u>	<u>\$ (16,828,984)</u>	<u>\$ 10,943,483</u>

7. Lease Receivables

KUB, as lessor, leases office space, land, and fiber optic cables under non-cancelable lease arrangements. Terms of the leases range from one to fourteen years and contain fixed payment terms. Certain leases contain an option to renew that has been considered in the lease receivable when the lessee is reasonably certain to exercise the renewal option. KUB recognized lease revenue, which is included in other operating revenues, of \$481,441 in 2024 and \$310,609 in 2023. KUB also recognized interest income from leases, which is included in non-operating revenues, totaling \$152,105 in 2024 and \$75,046 in 2023. Total lease receivables were \$4,516,419 (\$413,182 current) and \$2,115,909 (\$275,129 current) as of June 30, 2024, and 2023, respectively, and are included in other assets on the Statement of Net Position.

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Knoxville Utilities Board Electric Division
Notes to Financial Statements
June 30, 2024 and 2023

8. Lease Liabilities

Changes in lease liabilities are summarized as follows:

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Total lease liabilities	\$ 1,673,950	\$ <u>18,331</u>	\$ <u>(395,535)</u>	\$ 1,296,746
Less current portion	<u>(391,979)</u>			<u>(420,136)</u>
Long-term portion	<u>\$ 1,281,971</u>			<u>\$ 876,610</u>

	Balance June 30, 2022	Increase	Decrease	Balance June 30, 2023
Total lease liabilities	\$ 1,917,701	\$ <u>187,374</u>	\$ <u>(431,125)</u>	\$ 1,673,950
Less current portion	<u>(403,643)</u>			<u>(391,979)</u>
Long-term portion	<u>\$ 1,514,058</u>			<u>\$ 1,281,971</u>

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

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

	Lease Maturities	Interest Requirements
2025	\$ 420,136	\$ 42,804
2026	436,510	27,113
2027	357,031	10,512
2028	9,894	3,681
2029	2,998	3,257
2030-2034	18,499	15,709
2035-2039	26,054	13,602
2040-2044	25,624	7,385
	<u>\$ 1,296,746</u>	<u>\$ 124,063</u>

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Knoxville Utilities Board Electric Division
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June 30, 2024 and 2023

9. Subscription-Based Information Technology Agreement Liabilities

Changes in SBITA liabilities are summarized as follows:

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Total SBITA liabilities	\$ 2,047,749	\$ -	\$ (601,010)	\$ 1,446,739
Less current portion	<u>(398,116)</u>			<u>(339,323)</u>
Long-term portion	<u>\$ 1,649,633</u>			<u>\$ 1,107,416</u>

	Balance June 30, 2022	Increase	Decrease	Balance June 30, 2023
Total SBITA liabilities	\$ 2,395,039	\$ 29,645	\$ (376,935)	\$ 2,047,749
Less current portion	<u>(376,935)</u>			<u>(398,116)</u>
Long-term portion	<u>\$ 2,018,104</u>			<u>\$ 1,649,633</u>

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

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

	Subscription Maturities		Interest Requirements	
2025	\$	339,323	\$	49,569
2026		352,428		36,192
2027		367,437		22,257
2028		<u>387,551</u>		<u>7,600</u>
	<u>\$</u>	<u>1,446,739</u>	<u>\$</u>	<u>115,618</u>

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Knoxville Utilities Board Electric Division
Notes to Financial Statements
June 30, 2024 and 2023

10. Capital and Intangible Assets

Capital and intangible asset activity was as follows:

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Distribution Plant				
Services and Meters	\$ 79,480,092	\$ 13,379,485	\$ (175,243)	\$ 92,684,334
Electric Station Equipment	218,924,364	67,605,046	(455,777)	286,073,633
Poles, Towers and Fixtures	237,092,817	19,242,803	(1,132,423)	255,203,197
Overhead Conductors	199,084,887	29,551,211	(6,243,400)	222,392,698
Line Transformers	111,182,883	5,863,192	(514,807)	116,531,268
Other Accounts	199,366,678	17,411,436	(1,460,166)	215,317,948
Total Distribution Plant	\$ 1,045,131,721	\$ 153,053,173	\$ (9,981,816)	\$ 1,188,203,078
General Plant				
	<u>159,738,348</u>	<u>23,856,518</u>	<u>(10,080,199)</u>	<u>173,514,667</u>
Total Plant Assets	\$ 1,204,870,069	\$ 176,909,691	\$ (20,062,015)	\$ 1,361,717,745
Less Accumulated Depreciation	<u>(517,337,699)</u>	<u>(45,313,637)</u>	<u>22,049,100</u>	<u>(540,602,236)</u>
Net Plant Assets	\$ 687,532,370	\$ 131,596,054	\$ 1,987,085	\$ 821,115,509
Work In Progress	<u>96,957,972</u>	<u>143,716,646</u>	<u>(178,508,353)</u>	<u>62,166,265</u>
Total Net Plant	\$ 784,490,342	\$ 275,312,700	\$ (176,521,268)	\$ 883,281,774
Intangible Right of Use Assets				
Office space	\$ 1,980,114	\$ 22,183	\$ -	\$ 2,002,297
Equipment	61,181	-	(18,922)	42,259
Other	170,214	-	-	170,214
Total Intangible Right of Use Assets	\$ 2,211,509	\$ 22,183	\$ (18,922)	\$ 2,214,770
Less Accumulated Amortization	<u>(642,378)</u>	<u>(413,802)</u>	<u>18,922</u>	<u>(1,037,258)</u>
Net Intangible Right of Use Assets	\$ 1,569,131	\$ (391,619)	\$ -	\$ 1,177,512
Intangible Subscription Assets				
Intangible Subscription Assets	\$ 2,798,972	\$ -	\$ (324,719)	\$ 2,474,253
Less Accumulated Amortization	<u>(790,233)</u>	<u>(273,687)</u>	<u>-</u>	<u>(1,063,920)</u>
Net Intangible Subscription Assets	\$ 2,008,739	\$ (273,687)	\$ (324,719)	\$ 1,410,333

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	Balance June 30, 2022	Increase	Decrease	Balance June 30, 2023
Distribution Plant				
Services and Meters	\$ 74,990,605	\$ 4,866,515	\$ (377,028)	\$ 79,480,092
Electric Station Equipment	187,970,173	32,116,981	(1,162,790)	218,924,364
Poles, Towers and Fixtures	229,318,620	9,047,087	(1,272,890)	237,092,817
Overhead Conductors	189,890,504	12,186,365	(2,991,982)	199,084,887
Line Transformers	108,462,710	3,275,117	(554,944)	111,182,883
Other Accounts	195,635,304	5,032,720	(1,301,346)	199,366,678
Total Distribution Plant	\$ 986,267,916	\$ 66,524,785	\$ (7,660,980)	\$ 1,045,131,721
General Plant				
	<u>150,168,202</u>	<u>10,726,797</u>	<u>(1,156,651)</u>	<u>159,738,348</u>
Total Plant Assets	\$ 1,136,436,118	\$ 77,251,582	\$ (8,817,631)	\$ 1,204,870,069
Less Accumulated Depreciation	<u>(485,629,439)</u>	<u>(41,580,780)</u>	<u>9,872,520</u>	<u>(517,337,699)</u>
Net Plant Assets	\$ 650,806,679	\$ 35,670,802	\$ 1,054,889	\$ 687,532,370
Work In Progress	<u>62,187,619</u>	<u>113,518,468</u>	<u>(78,748,115)</u>	<u>96,957,972</u>
Total Net Plant	\$ 712,994,298	\$ 149,189,270	\$ (77,693,226)	\$ 784,490,342
Intangible Right of Use Assets				
Office space	\$ 2,040,220	\$ -	\$ (60,106)	\$ 1,980,114
Equipment	53,811	14,919	(7,549)	61,181
Other	67,578	170,214	(67,578)	170,214
Total Intangible Right of Use Assets	\$ 2,161,609	\$ 185,133	\$ (135,233)	\$ 2,211,509
Less Accumulated Amortization	<u>(325,312)</u>	<u>(399,992)</u>	<u>82,926</u>	<u>(642,378)</u>
Net Intangible Right of Use Assets	\$ 1,836,297	\$ (214,859)	\$ (52,307)	\$ 1,569,131
Intangible Subscription Assets				
Intangible Subscription Assets	\$ 2,784,950	\$ 14,022	\$ -	\$ 2,798,972
Less Accumulated Amortization	<u>(389,911)</u>	<u>(400,322)</u>	<u>-</u>	<u>(790,233)</u>
Net Intangible Subscription Assets	\$ 2,395,039	\$ (386,300)	\$ -	\$ 2,008,739

11. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. As of June 30, 2024, and June 30, 2023, the amount of these liabilities was \$1,299,885 and \$1,188,749, respectively, resulting from the following changes:

	2024	2023
Balance, beginning of year	\$ 1,188,749	\$ 1,067,781
Current year claims and changes in estimates	9,765,664	10,265,043
Claims payments	<u>(9,654,528)</u>	<u>(10,144,075)</u>
Balance, end of year	\$ 1,299,885	\$ 1,188,749

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12. Pension Plan

Description of Plan

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

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

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

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

Retirement Benefits

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

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

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

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

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

Contributions

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

Plan Funding

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

Investments

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

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

Contributions of \$1,108,147 and \$2,624,373 for 2022 and 2021, respectively, were made during the Plan sponsor’s fiscal years ended June 30, 2024, and 2023, respectively. Of these amounts, \$528,956 and \$1,247,636 are attributable to the Electric Division. The fiscal year 2024 contribution was determined as part of the January 1, 2022, valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant’s benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation

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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, 2024, and 2023, will be based on the December 31, 2023, and 2022, measurement date, respectively. The net pension liability is \$7,452,380 (Division’s share \$3,557,274) as of June 30, 2024, and \$22,219,032 (Division’s share \$10,563,017) as of June 30, 2023.

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

	2023	2022
Total pension liability	\$ 263,351,035	\$ 254,406,723
Plan fiduciary net position	<u>(255,898,655)</u>	<u>(232,187,691)</u>
Plan’s net pension liability	<u>\$ 7,452,380</u>	<u>\$ 22,219,032</u>
Plan fiduciary net position as a percentage of the total pension liability	97.17%	91.27%

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

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

Actuarial Assumptions

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

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

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

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

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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	
	2023	2022
Domestic equity	5.6%	5.0%
Non-U.S. equity	6.5%	6.1%
Real estate equity	5.8%	5.4%
Debt securities	1.9%	0.5%
Cash and deposits	0.7%	(0.1%)

Discount rate

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

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

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

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

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Knoxville Utilities Board Electric Division

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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, 2024, KUB recognized pension expense of \$6,394,757 and the Electric Division's share was \$3,027,303.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2022, this average was four years. During the measurement year, there was a liability experience loss of \$2,092,475, with \$523,119 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$1,569,356. Unrecognized liability experience losses from prior periods were \$1,951,216, of which \$940,357 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,010,859. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$2,580,215 (Division's share \$1,231,624). Unrecognized liability gains from prior periods were \$210,825, of which \$210,825 was recognized as a decrease in Pension Expense in the current year and resulted in a deferred inflow of \$0.

During the measurement year, there were no benefit changes or assumption changes. Net unrecognized assumption change losses from prior periods were \$5,646,136, of which \$3,011,800 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$2,634,336 (Division's share \$1,257,458).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$20,099,370, of which \$4,019,874 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were \$39,628,509, of which \$1,043,676 was recognized as an increase in Pension Expense in the current year. The combination of unrecognized investment gains this year, along with net unrecognized investment losses from prior periods, results in a deferred outflow of \$22,505,337 (Division's share \$10,742,563).

The impact of the change in proportionate share for the Electric Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is four years. This change resulted in a deferred inflow of \$47,840, with \$11,960 of that recognized in the current year and the remaining amount recognized over the next three years, resulting in a deferred inflow of resources of \$35,880. Net proportionate share changes from the prior period were \$189,521, of which \$63,174 was recognized in the current year, resulting in a deferred inflow of resources of \$126,347. Unrecognized proportionate share changes from prior periods of \$100,009, of which \$50,005 was recognized in the current year, resulted in a deferred outflow of \$50,004. In addition, KUB's Electric Division recorded a deferred outflow of resources of \$264,478 for employer contributions made between December 31, 2023, and June 30, 2024.

The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Electric Division.

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,231,624	\$ -
Changes in assumptions	1,257,458	-
Net difference between projected and actual earnings on pension plan investments	10,742,563	-
Change in proportionate share	50,004	162,227
Contributions subsequent to measurement date	264,478	-
Total	<u>\$ 13,546,127</u>	<u>\$ 162,227</u>

\$264,478 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2025. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2025	\$ 3,212,294
2026	5,362,343
2027	6,463,597
2028	(1,918,812)
Thereafter	-

For the year ended June 30, 2023, KUB recognized pension expense of \$8,973,269 and the Electric Division's share was \$4,252,758.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2021, this average was four years. During the measurement year, there was a liability experience loss of \$282,014, with \$70,504 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$211,510. Unrecognized liability experience losses from prior periods were \$2,609,559, of which \$869,853 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,739,706. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$1,951,216 (Division's share \$927,616). Unrecognized liability gains from prior periods were \$542,777, of which \$331,952 was recognized as a decrease in Pension Expense in the current year and resulted in a deferred inflow of \$210,825 (Division's share \$100,227).

During the measurement year, there was an assumption change loss of \$5,268,672, with \$1,317,168 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$3,951,504. Net unrecognized assumption change losses from prior periods were \$3,389,264, of which \$1,694,632 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$1,694,632. The total deferred outflow is \$5,646,136 (Division's share \$2,684,196).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment loss of \$85,314,262, of which \$17,062,852 was recognized in the current year and will be recognized in each of the next four years. Net

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unrecognized investment gains from prior periods were \$38,969,257, of which \$10,346,356 was recognized as a decrease in Pension Expense in the current year. The combination of unrecognized investment losses this year, along with unrecognized investment gains from prior periods, results in a deferred outflow of \$39,628,509 (Division's share \$18,839,551).

The impact of the change in proportionate share for the Electric Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is four years. This change resulted in a deferred inflow of \$252,695, with \$63,174 of that recognized in the current year and the remaining amount recognized over the next three years, resulting in a deferred inflow of resources of \$189,521. Net proportionate share changes from prior periods were \$150,014, of which \$50,005 was recognized in the current year, resulting in a deferred outflow of resources of \$100,009. In addition, KUB's Electric Division recorded a deferred outflow of resources of \$623,818 for employer contributions made between December 31, 2022, and June 30, 2023.

The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Electric Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 927,616	\$ 100,227
Changes in assumptions	2,684,196	-
Net difference between projected and actual earnings on pension plan investments	18,839,551	-
Change in proportionate share	100,009	189,521
Contributions subsequent to measurement date	623,818	-
Total	<u>\$ 23,175,190</u>	<u>\$ 289,748</u>

13. Qualified Excess Benefit Arrangement

Description

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

As of June 30, 2024, there are 372 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the KUB Pension Plan. The KUB Pension Plan was amended to include the provision of QEBA benefits; therefore, amendments to the QEBA require the same authority as amendments to the KUB Pension Plan. As required by federal tax law, the QEBA is unfunded within the meaning of the federal tax laws.

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KUB may not pre-fund the QEBA to cover future liabilities beyond the current year. KUB has established procedures to pay for these benefits on a pay-as-you-go basis. There are no assets accumulated in a trust that meets the GASB's criteria. Due to the increase in the section 415(d) annual benefit limitation from 2021 to 2022, the pension benefit for the sole participant in the Excess Benefit Arrangement is now fully payable under the KUB Pension Plan and, as such, there is no benefit payable under the Excess Benefit Arrangement as of June 30, 2024, and 2023.

Total Pension Liability of the QEBA

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

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

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

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

For the year ended June 30, 2024, KUB recognized pension expense of \$3,024 (Division's share \$1,452) for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$-), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [(\$347) – (\$3,371)+ \$-].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2020, this average was four years. There was a deferred inflow at the end of the measurement year of \$1,717 (Division's share \$829) from experience gains in prior years and a deferred outflow of \$2,033 (Division's share \$976) from experience losses in prior years.

There was a deferred outflow of \$18 (Division's share \$7) from assumption changes in prior years.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,033	\$ 1,717
Changes in assumptions	18	-
Total	\$ 2,051	\$ 1,717
Division's share	\$ 983	\$ 835

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

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

For the year ended June 30, 2023, KUB recognized pension expense of (\$8,793) (Division's share (\$4,221)) for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$-), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [(\$3,371) - \$5,422 + \$-].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2020, this average was four years. There was a deferred inflow at the end of the measurement year of \$3,408 (Division's share \$1,636) from experience gains in prior years and a deferred outflow of \$4,073 (Division's share \$1,955) from experience losses in prior years.

There was a deferred outflow of \$2,706 (Division's share \$1,299) from assumption changes in prior years.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,073	\$ 3,408
Changes in assumptions	2,706	-
Total	\$ 6,779	\$ 3,408
Division's share	\$ 3,254	\$ 1,636

14. Defined Contribution Plan

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

KUB funded 401(k) matching contributions and non-elective contributions of \$3,909,598 (Division's share \$1,873,454) and \$3,794,561 (Division's share \$1,745,498), respectively, for the years ended June 30, 2024, and 2023.

Vesting

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

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

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

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

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

Forfeitures

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

15. Other Post-Employment Benefits (OPEB)

Description of Trust

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

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

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

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

Benefits

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

Contributions and Funding

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

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

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

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

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

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2024 and 2023

Investments

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

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 for the Electric Division of \$557,271 and \$657,934 were made to the OPEB Trust in fiscal years ended June 30, 2024 and 2023, respectively. These were based on the OPEB actuarial valuations as of January 1, 2022, and 2021.

Net OPEB Liability

The below summarizes the disclosures of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"), which requires measurement of the net OPEB liability as total OPEB liability less the amount of the Trust's fiduciary net position. The amounts reported as of June 30 are based on the reporting date for the KUB Other Post-Employment Benefits Plan which is June 30. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2024, and 2023, and the Total OPEB Liability as of the valuation date January 1, 2023, updated to June 30, 2024, and January 1, 2022, updated to June 30, 2023, respectively. The Division's share of the total net OPEB liability was \$4,397,612 as of June 30, 2024, and \$6,019,220 as of June 30, 2023.

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

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

Knoxville Utilities Board Electric Division
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June 30, 2024 and 2023

Changes in Net OPEB Liability are as follows:

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

Actuarial assumptions

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

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

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

The long-term expected rate of return on Trust investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net

Knoxville Utilities Board Electric Division
Notes to Financial Statements
June 30, 2024 and 2023

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	
	2024	2023
Domestic equity	5.4%	5.1%
International equity	6.1%	6.1%
Emerging Market equity	7.8%	8.4%
Real estate equity	5.5%	5.3%
Debt securities	2.3%	1.8%
Cash and deposits	0.9%	0.7%

Discount rate

The discount rate used to measure the total OPEB liability was 7.00 percent as of June 30, 2024 and June 30, 2023. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

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

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

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

Knoxville Utilities Board Electric Division
Notes to Financial Statements
June 30, 2024 and 2023

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

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

For the year ended June 30, 2024, KUB's Electric Division recognized OPEB expense of \$953,249.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience loss of \$587,252, with \$83,893 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$503,359. Unrecognized experience losses from prior periods were \$100,858, of which \$16,810 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of resources of \$84,048. The combination of unrecognized experience gains or losses results in a deferred outflow of resources of \$587,407 (Division's share \$275,595).

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

During the measurement year, there was an assumption change gain of \$2,102,184, with \$300,312 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$1,801,872 (Division's share \$845,392). Unrecognized assumption losses from prior periods were \$2,166,706, of which \$361,118 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of \$1,805,588 (Division's share \$847,136).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$2,339,599, of which \$467,920 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$1,871,679. Net unrecognized investment losses from prior periods were \$3,211,114, of which \$843,284 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$2,367,829. The combination of unrecognized gains and losses from the current year and prior periods results in a deferred outflow of resources of \$496,150 (Division's share \$232,784).

The impact of the change in proportionate share for the Electric Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is seven years. This change resulted in a deferred outflow of \$27,385, with \$3,913 of that recognized in the current year and the remaining amount recognized over the next six years, resulting in a deferred outflow of resources of \$23,472. Net proportionate share changes from prior periods were \$5,137, with \$856 of that recognized in the current year resulting in a deferred outflow of \$4,281. The table below summarizes the current balances of deferred outflows and deferred inflows of resources of the Electric Division.

Knoxville Utilities Board Electric Division
Notes to Financial Statements
June 30, 2024 and 2023

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 275,595	\$ -
Changes in assumptions	847,136	845,392
Net difference between projected and actual earnings on OPEB plan investments	232,784	-
Change in proportionate share	27,753	-
Total	<u>\$ 1,383,268</u>	<u>\$ 845,392</u>

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

Year ended June 30:	
2025	\$ 14,646
2026	912,815
2027	(233,510)
2028	(138,991)
2029	80,544
Thereafter	(97,628)

For the year ended June 30, 2023, KUB's Electric Division recognized OPEB expense of \$1,322,490.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience loss of \$117,668, with \$16,810 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$100,858 (Division's share \$46,949). Unrecognized experience losses from prior periods were \$30,475, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there were no benefit changes.

During the measurement year, there was an assumption change loss of \$2,527,824, with \$361,118 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$2,166,706 (Division's share \$1,008,602).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$1,007,293, of which \$201,459 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$805,834. Net unrecognized investment losses from prior periods were \$5,179,219, of which \$1,162,271 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$4,016,948. The combination of unrecognized gains this year, along with the net unrecognized investment losses from prior periods, results in a deferred outflow of resources of \$3,211,114 (Division's share \$1,494,774).

The impact of the change in proportionate share for the Electric Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is seven years. This change resulted in a deferred outflow of \$5,993, with \$856 of that

Knoxville Utilities Board Electric Division
Notes to Financial Statements
June 30, 2024 and 2023

recognized in the current year and the remaining amount recognized over the next six years, resulting in a deferred outflow of resources of \$5,137. Net proportionate share changes from prior periods were \$15,541, of which the entire amount was recognized in the current year. The table below summarizes the current balances of deferred outflows and deferred inflows of resources of the Electric Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 46,949	\$ -
Changes in assumptions	1,008,602	-
Net difference between projected and actual earnings on OPEB plan investments	1,494,774	-
Change in proportionate share	5,137	-
Total	<u>\$ 2,555,462</u>	<u>\$ -</u>

16. Related Party Transactions

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

	2024	2023
City of Knoxville		
Amounts billed by the Division for utilities and related services	\$ 7,373,294	\$ 7,241,007
Payments by the Division in lieu of property tax	10,429,071	9,461,144
Payments by the Division for services provided	17,590	26,493
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	7,143,305	7,249,101
Interdivisional rental expense	227,017	154,703
Interdivisional rental income	1,891,086	1,966,590
Amounts billed to the Division by other divisions for utilities services provided	320,018	288,850
Interdivisional interest income	1,172,928	848,675
Interdivisional access and utilization income	3,044,523	1,200,888

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

	2024	2023
Accounts receivable	\$ 469,395	\$ 238,814

The Fiber Division's broadband services are provided by a high-speed fiber optic network that is owned and maintained by the Division. The Fiber Division shares in the cost to build and operate the

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2024 and 2023

Fiber network by paying the Division an annual access fee based on the year-end value of those assets and the related expenses. The Fiber Division also pays the Division an annual utilization fee based on attachments to the network.

In October 2021, the Division issued an interdivisional loan of \$10 million to the Fiber Division at an interest rate of 3.89 percent. In August 2022, the Division issued an interdivisional loan of \$7 million to the Fiber Division at an interest rate of 3.93 percent. In February 2023, the Division issued an interdivisional loan of \$13 million to the Fiber Division at an interest rate of 4.02 percent. In May 2024, the Division issued an interdivisional loan of \$7 million to the Fiber Division at an interest rate of 4.13 percent. The Division recognized interest income of \$1,172,928 for the year ended June 30, 2024, and \$848,675 for the year ended June 30, 2023.

17. 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 Electric Division

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

June 30, 2024

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

Notes to Schedule:

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division

Required Supplementary Information – Schedule of Employer Pension Contributions

June 30, 2024

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

Notes to Schedule:

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

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

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Individual entry age

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

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

Discount rate: 7.25%

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

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

Inflation: 2.5%

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Required Supplementary Information – Schedule of Changes in Net OPEB Liability and Related Ratios
June 30, 2024

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

Notes to Schedule:

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

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division

Required Supplementary Information – Schedule of Employer OPEB Contributions

June 30, 2024

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

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

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

Notes to Schedule:

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

Key methods and assumptions used to determine contribution rates:

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

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

See accompanying Independent Auditor's Report

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

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

Notes to Schedule:

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2024

Continued on Next Page

FY	EE-2015		GG-2016		HH-2017		II-2017		JJ-2018		KK-2020	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
24-25	2,555,000	478,900	1,100,000	884,938	2,460,000	380,455	985,000	1,084,525	965,000	1,224,706	1,335,000	503,625
25-26	2,670,000	387,750	1,125,000	857,188	2,560,000	285,705	1,035,000	1,034,025	1,005,000	1,185,106	1,400,000	435,250
26-27	2,735,000	306,675	1,150,000	834,438	2,695,000	154,330	1,075,000	992,025	1,055,000	1,133,606	1,460,000	363,750
27-28	2,850,000	222,900	1,175,000	811,188	2,805,000	43,478	1,110,000	959,250	1,100,000	1,090,731	1,525,000	289,125
28-29	2,955,000	135,825	1,200,000	787,437			1,140,000	925,500	1,130,000	1,057,281	1,595,000	211,125
29-30	3,050,000	45,750	1,200,000	762,687			1,175,000	890,775	1,165,000	1,022,856	1,675,000	129,375
30-31			1,250,000	731,187			1,215,000	854,925	1,200,000	986,631	1,750,000	43,750
31-32			1,275,000	693,312			1,250,000	817,950	1,240,000	947,731		
32-33			1,325,000	654,312			1,285,000	779,925	1,285,000	905,897		
33-34			1,350,000	614,187			1,325,000	740,775	1,330,000	860,938		
34-35			1,400,000	572,937			1,365,000	700,425	1,375,000	813,600		
35-36			1,450,000	535,625			1,410,000	658,800	1,420,000	766,463		
36-37			1,475,000	500,875			1,450,000	615,900	1,470,000	719,500		
37-38			1,525,000	459,563			1,495,000	571,725	1,520,000	669,963		
38-39			1,550,000	417,313			1,540,000	526,200	1,570,000	617,819		
39-40			1,600,000	377,937			1,590,000	479,250	1,625,000	562,888		
40-41			1,650,000	335,250			1,635,000	430,875	1,685,000	504,963		
41-42			1,675,000	289,531			1,685,000	381,075	1,745,000	444,938		
42-43			1,725,000	242,781			1,740,000	329,700	1,805,000	382,813		
43-44			1,775,000	194,656			1,790,000	275,631	1,870,000	318,500		
44-45			1,825,000	142,875			1,850,000	218,756	1,935,000	251,913		
45-46			1,900,000	87,000			1,910,000	160,006	2,005,000	182,963		
46-47			1,950,000	29,250			1,970,000	98,151	2,075,000	111,563		
47-48							2,035,000	33,069	2,150,000	37,625		
48-49												
49-50												
50-51												
51-52												
52-53												
53-54												
Total	\$ 16,815,000	\$ 1,577,800	\$ 33,650,000	\$ 11,816,467	\$ 10,520,000	\$ 863,968	\$ 35,060,000	\$ 14,559,238	\$ 35,725,000	\$ 16,800,994	\$ 10,740,000	\$ 1,976,000

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2024

Continued from Previous Page

FY	LL-2021		MM-2022		NN-2022		OO-2022		PP-2023		Total		Grand Total (P + I)
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
24-25	5,015,000	2,653,075	805,000	1,890,975	825,000	1,153,025	1,275,000	3,522,675	-	2,925,694	17,320,000	16,702,593	34,022,593
25-26	2,745,000	2,459,075	850,000	1,849,600	845,000	1,111,275	1,340,000	3,457,300	865,000	2,728,375	16,440,000	15,790,649	32,230,649
26-27	2,890,000	2,318,200	895,000	1,805,975	865,000	1,068,525	1,410,000	3,388,550	910,000	2,684,000	17,140,000	15,050,074	32,190,074
27-28	2,995,000	2,171,075	940,000	1,760,100	885,000	1,024,775	1,480,000	3,316,300	955,000	2,637,375	17,820,000	14,326,297	32,146,297
28-29	3,315,000	2,013,325	990,000	1,711,850	935,000	979,275	1,560,000	3,240,300	1,005,000	2,588,375	15,825,000	13,650,293	29,475,293
29-30	3,465,000	1,843,825	1,040,000	1,661,100	965,000	931,775	1,640,000	3,160,300	1,055,000	2,536,875	16,430,000	12,985,318	29,415,318
30-31	2,525,000	1,694,075	1,090,000	1,607,850	1,025,000	882,025	1,720,000	3,076,300	1,110,000	2,482,750	12,885,000	12,359,493	25,244,493
31-32	3,495,000	1,543,575	1,150,000	1,551,850	1,050,000	830,150	1,810,000	2,988,050	1,165,000	2,425,875	12,435,000	11,798,493	24,233,493
32-33	2,850,000	1,384,950	1,205,000	1,492,975	1,110,000	776,150	1,905,000	2,895,175	1,225,000	2,366,125	12,190,000	11,255,509	23,445,509
33-34	2,845,000	1,242,575	1,270,000	1,431,100	1,170,000	725,000	2,000,000	2,797,550	1,290,000	2,303,250	12,580,000	10,715,375	23,295,375
34-35	2,845,000	1,100,325	1,335,000	1,365,975	1,190,000	677,800	2,105,000	2,694,925	1,355,000	2,237,125	12,970,000	10,163,112	23,133,112
35-36	2,845,000	972,300	1,395,000	1,304,700	1,240,000	629,200	2,210,000	2,587,050	1,425,000	2,167,625	13,395,000	9,621,763	23,016,763
36-37	2,845,000	858,500	1,450,000	1,247,800	1,285,000	578,700	2,325,000	2,473,675	1,495,000	2,094,625	13,795,000	9,089,575	22,884,575
37-38	2,845,000	744,700	1,510,000	1,188,600	1,335,000	526,300	2,445,000	2,354,425	1,575,000	2,017,875	14,250,000	8,533,151	22,783,151
38-39	2,845,000	630,900	1,575,000	1,126,900	1,380,000	472,000	2,570,000	2,229,050	1,655,000	1,937,125	14,685,000	7,957,307	22,642,307
39-40	2,845,000	517,100	1,640,000	1,062,600	1,425,000	415,900	2,700,000	2,097,300	1,740,000	1,852,250	15,165,000	7,365,225	22,530,225
40-41	2,845,000	403,300	1,705,000	995,700	1,475,000	357,900	2,840,000	1,958,800	1,830,000	1,763,000	15,665,000	6,749,788	22,414,788
41-42	2,845,000	289,500	1,775,000	926,100	1,520,000	298,000	2,985,000	1,813,175	1,925,000	1,669,125	16,155,000	6,111,444	22,266,444
42-43	2,845,000	175,700	1,845,000	853,700	1,590,000	235,800	3,135,000	1,660,175	2,020,000	1,570,500	16,705,000	5,451,169	22,156,169
43-44	1,485,000	89,100	1,920,000	778,400	1,640,000	171,200	3,280,000	1,516,200	2,125,000	1,466,875	15,885,000	4,810,562	20,695,562
44-45	1,485,000	29,700	2,000,000	700,000	1,710,000	104,200	3,415,000	1,382,300	2,235,000	1,357,875	16,455,000	4,187,619	20,642,619
45-46			2,080,000	618,400	1,750,000	35,000	3,555,000	1,242,900	2,350,000	1,243,250	15,550,000	3,569,519	19,119,519
46-47			2,165,000	533,500			3,700,000	1,097,800	2,470,000	1,122,750	14,330,000	2,993,014	17,323,014
47-48			2,255,000	445,100			3,850,000	946,800	2,595,000	996,125	12,885,000	2,458,719	15,343,719
48-49			2,350,000	353,000			4,010,000	789,600	2,730,000	863,000	9,090,000	2,005,600	11,095,600
49-50			2,450,000	257,000			4,170,000	626,000	2,870,000	723,000	9,490,000	1,606,000	11,096,000
50-51			2,550,000	157,000			4,340,000	455,800	3,015,000	575,875	9,905,000	1,188,675	11,093,675
51-52			2,650,000	53,000			4,520,000	278,600	3,170,000	421,250	10,340,000	752,850	11,092,850
52-53							4,705,000	94,100	3,335,000	258,625	8,040,000	352,725	8,392,725
53-54									3,505,000	87,625	3,505,000	87,625	3,592,625
Total	\$ 60,715,000	\$ 25,134,875	\$ 44,885,000	\$ 30,730,850	\$ 27,215,000	\$ 13,983,975	\$ 79,000,000	\$ 60,141,175	\$ 55,000,000	\$ 52,104,194	\$ 409,325,000	\$ 229,689,536	\$ 639,014,536

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Changes in Long-term Debt by Individual Issue
June 30, 2024

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding Balance 7/1/2023	Issued During Period	Paid/Matured During Period	Refunded During Period	Outstanding Balance 6/30/2024
Business-Type Activities									
<u>BONDS PAYABLE</u>									
<u>Payable through Electric Fund</u>									
Revenue Bond Refunding, Series EE-2015	28,550,000	2.0-5.0	05/01/15	07/01/29	\$ 19,230,000	\$	2,415,000	\$	16,815,000
Revenue Bond, Series FF-2015	35,000,000	2.0-5.0	05/20/15	07/01/24	850,000		850,000		-
Revenue Bond, Series GG-2016	40,000,000	2.0-5.0	08/05/16	07/01/46	34,700,000		1,050,000		33,650,000
Revenue Bond Refunding, Series HH-2017	23,445,000	2.5-5.0	04/07/17	07/01/27	12,920,000		2,400,000		10,520,000
Revenue Bond, Series II-2017	40,000,000	3.0-5.0	09/15/17	07/01/47	35,995,000		935,000		35,060,000
Revenue Bond, Series JJ-2018	39,995,000	3.0-5.0	09/14/18	07/01/47	36,655,000		930,000		35,725,000
Revenue Bond Refunding, Series KK-2020	14,380,000	5.0	05/22/20	07/01/30	12,010,000		1,270,000		10,740,000
Revenue Bond Refunding, Series LL-2021	70,180,000	4.0-5.0	04/19/21	07/01/44	65,570,000		4,855,000		60,715,000
Revenue Bond, Series MM-2022	45,650,000	4.0-5.0	04/29/22	07/01/51	45,650,000		765,000		44,885,000
Revenue Bond Refunding, Series NN-2022	27,215,000	4.0-5.0	05/13/22	07/01/45	27,215,000		-		27,215,000
Revenue Bond, Series OO-2022	79,000,000	4.0-5.0	12/16/22	07/01/52	79,000,000		-		79,000,000
Revenue Bond, Series PP-2023	55,000,000	5.0	12/08/23	07/01/53	-	55,000,000	-		55,000,000
					<u>\$ 369,795,000</u>	<u>\$ 55,000,000</u>	<u>\$ 15,470,000</u>	<u>\$ -</u>	<u>\$ 409,325,000</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Changes in Lease Liabilities
June 30, 2024

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Maturity Date	Outstanding 6/30/2023	Issued During Period	Paid and/or Matured During Period	Remeasure- ments	Outstanding 6/30/2024
<u>Lease Liabilities</u>									
<u>Payable through Electric Fund</u>									
American Towers - Rocky Hill	\$ 34,545	3.90%	11/1/2022	10/31/2027	\$ 30,762	\$ -	\$ (6,317)	\$ -	\$ 24,445
American Towers - Tillery/Bluegrass	34,759	3.90%	11/1/2022	10/31/2027	30,762	-	(6,317)	-	24,445
Centriworks	21,582	3.88%	11/1/2020	10/31/2023	3,070	-	(3,204)	134	-
Crown Castle	86,124	3.90%	3/1/2023	2/1/2043	85,441	-	(2,129)	-	83,312
Manki 1 Investments	145,079	3.88%	7/1/2020	5/31/2027	115,985	-	(27,962)	-	88,023
R&S Logistics (Sublease)	1,835,035	3.88%	7/1/2020	3/31/2027	1,369,676	18,331	(336,071)	-	1,051,936
Ricoh Americas	17,907	3.88%	7/1/2020	7/31/2025	12,592	-	(5,928)	548	7,212
RJ Young Company	24,352	3.88%	7/1/2020	6/30/2026	12,121	-	(6,201)	527	6,447
SBA Properties	14,786	3.90%	1/1/2023	12/31/2027	13,541	-	(2,615)	-	10,926
Total Lease Liabilities					\$ <u>1,673,950</u>	\$ <u>18,331</u>	\$ <u>(396,744)</u>	\$ <u>1,209</u>	\$ <u>1,296,746</u>

See accompanying Independent Auditor's Report

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

Insurance coverage is for KUB as a consolidated entity.

Crime

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

Directors' and Officers' Liability Insurance

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

Employment Practices Liability

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

Fiduciary

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

Environmental and Pollution Legal Liability

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

Property Insurance

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

Travel Accident

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

Excess Insurance for General Liability

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

Excess Insurance for Workers' Compensation

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

Employee Health Plan Stop Loss Coverage

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

Cyber Security Liability

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

Drone

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
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(Unaudited)

Rate Class	Base Charge	Number of Customers
Residential	Customer Charge: \$22.04 per month, less Hydro Allocation Credit: \$1.54 per month. Energy Charge: Summer Period \$0.10507 per kWh per month. Winter Period \$0.10466 per kWh per month. Transition Period \$0.10466 per kWh per month.	196,398
Residential Time of Use Pilot Program	Customer Charge: \$22.04 per month, less Hydro Allocation Credit: \$1.54 per month. Energy Charge: Onpeak \$0.21186 per kWh per month for all metered onpeak kWh Offpeak \$0.07876 per kWh per month for all metered offpeak kWh	71
Commercial/Industrial	A. 1. If (a) the higher of (i) the customer's currently effective contract demand, if any, or (ii) its highest billing demand during the latest 12-month period is not more than 50 kWh, and (b) customer's monthly energy takings for any month during such period do not exceed 15,000 kWh: Customer Charge: \$32.00 per delivery point per month. Energy Charge: Summer Period \$0.12502 per kWh per month. Winter Period \$0.12461 per kWh per month. Transition Period \$0.12461 per kWh per month.	20,857
	2. If (a) the higher of (i) the customer's currently effective contract demand or (ii) its highest billing demand during the latest 12-month period is greater than 50 kW but not more than 1,000 kW, or (b) if the customer's billing demand is less than 50 kW and its energy takings for any month during such period exceed 15,000 kWh: Customer Charge: \$104.00 per delivery point per month. Demand Charge: First 50 kW of billing demand per month, no demand charge. Excess over 50 kW of billing demand per month, at Summer Period \$17.36 per kW. Winter Period \$16.57 per kW. Transition Period \$16.57 per kW. Energy Charge: Summer Period First 15,000 kWh per month at \$0.15683 per kWh Additional kWh per month at \$0.06968 per kWh. Winter Period First 15,000 kWh per month at \$0.15642 per kWh Additional kWh per month at \$0.06968 per kWh. Transition Period First 15,000 kWh per month at \$0.15642 per kWh Additional kWh per month at \$0.06968 per kWh.	2,499

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Rate Class	Number of Customers
<p>3. If (a) the higher of the customer's currently effective contract demand or (b) its highest billing demand during the latest 12-month period is greater than 1,000 kW:</p> <p>Customer Charge: \$287.00 per delivery point per month.</p> <p>Demand Charge: Summer Period First 1,000 kW of billing demand per month, at \$18.19 per kW. Excess over 1,000 kW of billing demand per month, at \$18.90 per kW, plus an additional \$18.90 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds the higher of 2,500 kW or its contract demand.</p> <p style="padding-left: 150px;">Winter Period First 1,000 kW of billing demand per month, at \$17.43 per kW. Excess over 1,000 kW of billing demand per month, at \$18.14 per kW, plus an additional \$18.14 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds the higher of 2,500 kW or its contract demand.</p> <p style="padding-left: 150px;">Transition Period First 1,000 kW of billing demand per month, at \$17.43 per kW. Excess over 1,000 kW of billing demand per month, at \$18.14 per kW, plus an additional \$18.14 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds the higher of 2,500 kW or its contract demand.</p> <p>Energy Charge: Summer Period \$0.08062 per kWh per month.</p> <p style="padding-left: 150px;">Winter Period \$0.08062 per kWh per month.</p> <p style="padding-left: 150px;">Transition Period \$0.08062 per kWh per month.</p>	34

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Rate Class		Number of Customers
Commercial/ Industrial Time of Use Pilot Program	A. 1. If the higher of (i) the customer's currently effective contract demand, if any, or (ii) its highest billing demand during the latest 12-month period is not more than 50 kWh: Customer Charge: \$32.00 per delivery point per month. Demand Charge: \$2.18 per kW of maximum billing demand per month. Energy Charge: Onpeak \$0.21869 per kWh per month for all metered onpeak kWh Offpeak \$0.08559 per kWh per month for all metered offpeak kWh	274
	2A. If the higher of (i) the customer's currently effective contract demand or (ii) its highest billing demand during the latest 12-month period is greater than 50 kW but not more than 100 kW: Customer Charge: \$104.00 per delivery point per month. Demand Charge: \$4.94 per kW of maximum billing demand per month. Energy Charge: Onpeak \$0.23343 per kWh per month for all metered onpeak kWh Offpeak \$0.10033 per kWh per month for all metered offpeak kWh	38
	2B. If the higher of (i) the customer's currently effective contract demand or (ii) its highest billing demand during the latest 12-month period is greater than 100 kW but not more than 1,000 kW: Customer Charge: \$122.00 per delivery point per month. Demand Charge: \$7.25 per kW of maximum billing demand per month. Energy Charge: Onpeak \$0.20748 per kWh per month for all metered onpeak kWh Offpeak \$0.07438 per kWh per month for all metered offpeak kWh	29

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Rate Class	Base Charge	Number of Customers						
Commercial/ Industrial	<p>B. This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 5,000 kW but not more than 15,000 kW:</p> <p>Customer Charge: \$1,500 per delivery point per month.</p> <p>Administrative Charge: \$700 per delivery point per month.</p> <p>Demand Charge:</p> <p>Summer Period</p> <table border="0"> <tr> <td data-bbox="695 532 905 618">Onpeak Demand Maximum Demand Excess Demand</td> <td data-bbox="932 532 1745 716">\$11.22 per kW per month of the customer's onpeak billing demand, plus \$6.58 per kW per month of the customer's maximum billing demand, plus \$17.80 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.</td> </tr> <tr> <td data-bbox="695 724 905 813">Winter Period</td> <td data-bbox="932 724 1745 907">\$10.22 per kW per month of the customer's onpeak billing demand, plus \$6.58 per kW per month of the customer's maximum billing demand plus \$16.80 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.</td> </tr> <tr> <td data-bbox="695 915 905 1005">Transition Period</td> <td data-bbox="932 915 1745 1097">\$10.22 per kW per month of the customer's onpeak billing demand, plus \$6.58 per kW per month of the customer's maximum billing demand plus \$16.80 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.</td> </tr> </table>	Onpeak Demand Maximum Demand Excess Demand	\$11.22 per kW per month of the customer's onpeak billing demand, plus \$6.58 per kW per month of the customer's maximum billing demand, plus \$17.80 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	Winter Period	\$10.22 per kW per month of the customer's onpeak billing demand, plus \$6.58 per kW per month of the customer's maximum billing demand plus \$16.80 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	Transition Period	\$10.22 per kW per month of the customer's onpeak billing demand, plus \$6.58 per kW per month of the customer's maximum billing demand plus \$16.80 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	3
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Energy Charge:			
Summer Period	Onpeak		\$0.09062 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.06488 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.02916 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.02563 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Winter Period	Onpeak		\$0.07888 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.06717 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.02916 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.02563 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Transition Period	Onpeak		\$0.06454 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.06454 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.02916 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.02563 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.

For the Summer Period, Winter Period, and Transition Period, Offpeak Block 1 energy rates less fuel rate of \$0.01814 per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

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Rate Class	Base Charge	Number of Customers																		
Commercial/ Industrial	<p>C. This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 15,000 kW but not more than 25,000 kW:</p> <p>Customer Charge: \$1,500 per delivery point per month.</p> <p>Administrative Charge: \$700 per delivery point per month.</p> <p>Demand Charge:</p> <p>Summer Period</p> <table border="0"> <tr> <td>Onpeak Demand</td> <td>\$11.22 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td>Maximum Demand</td> <td>\$6.43 per kW per month of the customer's maximum billing demand, plus</td> </tr> <tr> <td>Excess Demand</td> <td>\$17.65 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.</td> </tr> </table> <p>Winter Period</p> <table border="0"> <tr> <td>Onpeak Demand</td> <td>\$10.22 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td>Maximum Demand</td> <td>\$6.43 per kW per month of the customer's maximum billing demand plus</td> </tr> <tr> <td>Excess Demand</td> <td>\$16.65 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.</td> </tr> </table> <p>Transition Period</p> <table border="0"> <tr> <td>Onpeak Demand</td> <td>\$10.22 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td>Maximum Demand</td> <td>\$6.43 per kW per month of the customer's maximum billing demand plus</td> </tr> <tr> <td>Excess Demand</td> <td>\$16.65 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.</td> </tr> </table>	Onpeak Demand	\$11.22 per kW per month of the customer's onpeak billing demand, plus	Maximum Demand	\$6.43 per kW per month of the customer's maximum billing demand, plus	Excess Demand	\$17.65 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	Onpeak Demand	\$10.22 per kW per month of the customer's onpeak billing demand, plus	Maximum Demand	\$6.43 per kW per month of the customer's maximum billing demand plus	Excess Demand	\$16.65 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	Onpeak Demand	\$10.22 per kW per month of the customer's onpeak billing demand, plus	Maximum Demand	\$6.43 per kW per month of the customer's maximum billing demand plus	Excess Demand	\$16.65 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	1
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Energy Charge:			
Summer Period	Onpeak		\$0.09060 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.06486 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.02914 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.02561 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Winter Period	Onpeak		\$0.07886 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.06715 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.02914 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.02561 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Transition Period	Onpeak		\$0.06452 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.06452 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.02914 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.02561 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.

For the Summer Period, Winter Period, and Transition Period, Offpeak Block 1 energy rates less fuel rate of \$0.01814 per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

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Rate Class	Base Charge	Number of Customers																		
Commercial/ Industrial	<p>D. This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 25,000 kW:</p> <p>Customer Charge: \$1,500 per delivery point per month.</p> <p>Administrative Charge: \$700 per delivery point per month.</p> <p>Demand Charge:</p> <p>Summer Period</p> <table border="0"> <tr> <td>Onpeak Demand</td> <td>\$11.22 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td>Maximum Demand</td> <td>\$6.30 per kW per month of the customer's maximum billing demand, plus</td> </tr> <tr> <td>Excess Demand</td> <td>\$17.52 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.</td> </tr> </table> <p>Winter Period</p> <table border="0"> <tr> <td>Onpeak Demand</td> <td>\$10.22 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td>Maximum Demand</td> <td>\$6.30 per kW per month of the customer's maximum billing demand plus</td> </tr> <tr> <td>Excess Demand</td> <td>\$16.52 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.</td> </tr> </table> <p>Transition Period</p> <table border="0"> <tr> <td>Onpeak Demand</td> <td>\$10.22 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td>Maximum Demand</td> <td>\$6.30 per kW per month of the customer's maximum billing demand plus</td> </tr> <tr> <td>Excess Demand</td> <td>\$16.52 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.</td> </tr> </table>	Onpeak Demand	\$11.22 per kW per month of the customer's onpeak billing demand, plus	Maximum Demand	\$6.30 per kW per month of the customer's maximum billing demand, plus	Excess Demand	\$17.52 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	Onpeak Demand	\$10.22 per kW per month of the customer's onpeak billing demand, plus	Maximum Demand	\$6.30 per kW per month of the customer's maximum billing demand plus	Excess Demand	\$16.52 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	Onpeak Demand	\$10.22 per kW per month of the customer's onpeak billing demand, plus	Maximum Demand	\$6.30 per kW per month of the customer's maximum billing demand plus	Excess Demand	\$16.52 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	1
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Energy Charge:			
Summer Period	Onpeak		\$0.09058 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.06484 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.02794 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.02559 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Winter Period	Onpeak		\$0.07884 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.06713 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.02794 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.02559 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Transition Period	Onpeak		\$0.06450 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.06450 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.02794 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.02559 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.

For the Summer Period, Winter Period, and Transition Period, Offpeak Block 1 energy rates less fuel rate of \$0.01814 per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

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(Unaudited)

Rate Class	Base Charge	Number of Customers
Commercial/ Industrial Time of Use	A. This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 1,000 kW but not more than 5,000 kW: Customer Charge: \$1,500 per delivery point per month. Administrative Charge: \$700 per delivery point per month. Demand Charge: Summer Period Onpeak Demand \$11.43 per kW per month of the customer's onpeak billing demand, plus Maximum Demand \$8.02 per kW per month of the customer's maximum billing demand, plus Excess Demand \$19.45 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher. Winter Period Onpeak Demand \$10.43 per kW per month of the customer's onpeak billing demand, plus Maximum Demand \$8.02 per kW per month of the customer's maximum billing demand plus Excess Demand \$18.45 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher. Transition Period Onpeak Demand \$10.43 per kW per month of the customer's onpeak billing demand, plus Maximum Demand \$8.02 per kW per month of the customer's maximum billing demand plus Excess Demand \$18.45 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	10

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Knoxville Utilities Board Electric Division
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Energy Charge:			
Summer Period	Onpeak		\$0.12120 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.08624 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.04192 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.03876 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Winter Period	Onpeak		\$0.10525 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.08934 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.04192 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.03876 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Transition Period	Onpeak		\$0.09059 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.09059 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.04192 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.03876 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.

For the Summer Period, Winter Period, and Transition Period, Offpeak Block 1 energy rates less fuel rate of \$0.01946 per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

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Rate Class	Base Charge	Number of Customers																		
Manufacturing B.	<p>This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 5,000 kW but not more than 15,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive, or classified with 2002 North American Industry Classification System (NAICS) code 5181, or 2007 NAICS codes 5182, 522320, and 541214.</p> <p>Customer Charge: \$1,500 per delivery point per month. Administrative Charge: \$700 per delivery point per month. Demand Charge:</p> <p>Summer Period</p> <table border="0" style="margin-left: 20px;"> <tr> <td style="padding-right: 10px;">Onpeak Demand</td> <td>\$10.58 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td>Maximum Demand</td> <td>\$3.37 per kW per month of the customer's maximum billing demand, plus</td> </tr> <tr> <td>Excess Demand</td> <td>\$13.95 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.</td> </tr> </table> <p>Winter Period</p> <table border="0" style="margin-left: 20px;"> <tr> <td style="padding-right: 10px;">Onpeak Demand</td> <td>\$9.58 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td>Maximum Demand</td> <td>\$3.37 per kW per month of the customer's maximum billing demand plus</td> </tr> <tr> <td>Excess Demand</td> <td>\$12.95 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.</td> </tr> </table> <p>Transition Period</p> <table border="0" style="margin-left: 20px;"> <tr> <td style="padding-right: 10px;">Onpeak Demand</td> <td>\$9.58 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td>Maximum Demand</td> <td>\$3.37 per kW per month of the customer's maximum billing demand plus</td> </tr> <tr> <td>Excess Demand</td> <td>\$12.95 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.</td> </tr> </table>	Onpeak Demand	\$10.58 per kW per month of the customer's onpeak billing demand, plus	Maximum Demand	\$3.37 per kW per month of the customer's maximum billing demand, plus	Excess Demand	\$13.95 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	Onpeak Demand	\$9.58 per kW per month of the customer's onpeak billing demand, plus	Maximum Demand	\$3.37 per kW per month of the customer's maximum billing demand plus	Excess Demand	\$12.95 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	Onpeak Demand	\$9.58 per kW per month of the customer's onpeak billing demand, plus	Maximum Demand	\$3.37 per kW per month of the customer's maximum billing demand plus	Excess Demand	\$12.95 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	2
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Energy Charge:			
Summer Period	Onpeak		\$0.08198 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05614 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.02547 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.02284 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Winter Period	Onpeak		\$0.07019 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05845 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.02547 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.02284 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Transition Period	Onpeak		\$0.05935 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05935 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.02547 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.02284 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.

For the Summer Period, Winter Period, and Transition Period, Offpeak Block 1 energy rates less fuel rate of \$0.01763 per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

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Knoxville Utilities Board Electric Division
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Rate Class	Base Charge	Number of Customers																		
Manufacturing	<p>C. This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 15,000 kW but not more than 25,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive, or classified with 2002 North American Industry Classification System (NAICS) code 5181, or 2007 NAICS codes 5182, 522320, and 541214.</p> <p>Customer Charge: \$1,500 per delivery point per month.</p> <p>Administrative Charge: \$700 per delivery point per month.</p> <p>Demand Charge:</p> <p>Summer Period</p> <table style="margin-left: 20px;"> <tr> <td>Onpeak Demand</td> <td>\$10.58 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td>Maximum Demand</td> <td>\$3.25 per kW per month of the customer's maximum billing demand, plus</td> </tr> <tr> <td>Excess Demand</td> <td>\$13.83 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.</td> </tr> </table> <p>Winter Period</p> <table style="margin-left: 20px;"> <tr> <td>Onpeak Demand</td> <td>\$9.58 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td>Maximum Demand</td> <td>\$3.25 per kW per month of the customer's maximum billing demand plus</td> </tr> <tr> <td>Excess Demand</td> <td>\$12.83 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.</td> </tr> </table> <p>Transition Period</p> <table style="margin-left: 20px;"> <tr> <td>Onpeak Demand</td> <td>\$9.58 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td>Maximum Demand</td> <td>\$3.25 per kW per month of the customer's maximum billing demand plus</td> </tr> <tr> <td>Excess Demand</td> <td>\$12.83 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.</td> </tr> </table>	Onpeak Demand	\$10.58 per kW per month of the customer's onpeak billing demand, plus	Maximum Demand	\$3.25 per kW per month of the customer's maximum billing demand, plus	Excess Demand	\$13.83 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	Onpeak Demand	\$9.58 per kW per month of the customer's onpeak billing demand, plus	Maximum Demand	\$3.25 per kW per month of the customer's maximum billing demand plus	Excess Demand	\$12.83 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	Onpeak Demand	\$9.58 per kW per month of the customer's onpeak billing demand, plus	Maximum Demand	\$3.25 per kW per month of the customer's maximum billing demand plus	Excess Demand	\$12.83 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	1
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Energy Charge:			
Summer Period	Onpeak		\$0.08116 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05532 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.02728 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.02728 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Winter Period	Onpeak		\$0.06937 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05762 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.02728 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.02728 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Transition Period	Onpeak		\$0.05853 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05853 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.02728 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.02728 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.

For the Summer Period, Winter Period, and Transition Period, Offpeak Block 1 energy rates less fuel rate of \$0.01763 per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

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Rate Class	Base Charge	Number of Customers																		
Manufacturing	<p>D. This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 25,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive, or classified with 2002 North American Industry Classification System (NAICS) code 5181, or 2007 NAICS codes 5182, 522320, and 541214.</p> <p>Customer Charge: \$1,500 per delivery point per month. Administrative Charge: \$700 per delivery point per month. Demand Charge:</p> <p>Summer Period</p> <table border="0" style="margin-left: 20px;"> <tr> <td style="padding-right: 20px;">Onpeak Demand</td> <td>\$10.58 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td>Maximum Demand</td> <td>\$2.82 per kW per month of the customer's maximum billing demand, plus</td> </tr> <tr> <td>Excess Demand</td> <td>\$13.40 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.</td> </tr> </table> <p>Winter Period</p> <table border="0" style="margin-left: 20px;"> <tr> <td style="padding-right: 20px;">Onpeak Demand</td> <td>\$9.58 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td>Maximum Demand</td> <td>\$2.82 per kW per month of the customer's maximum billing demand plus</td> </tr> <tr> <td>Excess Demand</td> <td>\$12.40 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.</td> </tr> </table> <p>Transition Period</p> <table border="0" style="margin-left: 20px;"> <tr> <td style="padding-right: 20px;">Onpeak Demand</td> <td>\$9.58 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td>Maximum Demand</td> <td>\$2.82 per kW per month of the customer's maximum billing demand plus</td> </tr> <tr> <td>Excess Demand</td> <td>\$12.40 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.</td> </tr> </table>	Onpeak Demand	\$10.58 per kW per month of the customer's onpeak billing demand, plus	Maximum Demand	\$2.82 per kW per month of the customer's maximum billing demand, plus	Excess Demand	\$13.40 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	Onpeak Demand	\$9.58 per kW per month of the customer's onpeak billing demand, plus	Maximum Demand	\$2.82 per kW per month of the customer's maximum billing demand plus	Excess Demand	\$12.40 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	Onpeak Demand	\$9.58 per kW per month of the customer's onpeak billing demand, plus	Maximum Demand	\$2.82 per kW per month of the customer's maximum billing demand plus	Excess Demand	\$12.40 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	2
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Energy Charge:			
Summer Period	Onpeak		\$0.07757 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05175 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.02428 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.02368 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Winter Period	Onpeak		\$0.06578 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05403 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.02428 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.02368 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Transition Period	Onpeak		\$0.05494 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05494 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.02428 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.02368 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.

For the Summer Period, Winter Period, and Transition Period, Offpeak Block 1 energy rates less fuel rate of \$0.01763 per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

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(Unaudited)

Rate Class	Base Charge	Number of Customers																		
Manufacturing Time of Use	<p>A. This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 1,000 kW but not more than 5,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive, or classified with 2002 North American Industry Classification System (NAICS) code 5181, or 2007 NAICS codes 5182, 522320, and 541214.</p> <p>Customer Charge: \$1,500 per delivery point per month.</p> <p>Administrative Charge: \$700 per delivery point per month.</p> <p>Demand Charge:</p> <p>Summer Period</p> <table border="0"> <tr> <td>Onpeak Demand</td> <td>\$10.69 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td>Maximum Demand</td> <td>\$6.09 per kW per month of the customer's maximum billing demand, plus</td> </tr> <tr> <td>Excess Demand</td> <td>\$16.78 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.</td> </tr> </table> <p>Winter Period</p> <table border="0"> <tr> <td>Onpeak Demand</td> <td>\$9.68 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td>Maximum Demand</td> <td>\$6.09 per kW per month of the customer's maximum billing demand plus</td> </tr> <tr> <td>Excess Demand</td> <td>\$15.77 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.</td> </tr> </table> <p>Transition Period</p> <table border="0"> <tr> <td>Onpeak Demand</td> <td>\$9.68 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td>Maximum Demand</td> <td>\$6.09 per kW per month of the customer's maximum billing demand plus</td> </tr> <tr> <td>Excess Demand</td> <td>\$15.77 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.</td> </tr> </table>	Onpeak Demand	\$10.69 per kW per month of the customer's onpeak billing demand, plus	Maximum Demand	\$6.09 per kW per month of the customer's maximum billing demand, plus	Excess Demand	\$16.78 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	Onpeak Demand	\$9.68 per kW per month of the customer's onpeak billing demand, plus	Maximum Demand	\$6.09 per kW per month of the customer's maximum billing demand plus	Excess Demand	\$15.77 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	Onpeak Demand	\$9.68 per kW per month of the customer's onpeak billing demand, plus	Maximum Demand	\$6.09 per kW per month of the customer's maximum billing demand plus	Excess Demand	\$15.77 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	7
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See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2024
(Unaudited)

Energy Charge:			
Summer Period	Onpeak		\$0.09407 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.06798 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.03936 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.03670 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Winter Period	Onpeak		\$0.08216 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.07030 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.03936 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.03670 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Transition Period	Onpeak		\$0.07122 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.07122 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 2		\$0.03936 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to total energy, plus
	Block 3		\$0.03670 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.

For the Summer Period, Winter Period, and Transition Period, Offpeak Block 1 energy rates less fuel rate of \$0.01946 per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2024
(Unaudited)

Rate Class	Base Charge	Number of Customers		
Outdoor Lighting				
	Part A - Charges for Street and Park Lighting Systems, Traffic Signal Systems, and Athletic Field Lighting Installations	70		
Energy Charge:	Summer Period \$0.09521 per kWh per month. Winter Period \$0.09521 per kWh per month. Transition Period \$0.09521 per kWh per month.			
Facility Charge:	The annual facility charge shall be 17.62 percent of the installed cost to KUB's electric system of the facilities devoted to street and park lighting service specified in this Part A. Such installed cost shall be recomputed on July 1 of each year, or more often if substantial changes in the facilities are made. Each month, one-twelfth of the then total annual facility charge shall be billed to the customer. If any part of the facilities has not been provided at the electric system's expense, or if the installed cost of any portion thereof is reflected on the books of another municipality or agency or department, the annual facility charge shall be adjusted to reflect properly the remaining cost to be borne by the electric system.			
Customer Charge:	\$2.50.			
	Part B - Charges for Outdoor Lighting for Individual Customers	4,834		
	Charges Per Fixture Per Month			
a. Type of Fixture	(Watts) (Lumens)	Rated kWh	Facility Charge	Total Lamp Charge
Mercury Vapor or Incandescent*	175 7,650	70	\$ 5.51	\$ 12.17
	400 19,100	155	7.69	22.45
	1000** 47,500	378	12.31	48.30
High Pressure Sodium	100 8,550	42	5.51	9.51
	250 23,000	105	6.53	16.53
	400 45,000	165	7.69	23.40
	1000** 126,000	385	12.31	48.97
Decorative	100 8,550	42	6.28	10.28
	* Mercury Vapor and Incandescent fixtures not offered for new service.			
	** 1,000 watt fixtures not offered for new service.			
b. Energy Charge:	For each lamp size under a. above, \$0.09521 per rated kWh per month.			
Additional pole charge:	\$5.55 per pole.			

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2024
(Unaudited)

Rate Class	Base Charge				Number of Customers
LED Outdoor Lighting					20,545
		Charges Per Fixture Per Month			
		Rated	Facility	Total Lamp	
	a. Lamp Size	kWh	Charge	Charge	
	100 WE	21	\$ 6.34	\$ 8.34	
	250 WE	58	7.84	13.36	
	400 WE	79	10.77	18.29	
	b. Energy Charge:	For each lamp size under a. above, \$0.09521 per rated kWh per month.			
	Additional pole charge:	\$5.55 per pole.			

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2024
(Unaudited)

Rate Class	Base Charge	Number of Customers
Electric Vehicle Charging	<p>This rate shall exclusively apply to separately metered charging stations for electric vehicles where the charging station's demand is greater than 50 kW but not more than 5,000 kW.</p> <p>Customer Charge: \$100.00 per delivery point per month.</p> <p>Energy Charge:</p> <p style="padding-left: 40px;">Onpeak \$0.31334 per kWh per month for all metered onpeak kWh</p> <p style="padding-left: 40px;">Offpeak \$0.19915 per kWh per month for all metered offpeak kWh</p>	-

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
Electric Division of the Knoxville Utilities Board
Knoxville, Tennessee

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

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Division'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 the Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division'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 the Division's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Board of Commissioners
Electric Division of the Knoxville Utilities Board
Knoxville, Tennessee

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Division’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 the Division’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Coulter & Justus, P. C.

Knoxville, Tennessee
October 23, 2024



Fiber Division

Financial Statements and Supplemental Information June 30, 2024 and 2023

KUB Board of Commissioners

Adrienne Simpson-Brown, Chair **Claudia Caballero** **Kathy Hamilton** **Dr. Craig Pickett, Jr.**
Ron Feinbaum, Vice Chair **Cynthia Gibson** **Celeste Herbert**

Management

Gabriel Bolas II

President and Chief Executive Officer

Mark Walker

Senior Vice President and Chief Financial Officer

Jamie Davis

Senior Vice President Fiber and Chief Technology Officer

Susan Edwards

Senior Vice President and Chief Administrative Officer

Tiffany Martin

Senior Vice President and Chief Customer Officer

John Williams

Senior Vice President and Chief Infrastructure and Compliance Officer

John Gresham

Senior Vice President and Chief Engineering and Operations Officer

Knoxville Utilities Board Fiber Division
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June 30, 2024 and 2023

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Independent Auditor's Report

Board of Commissioners
Fiber Division of the Knoxville Utilities Board
Knoxville, Tennessee

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Fiber Division (the Division) of the Knoxville Utilities Board, a component unit of the City of Knoxville, Tennessee, as of and for the year ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the index.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Division as of June 30, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Board of Commissioners
Fiber Division of the Knoxville Utilities Board
Knoxville, Tennessee

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 20 and the required supplementary information on pages 51 through 54 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Commissioners
Fiber Division of the Knoxville Utilities Board
Knoxville, Tennessee

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Division's basic financial statements. The supplemental information, 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 supplemental information 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Fiber Division and do not purport to, and do not, present fairly the financial position of the Knoxville Utilities Board, as of June 30, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2024, on our consideration of the Division'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 the Division's internal control over financial reporting and compliance.

Coulter & Justus, P.C.

Knoxville, Tennessee
October 23, 2024

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

Knoxville Utilities Board (KUB), comprised of the Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. The Fiber Division (Division) will provide services to certain customers in Knox County and in seven surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Fiber Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board as of June 30, 2024, and 2023, the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

Fiber Division Highlights

System Highlights

KUB continued to expand its broadband network this fiscal year reaching more of the service territory and adding 8,428 customers. Supply chain issues have stabilized, and the deployment of the fiber network remains on schedule.

KUB experienced normal operations this fiscal year despite the impacts of inflationary pressures. KUB's ability to serve its fiber customers is strong as it continues adding customers each month.

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

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

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

Knoxville Utilities Board Fiber Division

Management's Discussion and Analysis

June 30, 2024 and 2023

and \$5 million was provided in May 2024, all maturing in June 2030. In May 2024, an additional interdivisional loan of \$2 million was provided to the Fiber Division by the Electric Division, maturing in June 2032.

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

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

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

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

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

Financial Highlights

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's Change in Net Position decreased \$8.2 million in fiscal year 2024. Comparatively, net position decreased \$9.2 million in fiscal year 2023.

Operating revenue increased \$5.5 million compared to the prior year. Operating expenses increased \$4.2 million. Operating and maintenance (O&M) expenditures increased \$4.1 million. Depreciation and amortization expense remained flat. Taxes and tax equivalents increased \$0.1 million.

Interest income was consistent with the prior fiscal year.

Interest expense increased \$0.3 million, due to higher levels of notes payable outstanding.

Total capital assets (net) increased \$0.5 million, reflecting fiber systems and equipment.

As of June 30, 2024, the Division had a \$34.6 million note payable to the Electric Division in outstanding debt (including the current portion of note payable).

During the fiscal year, the Division was issued \$7 million of additional interdivisional loans from the Electric Division. KUB's Board and TVA have approved proposed loans of up to \$55 million to the Division from the Electric Division.

Fiscal Year 2023 Compared to Fiscal Year 2022

The Division's Change in Net Position decreased \$9.2 million in fiscal year 2023.

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

Operating revenues increased \$0.9 million compared to the prior year. Operating expenses increased \$7.3 million. Operating and maintenance (O&M) expenditures increased \$6.6 million. Depreciation and amortization expense increased \$0.6 million. Taxes and tax equivalents increased \$0.2 million.

Interest income was \$0.4 million higher due to higher levels of cash on hand and rising interest rates throughout the year.

Interest expense increased \$0.7 million, due to higher levels of notes payable outstanding.

Total capital assets (net) increased \$0.5 million, reflecting fiber systems and equipment.

As of June 30, 2023, the Division had a \$29.1 million note payable to the Electric Division in outstanding debt (including the current portion of note payable).

During the fiscal year, the Division was issued \$20 million of additional interdivisional loans from the Electric Division. KUB's Board and TVA have approved proposed loans of up to \$55 million to the Division from the Electric Division.

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

Knoxville Utilities Board Fiber Division - Financial Statements

The Division's financial performance is reported under three basic 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

The Division 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, fiber plant in service, intangible, 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 the Division has done with its accumulated earnings, not just the balance.

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

Restricted net position includes assets that have been limited to specific uses by the Division'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

The Division 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

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

The statement indicates the Division's 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 back to operating income as it appears on the Statement of Revenues, Expenses and Changes in Net Position.

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

Condensed Financial Statements

Statement of Net Position

The following table reflects the condensed Statement of Net Position for the Fiber Division compared to the prior fiscal year.

**Statement of Net Position
As of June 30**

<i>(in thousands of dollars)</i>	2024	2023	2022 as restated
Current, restricted, intangible, and other assets	\$ 16,920	\$ 19,736	\$ 9,296
Capital assets, net	4,999	4,510	4,038
Deferred outflows of resources	908	-	-
Total assets and deferred outflows of resources	<u>22,827</u>	<u>24,246</u>	<u>13,334</u>
Current and other liabilities	9,376	8,316	6,274
Long-term debt outstanding	32,737	27,617	9,625
Deferred inflows of resources	722	120	-
Total liabilities and deferred inflows of resources	<u>42,835</u>	<u>36,053</u>	<u>15,899</u>
Net position			
Net investment in capital assets	(693)	(390)	97
Restricted	-	-	-
Unrestricted	<u>(19,315)</u>	<u>(11,418)</u>	<u>(2,663)</u>
Total net position	<u>\$ (20,008)</u>	<u>\$ (11,808)</u>	<u>\$ (2,566)</u>

Normal Impacts on Statement of Net Position

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

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

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

Impacts and Analysis

Current, Restricted, Intangible, and Other Assets

Fiscal Year 2024 Compared to Fiscal Year 2023

Current, restricted, intangible, and other assets decreased \$2.8 million compared to the prior year. The change is primarily due to a decrease in general fund cash (consisting of cash and cash equivalents) of \$3 million.

Fiscal Year 2023 Compared to Fiscal Year 2022

Current, restricted, intangible, and other assets increased \$10.4 million compared to the prior year. The change is primarily due to an increase in general fund cash (consisting of cash and cash equivalents) of \$9 million and an increase in inventories of \$1.7 million.

Capital Assets

Fiscal Year 2024 Compared to Fiscal Year 2023

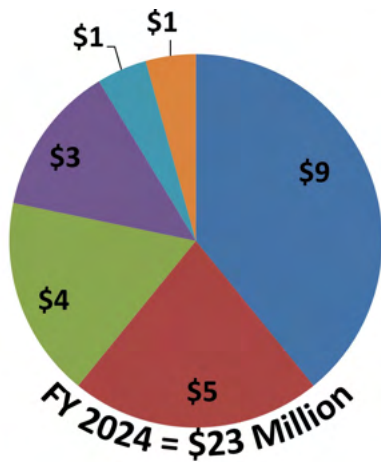
Capital assets increased \$0.5 million. Major capital expenditures included \$0.5 million for fiber systems and equipment.

Fiscal Year 2023 Compared to Fiscal Year 2022

Capital assets increased \$0.5 million. Major capital expenditures included \$0.5 million for fiber systems and equipment.

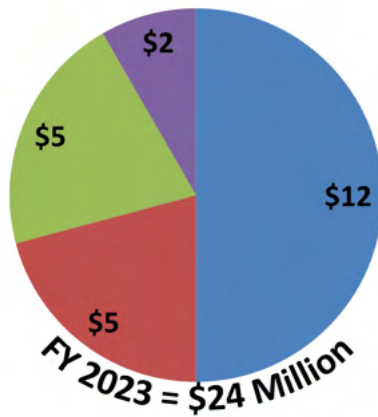
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**Knoxville Utilities Board Fiber Division
Management’s Discussion and Analysis
June 30, 2024 and 2023**



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

	<u>FY24</u>	<u>FY23</u>
General and Contingency Funds	41%	50%
Plant	22%	19%
Intangible Assets	18%	21%
Other Assets	10%	10%
Restricted Assets	5%	
Deferred Outflows of Resources	4%	



Current and Other Liabilities

Fiscal Year 2024 Compared to Fiscal Year 2023

Current and other liabilities increased \$1 million compared to the prior year. Accrued expenses increased \$0.8 million, the current portion of the note payable increased \$0.4 million, unearned revenue increased \$0.3 million, and the actuarially determined net OPEB liability increased \$0.3 million. These increases were offset by a \$0.5 million decrease in payables.

Fiscal Year 2023 Compared to Fiscal Year 2022

Current and other liabilities increased \$2 million compared to the prior year. The current portion of the note payable increased \$1.1 million, payables increased \$0.6 million, and accrued expenses increased \$0.4 million.

Long-Term Debt

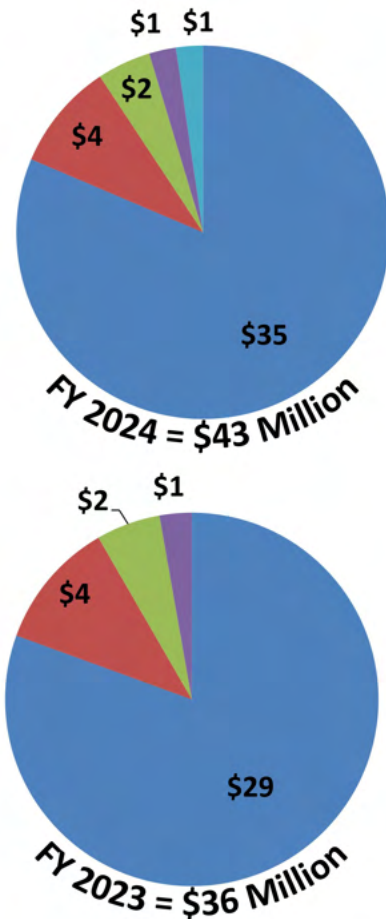
Fiscal Year 2024 Compared to Fiscal Year 2023

Long-term debt was \$5.2 million higher than the prior year. During the fiscal year, the Division was issued \$7 million of additional interdivisional loans from the Electric Division. KUB’s Board and TVA have approved proposed loans of up to \$55 million to the Division from the Electric Division.

**Knoxville Utilities Board Fiber Division
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Fiscal Year 2023 Compared to Fiscal Year 2022

Long-term debt was \$18 million higher than the prior year. During the fiscal year, the Division was issued \$20 million of additional interdivisional loans from the Electric Division. KUB’s Board and TVA have approved proposed loans of up to \$55 million to the Division from the Electric Division.



Fiber Division Total Liabilities and Deferred Inflows of Resources (in Millions)

	<u>FY24</u>	<u>FY23</u>
Note Payable	81%	81%
Subscription Liability	9%	11%
Other Liabilities	6%	4%
Lease Liability	2%	4%
Deferred Inflows of Resources	2%	

Net Position

Fiscal Year 2024 Compared to Fiscal Year 2023

Total net position decreased \$8.2 million. Net investment in capital assets decreased \$0.3 million, while restricted net position was comparable to the prior year. Unrestricted net position decreased \$7.9 million.

Fiscal Year 2023 Compared to Fiscal Year 2022

Total net position decreased \$9.2 million. Net investment in capital assets decreased \$0.5 million, while restricted net position was comparable to the prior year. Unrestricted net position decreased \$8.7 million.

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

Statement of Revenues, Expenses and Changes in Net Position

The following table reflects the condensed Statement of Revenues, Expenses and Changes in Net Position for the Fiber Division compared to the prior fiscal year.

**Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30**

<i>(in thousands of dollars)</i>	2024	2023	2022 as restated
Operating revenues	\$ 6,420	\$ 880	\$ -
Operating expenses			
Products and promotions	8,358	4,342	910
Customer service	1,552	1,745	229
Administrative and general	2,689	2,387	773
Depreciation and amortization	877	833	269
Taxes and tax equivalents	247	189	39
Total operating expenses	<u>13,723</u>	<u>9,496</u>	<u>2,220</u>
Operating income	<u>(7,303)</u>	<u>(8,616)</u>	<u>(2,220)</u>
Interest income	475	435	11
Interest expense	(1,372)	(1,061)	(356)
Other income/(expense)	-	-	-
Change in net position	<u>\$ (8,200)</u>	<u>\$ (9,242)</u>	<u>\$ (2,565)</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 the number of broadband services provided to customers for the fiscal year. Any change (increase/decrease) in retail fiber rates would also be a cause of change in operating revenue.
- Operating expenses (products and promotions, customer service, administrative and general) are normally impacted by changes in areas including, but not limited to, labor costs (staffing, wage rates), active employee and retiree medical costs, and system maintenance.
- Depreciation and amortization expense is impacted by intangible assets, plant additions, and retirements during the fiscal year.
- Taxes and tax equivalents are impacted by plant additions/retirements and changes in property tax rates.
- Interest income is impacted by the level of interest rates and investments.
- Interest expense on debt is impacted by the level of outstanding debt and the interest rates on the outstanding debt.

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

- Other income/(expense) is impacted by miscellaneous non-operating revenues and expenses.
- Capital contributions are impacted by a donation of facilities/infrastructure to KUB by developers and governmental agencies. The contributions are recognized as revenue and recorded as plant in service based on the fair market value of the asset(s).

Impacts and Analysis

Change in Net Position

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's Change in Net Position was (\$8.2 million) in fiscal year 2024, due to \$6.5 million in operating revenues and \$0.5 million in interest income offset by \$13.7 million in operating expenses and \$1.4 million in interest expense.

Fiscal Year 2023 Compared to Fiscal Year 2022

The Division's Change in Net Position was (\$9.2 million) in fiscal year 2023, due to \$9.5 million in operating expenses, \$0.4 million in interest income, and \$1.1 million in interest expense.

Margin from Sales

Fiscal Year 2024 Compared to Fiscal Year 2023

The Fiber Division had operating revenues of \$6.4 million in fiscal year 2024.

Fiscal Year 2023 Compared to Fiscal Year 2022

The Fiber Division had operating revenues of \$0.9 million in fiscal year 2023.

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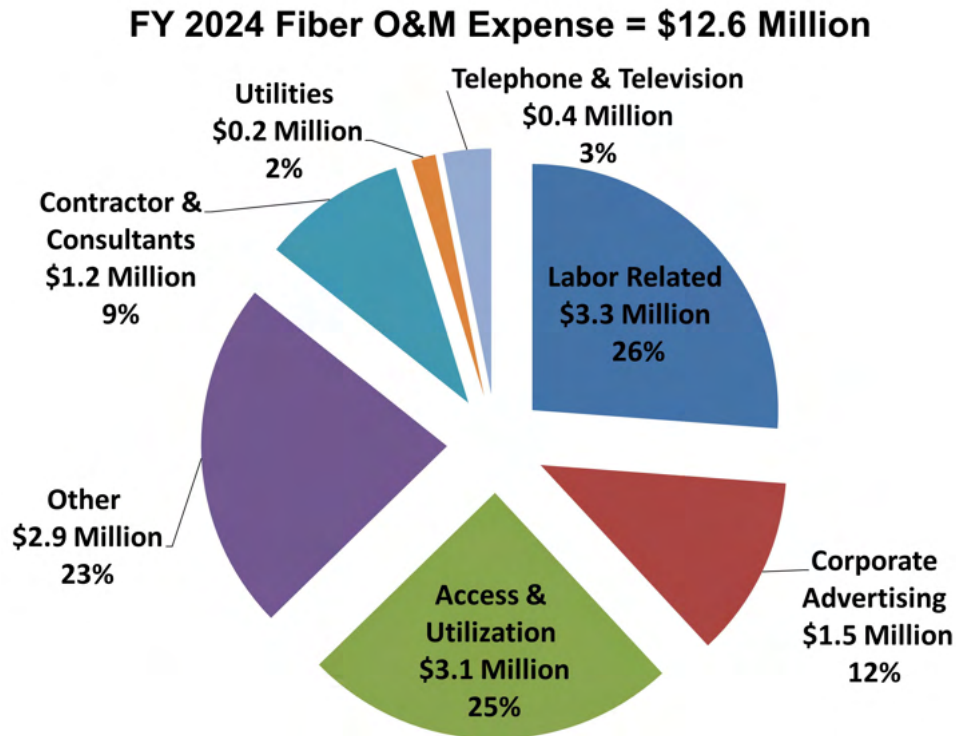
Knoxville Utilities Board Fiber Division Management’s Discussion and Analysis June 30, 2024 and 2023

Operating Expenses

Fiscal Year 2024 Compared to Fiscal Year 2023

Operating expenses increased \$4.2 million compared to fiscal year 2023. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as products and promotions, customer service, and administrative and general.

- Products and promotions expenses were \$4 million higher the prior fiscal year, primarily due to materials, contractor and consultants, and access and utilization expenses.
- Customer service expenses were \$0.2 million lower, primarily due to a change in methodology for technology-related costs that resulted in an offsetting increase in administration and general expenses.
- Administrative and general expenses increased \$0.3 million, primarily due to increased technology-related costs, including a change in methodology that resulted in an offsetting decrease in customer service expenses.



- Depreciation and amortization expense was consistent with the prior fiscal year. KUB added \$0.5 million in assets during fiscal year 2024. A partial year of depreciation was recorded on these capital assets and a full year of depreciation expense was incurred on \$0.8 in fiber system assets placed in service during fiscal year 2023.
- Taxes and tax equivalents increased \$0.1 million.

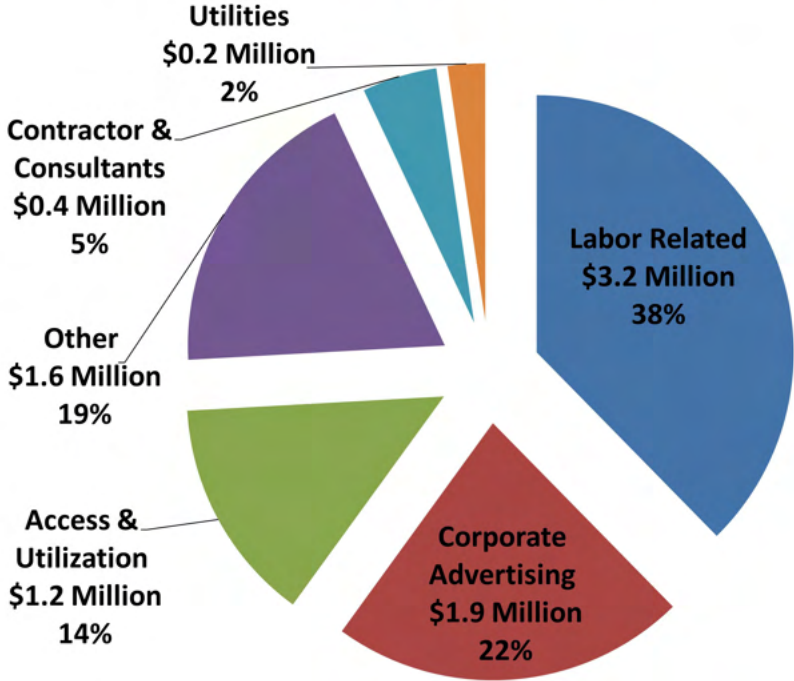
**Knoxville Utilities Board Fiber Division
 Management’s Discussion and Analysis
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Fiscal Year 2023 Compared to Fiscal Year 2022

Operating expenses increased \$7.3 million compared to fiscal year 2022. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as products and promotions, customer service, and administrative and general.

- Products and promotions expenses were \$3.4 million higher the prior fiscal year, primarily due to corporate advertising expenses, as well as access and utilization expenses.
- Customer service expenses increased \$1.5 million, primarily due to labor-related expenses.
- Administrative and general expenses increased \$1.6 million, primarily due to labor-related expenses.

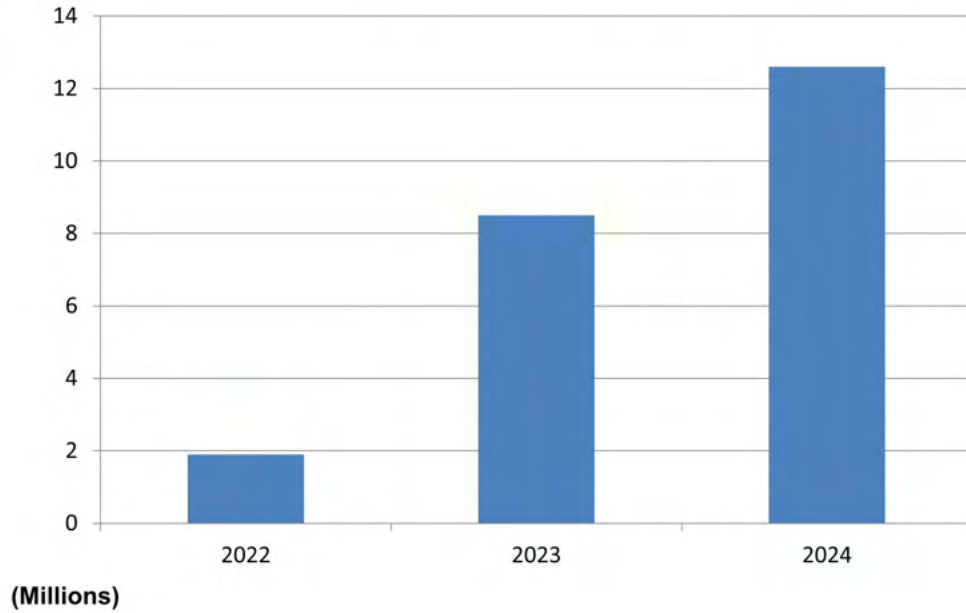
FY 2023 Fiber O&M Expense = \$8.5 Million



- Depreciation and amortization expense increased \$0.6 million. KUB added \$0.8 million in assets during fiscal year 2023. A partial year of depreciation was recorded on these capital assets and a full year of depreciation expense was incurred on \$3.8 in fiber system assets placed in service during fiscal year 2022.
- Taxes and tax equivalents increased \$0.2 million.

**Knoxville Utilities Board Fiber Division
Management’s Discussion and Analysis
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Fiber Division Operation & Maintenance Expense



Other Income and Expense

Fiscal Year 2024 Compared to Fiscal Year 2023

Interest income was consistent with the prior fiscal year.

Interest expense was \$0.3 million higher than the prior fiscal year due to higher notes payable.

Fiscal Year 2023 Compared to Fiscal Year 2022

Interest income increased \$0.4 million due to higher levels of cash on hand and rising interest rates throughout the year.

Interest expense was \$0.7 million higher than the prior fiscal year due to higher levels of notes payable.

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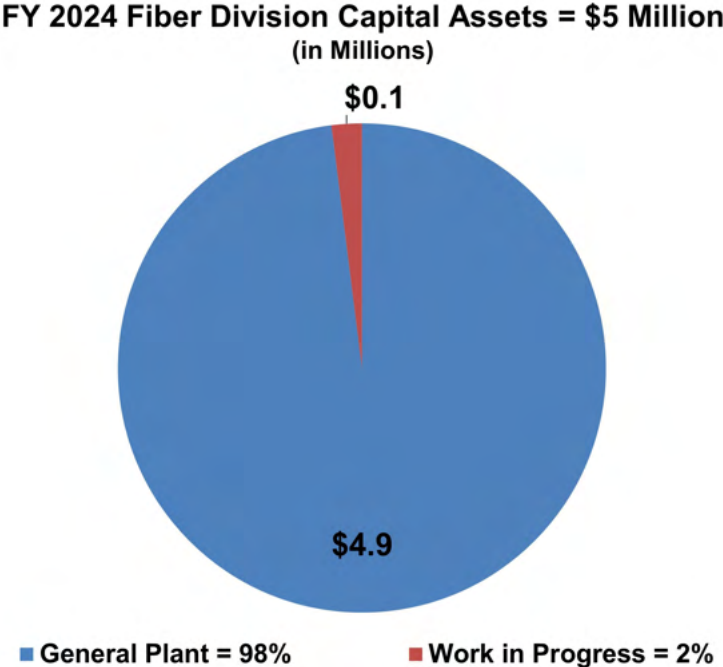
**Knoxville Utilities Board Fiber Division
 Management’s Discussion and Analysis
 June 30, 2024 and 2023**

Capital Assets

	Capital Assets As of June 30 (Net of Depreciation)		
<i>(in thousands of dollars)</i>	2024	2023	2022 as restated
General Plant	\$ 4,892	\$ 4,474	\$ 3,767
Total Plant Assets	\$ 4,892	\$ 4,474	\$ 3,767
Work In Progress	107	36	271
Total Net Plant	<u>\$ 4,999</u>	<u>\$ 4,510</u>	<u>\$ 4,038</u>

Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, the Division had \$5 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of \$0.5 million over the end of last fiscal year.



Major capital asset expenditures during the year were as follows:

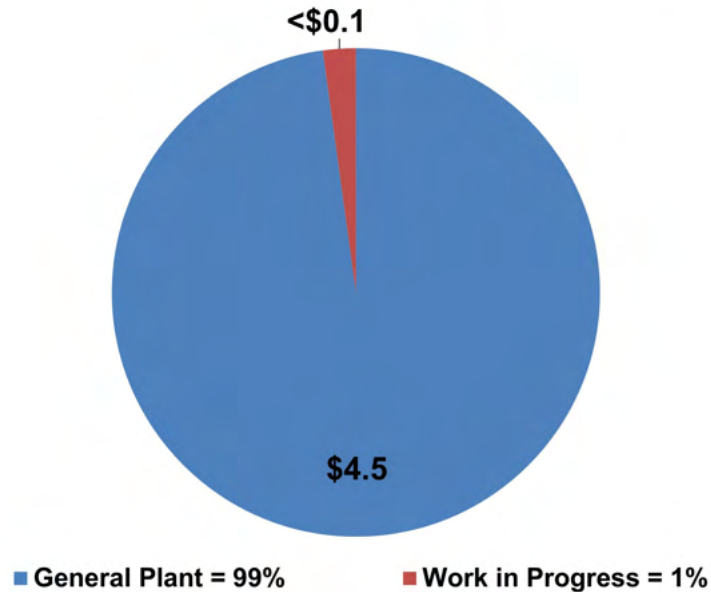
- \$0.4 million in fiber trucks and autos

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

Fiscal Year 2023 Compared to Fiscal Year 2022

As of June 30, 2023, the Division had \$4.5 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of \$0.5 million over the end of last fiscal year.

FY 2023 Fiber Division Capital Assets = \$4.5 Million
(in Millions)



Major capital asset expenditures during the year were as follows:

- \$0.1 million in fiber systems and equipment
- \$0.1 million in fiber trucks and autos

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Knoxville Utilities Board Fiber Division Management’s Discussion and Analysis June 30, 2024 and 2023

Debt Administration

The Division’s outstanding debt was \$34.6 million as of June 30, 2024. In support of KUB’s Fiber Division, the Electric Division issued a \$10 million interdivisional loan to the Fiber Division in October 2021, a \$7 million loan in August 2022, a \$13 million loan in February 2023, and a \$5 million loan in May 2024, all maturing in June 2030. The Electric Division issued an additional \$2 million loan in May 2024, which will mature in June 2032. KUB’s Board and TVA have approved proposed loans of up to \$55 million to the Division from the Electric Division.

This investment supports construction of an advanced fiber infrastructure to improve electric system operations and to enable residential and commercial broadband services for KUB customers.

Outstanding Debt As of June 30

<i>(in thousands of dollars)</i>	2024	2023	2022
Note Payable	\$ <u>34,588</u>	\$ <u>29,117</u>	\$ <u>10,000</u>
Total outstanding debt	\$ <u>34,588</u>	\$ <u>29,117</u>	\$ <u>10,000</u>

Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, the Division had \$34.6 million in outstanding debt (including the current portion of note payable), compared to \$29.1 million as of June 30, 2023.

In May 2024, the Division was issued an interdivisional loan of \$7 million from the Electric Division at an interest rate of 4.13 percent. During the course of the fiscal year, \$1.5 million of principal payments were made on the outstanding debt.

Fiscal Year 2023 Compared to Fiscal Year 2022

As of June 30, 2023, the Division had \$29.1 million in outstanding debt (including the current portion of note payable).

In August 2022, the Division was issued an interdivisional loan of \$7 million from the Electric Division at an interest rate of 3.93 percent. In February 2023, the Division was issued an interdivisional loan of \$13 million from the Electric Division at an interest rate of 4.02 percent. Principal payments to the Electric Division began in October 2022 and continue through June 2030. KUB’s Board and TVA have approved proposed loans of up to \$55 million to the Division from the Electric Division.

Impacts on Future Financial Position

KUB anticipates adding 10,000 additional fiber customers during fiscal year 2025.

Broadband services will be provided by a high-speed fiber optic network that will be owned and maintained by the Electric Division. The Fiber Division will share in the cost to build and operate the Fiber network by paying the Electric Division an annual access fee based on the year-end value of those assets and the related expenses. The Fiber Division will also pay the Electric Division an annual utilization fee based on attachments to the network.

As a component of the Fiber Division’s start-up financing plan, the Electric Division will provide \$55 million of interdivisional loans. The first \$10 million was provided in October 2021, an additional \$7 million was

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

provided in August 2022, \$13 million was provided in February 2023, and \$7 million was provided in May 2024. An \$10 million loan is anticipated in fiscal year 2025.

The Pension Plan actuarial valuation resulted in an actuarially determined contribution of \$2,210,234 for the fiscal year ending June 30, 2025, based on the Plan's current funding policy. The Fiber Division's portion of this contribution will be determined as part of the actuarial analysis for the December 31, 2024, measurement date. Subsequent to June 30, 2024, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$2,793,313 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. The Fiber Division's portion of this contribution will be determined as part of the actuarial analysis for the December 31, 2025, measurement date. For the Plan year beginning January 1, 2024, the Plan's actuarial funded ratio is 105.19 percent, and the market value funded ratio is 96.77 percent.

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

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

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

Financial Contact

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

Knoxville Utilities Board Fiber Division
Statements of Net Position
June 30, 2024 and 2023

	2024	2023
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	\$ 9,294,082	\$ 12,264,803
Accounts receivable, less allowance of uncollectible accounts of \$4,091 in 2024 and \$0 in 2023	475,593	92,846
Current portion of lease receivable	24,056	15,592
Inventories	1,472,872	1,886,460
Prepaid expenses	75,159	60,593
Total current assets	<u>11,341,762</u>	<u>14,320,294</u>
Restricted assets:		
Student internet special fund	1,119,548	300,000
Other funds	46	46
Total restricted assets	<u>1,119,594</u>	<u>300,046</u>
Fiber plant in service	5,033,917	4,518,939
Less accumulated depreciation	<u>(142,109)</u>	<u>(44,735)</u>
	4,891,808	4,474,204
Retirement in progress	-	-
Construction in progress	106,805	35,395
Net plant in service	<u>4,998,613</u>	<u>4,509,599</u>
Intangible assets:		
Intangible right of use asset	1,858,978	1,839,025
Intangible subscription asset	4,290,863	4,293,885
Less accumulated amortization	<u>(1,944,420)</u>	<u>(1,140,392)</u>
Net intangible assets	<u>4,205,421</u>	<u>4,992,518</u>
Other assets:		
Long-term lease receivable	251,937	109,723
Other	1,135	13,703
Total other assets	<u>253,072</u>	<u>123,426</u>
Total assets	<u>21,918,462</u>	<u>24,245,883</u>
Deferred outflows of resources:		
Pension outflow	605,685	-
OPEB outflow	302,249	-
Total deferred outflows of resources	<u>907,934</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 22,826,396</u>	<u>\$ 24,245,883</u>

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

Knoxville Utilities Board Fiber Division
Statements of Net Position
June 30, 2024 and 2023

	2024	2023
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of note payable	\$ 1,850,000	\$ 1,500,000
Current portion of accrued compensated absences	159,537	159,210
Current portion of lease liability	360,351	332,905
Current portion of subscription liability	325,072	165,278
Sales tax collections payable	19,476	3,018
Accounts payable	138,167	615,997
Unearned revenue	428,327	84,112
Accrued expenses	1,218,724	393,781
Accrued interest	115,554	96,407
Total current liabilities	<u>4,615,208</u>	<u>3,350,708</u>
Other liabilities:		
Accrued compensated absences	82,186	82,018
Lease liability	692,154	1,038,583
Subscription liability	3,520,477	3,845,838
Net pension liability	159,645	-
Net OPEB liability	305,393	-
Total other liabilities	<u>4,759,855</u>	<u>4,966,439</u>
Long-term debt:		
Long-term note payable	<u>32,737,500</u>	<u>27,616,667</u>
Total long-term debt	<u>32,737,500</u>	<u>27,616,667</u>
Total liabilities	<u>42,112,563</u>	<u>35,933,814</u>
Deferred inflows of resources:		
Pension inflow	398,385	-
OPEB inflow	58,709	-
Lease inflow	264,569	119,933
Total deferred inflows of resources	<u>721,663</u>	<u>119,933</u>
Total liabilities and deferred inflows of resources	<u>42,834,226</u>	<u>36,053,747</u>
Net position		
Net investment in capital assets	(692,633)	(390,086)
Restricted for:		
Other	46	46
Unrestricted	<u>(19,315,243)</u>	<u>(11,417,824)</u>
Total net position	<u>(20,007,830)</u>	<u>(11,807,864)</u>
Total liabilities, deferred inflows, and net position	<u>\$ 22,826,396</u>	<u>\$ 24,245,883</u>

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

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

	2024	2023
Operating revenues	\$ <u>6,419,654</u>	\$ <u>879,506</u>
Operating expenses		
Products and promotions	8,357,671	4,342,512
Customer service	1,551,564	1,744,562
Administrative and general	2,689,048	2,386,709
Depreciation and amortization	876,983	832,662
Taxes and tax equivalents	<u>247,161</u>	<u>189,206</u>
Total operating expenses	<u>13,722,427</u>	<u>9,495,651</u>
Operating income	<u>(7,302,773)</u>	<u>(8,616,145)</u>
Non-operating revenues (expenses)		
Interest income	475,018	435,087
Interest expense	<u>(1,372,211)</u>	<u>(1,061,417)</u>
Total non-operating revenues (expenses)	<u>(897,193)</u>	<u>(626,330)</u>
Change in net position	(8,199,966)	(9,242,475)
Net position, beginning of year	<u>(11,807,864)</u>	<u>(2,565,389)</u>
Net position, end of year	<u>\$ (20,007,830)</u>	<u>\$ (11,807,864)</u>

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

Knoxville Utilities Board Fiber Division
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Cash receipts from customers	\$ 6,343,474	\$ 865,537
Cash receipts from other operations	(806,056)	(301,563)
Cash payments to suppliers of goods or services	(9,826,078)	(7,299,844)
Cash payments to employees for services	(2,149,149)	(1,989,578)
Payment in lieu of taxes	(37,033)	(5,232)
Net cash used in operating activities	<u>(6,474,842)</u>	<u>(8,730,680)</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of fiber plant	(586,387)	(516,653)
Principal paid on lease liabilities	(336,711)	(313,727)
Principal paid on subscription liabilities	(165,568)	(2,607)
Interest paid on lease and subscription liabilities	(199,283)	(212,742)
Net cash used in capital and related financing activities	<u>(1,287,949)</u>	<u>(1,045,729)</u>
Cash flows from noncapital and related financing activities:		
Proceeds from notes payable to Electric Division	7,000,000	20,000,000
Principal payments on notes payable to Electric Division	(1,529,167)	(883,333)
Interest paid on notes payable to Electric Division	(1,153,781)	(784,685)
Net cash provided by noncapital and related financing activities	<u>4,317,052</u>	<u>18,331,982</u>
Cash flows from investing activities:		
Interest received	475,018	435,087
Net cash provided by investing activities	<u>475,018</u>	<u>435,087</u>
Net (decrease) increase in cash and cash equivalents	(2,970,721)	8,990,660
Cash and cash equivalents, beginning of year	<u>12,264,803</u>	<u>3,274,143</u>
Cash and cash equivalents, end of year	<u>\$ 9,294,082</u>	<u>\$ 12,264,803</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (7,302,773)	\$ (8,616,145)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	897,804	844,099
Changes in operating assets and liabilities:		
Accounts receivable	(382,746)	(92,846)
Lease receivable	(150,678)	(125,315)
Inventories	413,588	(1,692,224)
Prepaid expenses	(14,567)	(20,617)
Other assets	(806,979)	(310,987)
Sales tax collections payable	16,458	3,018
Accounts payable and other accrued expenses	510,836	1,196,225
Customer deposits plus accrued interest	344,215	84,112
Net cash used in operating activities	<u>\$ (6,474,842)</u>	<u>\$ (8,730,680)</u>
Noncash capital activities:		
Record intangible right of use asset and lease liability	\$ 18,331	\$ 1,119
Record intangible subscription asset and subscription liability	\$ -	\$ 6,256

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

Knoxville Utilities Board Fiber Division

Notes to Financial Statements

June 30, 2024 and 2023

1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions, including setting rates. The Fiber Division (Division) will provide services to certain customers in Knox County and in seven surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Fiber Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board as of June 30, 2024, and 2023, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

2. Summary of 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 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 to the Division is determined by measurement focus. The transactions of the Division 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 April 2022, the GASB issued GASB Statement No. 99 (Statement No. 99), *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements and accounting and financial reporting for financial guarantees. Paragraphs 26-32 were effective immediately. Paragraphs 11-25 were effective for fiscal years beginning after June 15, 2022. Paragraphs 4-10 are effective for fiscal years beginning after June 15, 2023. Adoption of this Statement did not have a significant impact on KUB's financial statements.

Knoxville Utilities Board Fiber Division

Notes to Financial Statements

June 30, 2024 and 2023

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

Fiber Plant

Fiber plant and other property are stated on the basis of original cost. The cost of current repairs and minor replacements is charged to operating expense. The cost of renewals and improvements is 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 fiber plant in service is based on the estimated useful lives of the assets, which range from three to forty years, and is computed using the straight-line method. Pursuant to FERC, the caption "Depreciation and amortization" in the Statements of Revenues, Expenses and Changes in Net Position does not include depreciation for transportation equipment. Depreciation for transportation equipment of \$20,820 in fiscal year 2024 and \$11,437 in fiscal year 2023 is included in operation and maintenance expense.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of the KUB Fiber Division. Operating revenue is recorded when the service is rendered, on a cycle basis, and includes an estimate of unearned revenue. Revenues are reported net of bad debt expense of \$7,034 in fiscal year 2024 and \$30 in fiscal year 2023.

Non-operating Revenue

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

Expense

When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is KUB's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net 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 and intangible assets, including restricted capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of any bonds, mortgages, notes, lease and subscription liabilities, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.

Knoxville Utilities Board Fiber Division

Notes to Financial Statements

June 30, 2024 and 2023

Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Net position-restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- Net position-unrestricted – This component of net position consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Inventories

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

OPEB Trust

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

KUB's policy is to fully fund the annual actuarially determined contributions, which are determined by actuarial valuation. As required by GASB Statement No. 75, KUB measures net OPEB liability as total OPEB liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2024, and 2023, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2024, and 2023, are based on a June 30, 2024, and 2023, measurement date, respectively. The net OPEB liability is \$9,373,073 (Division's share \$305,393) as of June 30, 2024, and \$12,930,655 (Division's share \$0) as of June 30, 2023. KUB's Fiber Division shares in the allocation after being included in actuarial valuations beginning in fiscal year 2024.

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). KUB's policy is to fully fund the annual actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2024, and 2023, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2024, and 2023, are based on a December 31, 2023, and 2022, measurement date, respectively. The net pension liability is \$7,452,380 (Division's share \$159,645) as of June 30, 2024, and \$22,219,032 (Division's share \$0) as of June 30, 2023. KUB's Fiber Division shares in the allocation after being included in actuarial valuations beginning in fiscal year 2024.

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. As required by GASB Statement No. 73, KUB measures the total pension liability of the QEBA. The amounts reported as of June 30, 2024, and 2023, must be based upon a plan measurement date within the prior twelve

Knoxville Utilities Board Fiber Division

Notes to Financial Statements

June 30, 2024 and 2023

months. Therefore, KUB's measurements as of June 30, 2024, and 2023, are based on a December 31, 2023, and 2022, measurement date, respectively. Due to the increase in the section 415(d) annual benefit limitation from 2021 to 2022, the pension benefit for the sole participant in the Excess Benefit Arrangement is now fully payable under the KUB Pension Plan and, as such, there is no benefit payable under the Excess Benefit Arrangement as of June 30, 2024, and 2023. KUB's Fiber Division will share in the allocation after being included in upcoming actuarial valuations if necessary.

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 are not limited to, inventory valuation, allowance for uncollectible accounts, depreciable lives of plant assets, lease liabilities, subscription liabilities, 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 designated by management for contingency purposes and economic development. Assets are reported as restricted when limitations on their use are either imposed by creditors, contributors, grantors or imposed by enabling legislation.

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

Cash Equivalents

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

Leases

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

Knoxville Utilities Board Fiber Division

Notes to Financial Statements

June 30, 2024 and 2023

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

Subscription-Based Information Technology Arrangements

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

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

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are items related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. Deferred inflows of resources are items related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. KUB records costs associated with the gain or loss on refunding of debt as either a deferred outflow or inflow based on the parameters of Statement No. 65. Deferred outflows of resources also include employer pension contributions made subsequent to the measurement date of the net pension liability and before the end of the employer's reporting period in accordance with Statement No. 71. Deferred inflows and deferred outflows also include the net difference between projected and actual earnings on pension plan investments and OPEB plan investments, differences between expected and actual experience, and changes in assumptions in accordance with Statements No. 68, 73, and 75. Deferred inflows are also recorded at the commencement of the lease term and recognized as revenue over the course of the lease in accordance with Statement No. 87.

Compensated Absences

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

Reclassification

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

Subsequent Events

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

Recently Issued Accounting Pronouncements

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

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

Knoxville Utilities Board Fiber Division

Notes to Financial Statements

June 30, 2024 and 2023

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

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

3. Deposits and Investments

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

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

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

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

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

Knoxville Utilities Board Fiber Division
Notes to Financial Statements
June 30, 2024 and 2023

Classification of deposits and investments per Statement of Net Position:

	2024	2023
Current assets		
Cash and cash equivalents	\$ 9,294,082	\$ 12,264,803
Restricted assets		
Student internet special fund	1,119,548	300,000
Other funds	46	46
	<u>\$ 10,413,676</u>	<u>\$ 12,564,849</u>

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

	Deposit and Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	\$ <u>9,737,540</u>	\$ <u>9,737,540</u>	\$ <u>-</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.

The Division has no recurring fair value measurements as of June 30, 2024.

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.

4. Accounts Receivable

Accounts receivable consists of the following:

	2024	2023
Wholesale and retail customers		
Billed services	\$ 479,684	\$ 92,036
Other	-	810
Allowance for uncollectible accounts	<u>(4,091)</u>	<u>-</u>
	<u>\$ 475,593</u>	<u>\$ 92,846</u>

Knoxville Utilities Board Fiber Division
Notes to Financial Statements
June 30, 2024 and 2023

5. Accounts Payable and Accruals

Accounts payable and accruals consist of the following

	2024	2023
Trade accounts	\$ 138,167	\$ 615,997
Current portion of accrued compensated absences	159,537	159,210
Salaries and wages	50,040	29,838
Self-insurance liabilities	50,902	63,943
Other current liabilities	<u>1,117,782</u>	<u>300,000</u>
	<u>\$ 1,516,428</u>	<u>\$ 1,168,988</u>

6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2023	Additions	Payments	Balance June 30, 2024
Notes payable	\$ 29,116,667	\$ <u>7,000,000</u>	\$ <u>(1,529,167)</u>	\$ 34,587,500
Less current portion	<u>(1,500,000)</u>			<u>(1,850,000)</u>
Long-term portion	<u>\$ 27,616,667</u>			<u>\$ 32,737,500</u>

	Balance June 30, 2022	Additions	Payments	Balance June 30, 2023
Notes payable	\$ 10,000,000	\$ <u>20,000,000</u>	\$ <u>(883,333)</u>	\$ 29,116,667
Less current portion	<u>(375,000)</u>			<u>(1,500,000)</u>
Long-term portion	<u>\$ 9,625,000</u>			<u>\$ 27,616,667</u>

	Fiscal Year	Total Principal	Total Interest	Grand Total
	2025	\$ 1,850,000	\$ 1,352,828	\$ 3,202,828
	2026	1,850,000	1,279,039	3,129,039
	2027	1,850,000	1,205,249	3,055,249
	2028	7,438,518	1,131,459	8,569,977
	2029	14,190,714	842,286	15,033,000
	2030-2032	<u>7,408,268</u>	<u>353,152</u>	<u>7,761,420</u>
	Total	<u>\$ 34,587,500</u>	<u>\$ 6,164,013</u>	<u>\$ 40,751,513</u>

In support of KUB's Fiber Division, the Electric Division issued a series of loans to the Fiber Division. The Electric Division issued a \$10 million loan in October 2021, a \$7 million loan in August 2022, a \$13 million loan in February 2023, and a \$5 million loan in May 2024 to the Fiber Division, all maturing in June 2030. The Electric Division issued a \$2 million loan in May 2024 to the Fiber Division, maturing in June 2032. The loans support startup costs of the Fiber Division as KUB's advanced fiber infrastructure is being constructed to allow customers to receive broadband services.

Knoxville Utilities Board Fiber Division
Notes to Financial Statements
June 30, 2024 and 2023

Other liabilities consist of the following:

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Accrued compensated absences	\$ <u>82,018</u>	\$ <u>189,848</u>	\$ <u>(189,680)</u>	\$ <u>82,186</u>
	\$ <u><u>82,018</u></u>	\$ <u><u>189,848</u></u>	\$ <u><u>(189,680)</u></u>	\$ <u><u>82,186</u></u>
	Balance June 30, 2022	Increase	Decrease	Balance June 30, 2023
Accrued compensated absences	\$ <u>113,752</u>	\$ <u>719,371</u>	\$ <u>(751,105)</u>	\$ <u>82,018</u>
	\$ <u><u>113,752</u></u>	\$ <u><u>719,371</u></u>	\$ <u><u>(751,105)</u></u>	\$ <u><u>82,018</u></u>

7. Lease Receivables

KUB, as lessor, leases office space under non-cancelable lease arrangements. Terms of the leases range from one to fourteen years and contain fixed payment terms. Certain leases contain an option to renew that has been considered in the lease receivable when the lessee is reasonably certain to exercise the renewal option. KUB recognized lease revenue, which is included in other operating revenues, of \$28,333 in 2024 and \$17,807 in 2023. KUB also recognized interest income from leases, which is included in non-operating revenues, totaling \$9,257 in 2024 and \$4,344 in 2023. Total lease receivables were \$275,993 (\$24,056 current) and \$125,315 (\$15,592 current) as of June 30, 2024, and 2023, respectively, and are included in other assets on the Statement of Net Position.

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Knoxville Utilities Board Fiber Division
Notes to Financial Statements
June 30, 2024 and 2023

8. Lease Liabilities

Changes in lease liabilities are summarized as follows:

	Balance June 30, 2023		Increase		Decrease		Balance June 30, 2024
Total lease liabilities	\$ 1,371,488	\$	<u>18,331</u>	\$	<u>(337,314)</u>	\$	1,052,505
Less current portion	<u>(332,905)</u>						<u>(360,351)</u>
Long-term portion	<u>1,038,583</u>					\$	<u>692,154</u>

	Balance June 30, 2022		Increase		Decrease		Balance June 30, 2023
Total lease liabilities	\$ 1,680,509	\$	<u>4,706</u>	\$	<u>(313,727)</u>	\$	1,371,488
Less current portion	<u>(310,566)</u>						<u>(332,905)</u>
Long-term portion	<u>1,369,943</u>					\$	<u>1,038,583</u>

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

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

	Lease Maturities		Interest Requirements	
2025	\$	360,351	\$	33,342
2026		385,302		19,691
2027		<u>306,852</u>		<u>4,950</u>
	\$	<u>1,052,505</u>	\$	<u>57,983</u>

9. Subscription-Based Information Technology Agreement Liabilities

Changes in SBITA liabilities are summarized as follows:

	Balance June 30, 2023		Increase		Decrease		Balance June 30, 2024
Total SBITA liabilities	\$ 4,011,116	\$	<u>-</u>	\$	<u>(165,567)</u>	\$	3,845,549
Less current portion	<u>(165,278)</u>						<u>(325,072)</u>
Long-term portion	<u>3,845,838</u>					\$	<u>3,520,477</u>

	Balance June 30, 2022		Increase		Decrease		Balance June 30, 2023
Total SBITA liabilities	\$ 4,007,467	\$	<u>6,256</u>	\$	<u>(2,607)</u>	\$	4,011,116
Less current portion	<u>(2,607)</u>						<u>(165,278)</u>
Long-term portion	<u>4,004,860</u>					\$	<u>3,845,838</u>

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

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

	Subscription Maturities		Interest Requirements	
2025	\$	325,072	\$	144,353
2026		467,044		128,954
2027		544,174		109,144
2028		565,724		87,595
2029		588,127		65,191
2030-2032		1,355,408		60,116
	\$	<u>3,845,549</u>	\$	<u>595,353</u>

10. Capital and Intangible Assets

Capital and intangible asset activity was as follows:

	Balance June 30, 2023		Increase	Decrease	Balance June 30, 2024	
General Plant		<u>4,518,939</u>	<u>514,978</u>	-		<u>5,033,917</u>
Total Plant Assets	\$	4,518,939	\$ 514,978	\$ -	\$	5,033,917
Less Accumulated Depreciation		<u>(44,735)</u>	<u>(97,374)</u>	-		<u>(142,109)</u>
Net Plant Assets	\$	4,474,204	\$ 417,604	\$ -	\$	4,891,808
Work In Progress		<u>35,395</u>	<u>548,396</u>	<u>(476,986)</u>		<u>106,805</u>
Total Net Plant	\$	<u>4,509,599</u>	\$ <u>966,000</u>	\$ <u>(476,986)</u>	\$	<u>4,998,613</u>
Intangible Right of Use Assets						
Office space	\$	1,835,035	\$ 22,183	\$ -	\$	1,857,218
Equipment		3,990	-	(2,230)		1,760
Other		-	-	-		-
Total Intangible Right of Use Assets	\$	1,839,025	\$ 22,183	\$ (2,230)	\$	1,858,978
Less Accumulated Amortization		<u>(566,854)</u>	<u>(350,916)</u>	<u>2,230</u>		<u>(915,540)</u>
Net Intangible Right of Use Assets	\$	<u>1,272,171</u>	\$ <u>(328,733)</u>	\$ -	\$	<u>943,438</u>
Intangible Subscription Assets						
Intangible Subscription Assets	\$	4,293,885	\$ -	\$ (3,022)	\$	4,290,863
Less Accumulated Amortization		<u>(573,538)</u>	<u>(455,342)</u>	-		<u>(1,028,880)</u>
Net Intangible Subscription Assets	\$	<u>3,720,347</u>	\$ <u>(455,342)</u>	\$ <u>(3,022)</u>	\$	<u>3,261,983</u>

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	Balance June 30, 2022	Increase	Decrease	Balance June 30, 2023
General Plant	3,766,791	839,687	(87,539)	4,518,939
Total Plant Assets	\$ 3,766,791	\$ 839,687	\$ (87,539)	\$ 4,518,939
Less Accumulated Depreciation	-	(134,885)	90,150	(44,735)
Net Plant Assets	\$ 3,766,791	\$ 704,802	\$ 2,611	\$ 4,474,204
Work In Progress	270,890	208,142	(443,637)	35,395
Total Net Plant	<u>\$ 4,037,681</u>	<u>\$ 912,944</u>	<u>\$ (441,026)</u>	<u>\$ 4,509,599</u>
Intangible Right of Use Assets				
Office space	\$ 1,835,035	-	-	\$ 1,835,035
Equipment	-	4,482	(492)	3,990
Other	1,438	-	(1,438)	-
Total Intangible Right of Use Assets	\$ 1,836,473	\$ 4,482	\$ (1,930)	\$ 1,839,025
Less Accumulated Amortization	(226,489)	(342,773)	2,408	(566,854)
Net Intangible Right of Use Assets	<u>\$ 1,609,984</u>	<u>\$ (338,291)</u>	<u>\$ 478</u>	<u>\$ 1,272,171</u>
Intangible Subscription Assets				
Intangible Subscription Assets	\$ 4,291,101	2,784	-	\$ 4,293,885
Less Accumulated Amortization	(115,795)	(457,743)	-	(573,538)
Net Intangible Subscription Assets	<u>\$ 4,175,306</u>	<u>\$ (454,959)</u>	<u>\$ -</u>	<u>\$ 3,720,347</u>

11. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. As of June 30, 2024, and June 30, 2023, the amount of these liabilities was \$50,902 and \$63,943, respectively, resulting from the following changes:

	2024	2023
Balance, beginning of year	\$ 63,943	\$ 13,284
Current year claims and changes in estimates	365,072	549,279
Claims payments	(378,113)	(498,620)
Balance, end of year	<u>\$ 50,902</u>	<u>\$ 63,943</u>

12. Pension Plan

Description of Plan

The Knoxville Utilities Board Pension Plan (the Plan) is a governmental plan as defined by the Employee Retirement Income Security Act of 1974 (ERISA or the Act), is not subject to any of the provisions of the Act, and was revised January 1, 2020, to include all prior approved amendments. The Plan is a single employer contributory, defined benefit pension plan established by Knoxville Utilities Board Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville §1107(J). KUB Board Resolution No. 979, effective July 1, 1999, as amended by Resolution No. 1037, establishing the KUB Retirement System, was amended

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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. For purposes of this disclosure, presentation is on a consolidated basis unless division’s share is specified.

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

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

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

Retirement Benefits

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

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

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

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.

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Contributions

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

Plan Funding

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

Investments

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

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

Contributions of \$1,108,147 and \$2,624,373 for 2022 and 2021, respectively, were made during the Plan sponsor's fiscal years ended June 30, 2024, and 2023, respectively. Of these amounts, \$23,739 and \$0 are attributable to the Fiber Division. The fiscal year 2024 contribution was determined as part of the January 1, 2022, valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability, or death.

Net Pension Liability

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB 68"), which requires measurement of the net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2024, and 2023, will be based on the December 31, 2023, and 2022, measurement date, respectively. The net pension liability is \$7,452,380 (Division's share \$159,645) as of June 30, 2024, and \$22,219,032 (Division's share \$0) as of June 30, 2023.

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

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

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

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

Actuarial Assumptions

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

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

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Inflation 2.5% as of December 31, 2023 and 2022

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

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

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

Discount rate

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

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

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

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

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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, 2024, KUB recognized pension expense of \$6,394,757 and the Fiber Division's share was \$4,193.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2022, this average was four years. During the measurement year, there was a liability experience loss of \$2,092,475, with \$523,119 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$1,569,356. Unrecognized liability experience losses from prior periods were \$1,951,216, of which \$940,357 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,010,859. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$2,580,215 (Division's share \$55,274). Unrecognized liability gains from prior periods were \$210,825, of which \$210,825 was recognized as a decrease in Pension Expense in the current year and resulted in a deferred inflow of \$0.

During the measurement year, there were no benefit changes or assumption changes. Net unrecognized assumption change losses from prior periods were \$5,646,136, of which \$3,011,800 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$2,634,336 (Division's share \$56,433).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$20,099,370, of which \$4,019,874 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were \$39,628,509, of which \$1,043,676 was recognized as an increase in Pension Expense in the current year. The combination of unrecognized investment gains this year, along with net unrecognized investment losses from prior periods, results in a deferred outflow of \$22,505,337 (Division's share \$482,109).

The impact of the change in proportionate share for the Fiber Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is four years. This change resulted in a deferred inflow of \$531,180, with \$132,795 of that recognized in the current year and the remaining amount recognized over the next three years, resulting in a deferred inflow of resources of \$398,385. In addition, KUB's Fiber Division recorded a deferred outflow of resources of \$11,869 for employer contributions made between December 31, 2023, and June 30, 2024.

The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Fiber Division.

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 55,274	\$ -
Changes in assumptions	56,433	-
Net difference between projected and actual earnings on pension plan investments	482,109	-
Change in proportionate share	-	398,385
Contributions subsequent to measurement date	11,869	-
Total	<u>\$ 605,685</u>	<u>\$ 398,385</u>

\$11,869 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2025. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2025	\$ 12,496
2026	111,231
2027	157,818
2028	(86,114)
Thereafter	-

13. Defined Contribution Plan

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

KUB funded 401(k) matching contributions and non-elective contributions of \$3,909,598 (Division’s share \$78,192) and \$3,794,561 (Division’s share \$113,837), respectively, for the years ended June 30, 2024, and 2023.

Vesting

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

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

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

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

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

Forfeitures

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

14. 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. For purposes of this disclosure, presentation is on a consolidated basis unless division’s share is specified.

Effective January 1, 2022, the Plan was expanded to two benefit offerings. Employees with a benefit service date prior to July 1, 1999, will continue to be eligible for the Retiree Medical Benefit, while those with a later benefit service date will participate in a new Retiree Health Reimbursement

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Arrangement (HRA), given that each eligible employee meets the “Rule of 80”, the sum of age and at least 20 years of qualified service equal to or exceeding 80, at retirement.

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

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

Benefits

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

Contributions and Funding

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

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

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

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

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

Investments

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

The following was the Trust's adopted investment target allocations as set forth in the Trust's Investment Policy as of June 30, 2024:

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

Actuarially determined contributions for the Fiber Division of \$38,700 were made to the OPEB Trust in fiscal year ended June 30, 2024. This was based on the OPEB actuarial valuation as of January 1, 2022.

Net OPEB Liability

The below summarizes the disclosures of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"), which requires measurement of the net OPEB liability as total OPEB liability less the amount of the Trust's fiduciary net position. The amounts reported as of June 30 are based on the reporting date for the KUB Other Post-Employment Benefits Plan, which is June 30. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2024, and 2023, and the Total OPEB Liability as of the valuation date, January 1, 2023, updated to June 30, 2024, and January 1, 2022, updated to June 30, 2023, respectively. The Division's share of the total net OPEB liability was \$305,393 as of June 30, 2024, and \$0 as of June 30, 2023.

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

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

Knoxville Utilities Board Fiber Division
Notes to Financial Statements
June 30, 2024 and 2023

Changes in Net OPEB Liability are as follows:

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

Actuarial assumptions

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

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

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

The long-term expected rate of return on Trust investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of

Knoxville Utilities Board Fiber Division
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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	
	2024	2023
Domestic equity	5.4%	5.1%
International equity	6.1%	6.1%
Emerging Market equity	7.8%	8.4%
Real estate equity	5.5%	5.3%
Debt securities	2.3%	1.8%
Cash and deposits	0.9%	0.7%

Discount rate

The discount rate used to measure the total OPEB liability was 7.00 percent as of June 30, 2024 and June 30, 2023. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

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

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

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

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

Knoxville Utilities Board Fiber Division
Notes to Financial Statements
June 30, 2024 and 2023

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

For the year ended June 30, 2024, KUB's Fiber Division recognized OPEB expense of \$100,553.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience loss of \$587,252, with \$83,893 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$503,359. Unrecognized experience losses from prior periods were \$100,858, of which \$16,810 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of resources of \$84,048. The combination of unrecognized experience gains or losses results in a deferred outflow of resources of \$587,407 (Division's share \$19,140).

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

During the measurement year, there was an assumption change gain of \$2,102,184, with \$300,312 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$1,801,872 (Division's share \$58,709). Unrecognized assumption losses from prior periods were \$2,166,706, of which \$361,118 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of \$1,805,588 (Division's share \$58,830).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$2,339,599, of which \$467,920 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$1,871,679. Net unrecognized investment losses from prior periods were \$3,211,114, of which \$843,284 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$2,367,829. The combination of unrecognized gains and losses from the current year and prior periods results in a deferred outflow of resources of \$496,150 (Division's share \$16,164).

The impact of the change in proportionate share for the Fiber Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is seven years. This change resulted in a deferred outflow of \$242,801, with \$34,686 of that recognized in the current year and the remaining amount recognized over the next six years, resulting in a deferred outflow of resources of \$208,115. The table below summarizes the current balances of deferred outflows and deferred inflows of resources of the Fiber Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 19,140	\$ -
Changes in assumptions	58,830	58,709
Net difference between projected and actual earnings on OPEB plan investments	16,164	-
Change in proportionate share	208,115	-
Total	<u>\$ 302,249</u>	<u>\$ 58,709</u>

Knoxville Utilities Board Fiber Division
Notes to Financial Statements
June 30, 2024 and 2023

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

Year ended June 30:		
2025	\$	35,372
2026		97,746
2027		18,139
2028		24,703
2029		39,948
Thereafter		27,632

15. Related Party Transactions

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

	2024	2023
City of Knoxville		
Payments by the Division in lieu of property tax	\$ 6,556	\$ 1,158
Payments by the Division for services provided	7,228	280
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	89,374	12,674
Interdivisional rental expense	82,293	46,557
Amounts billed to the Division by other divisions for utilities services provided	63,874	74,440
Interdivisional interest expense	1,172,928	848,675
Interdivisional access and utilization expense	3,044,523	1,200,888

Broadband services are provided by a high-speed fiber optic network that is owned and maintained by the Electric Division. The Fiber Division shares in the cost to build and operate the Fiber network by paying the Electric Division an annual access fee based on the year-end value of those assets and the related expenses. The Fiber Division also pays the Electric Division an annual utilization fee based on attachments to the network.

In October 2021, the Division was issued an interdivisional loan of \$10 million from the Electric Division at an interest rate of 3.89 percent. In August 2022, the Division was issued an interdivisional loan of \$7 million from the Electric Division at an interest rate of 3.93 percent. In February 2023, the Division was issued an interdivisional loan of \$13 million from the Electric Division at an interest rate of 4.02 percent. In May 2024, the Division was issued an interdivisional loan of \$7 million from the Electric Division at an interest rate of 4.13 percent. The Division paid interest expense of \$1,172,928 for the year ended June 30, 2024, and \$848,675 for the year ended June 30, 2023.

Knoxville Utilities Board Fiber Division
Notes to Financial Statements
June 30, 2024 and 2023

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 Fiber Division

Required Supplementary Information – Schedule of Changes in Net Pension Liability and Related Ratios

June 30, 2024 and 2023

	Year ended December 31									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability										
Service cost	\$ 8,221,181	\$ 6,349,402	\$ 6,647,220	\$ 5,227,657	\$ 6,142,213	\$ 5,095,488	\$ 4,607,486	\$ 4,226,985	\$ 4,157,062	\$ 4,092,808
Interest	17,868,490	17,430,465	16,982,226	16,393,202	16,030,626	15,344,193	15,015,282	14,966,559	14,812,784	14,698,657
Changes of benefit terms	-	-	-	-	163,199	-	-	-	-	-
Differences between expected and actual experience	2,092,475	282,014	1,935,276	1,930,170	(1,054,117)	(605,649)	(1,087,161)	(2,233,762)	(1,890,334)	-
Changes of assumptions	-	5,268,672	-	-	8,473,160	-	(357,633)	(2,932,883)	-	-
Benefit payments, including refunds of member contributions	(19,237,834)	(17,125,610)	(17,725,963)	(16,006,565)	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)	(15,533,167)
Net change in total pension liability	8,944,312	12,204,943	7,838,759	7,544,464	14,660,606	4,559,218	3,207,995	(111,612)	1,728,586	3,258,298
Total pension liability - beginning	254,406,723	242,201,780	234,363,021	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)	\$ 263,351,035	\$ 254,406,723	\$ 242,201,780	\$ 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	\$ 1,866,261	\$ 3,144,770	\$ 3,416,428	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541
Contributions - participants	5,752,609	3,812,595	3,939,687	2,284,727	3,170,825	2,081,125	1,488,632	555,075	487,546	475,854
Net investment income	35,927,438	(63,493,985)	37,575,566	44,814,914	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)	22,292,369
Other additions	4,568	9,415	112,484	7,740	13,579	62,616	82,239	45,848	30,879	29,733
Benefit payments, including refunds of member contributions	(19,193,834)	(17,065,610)	(17,653,963)	(15,962,565)	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)	(15,405,167)
Administrative expense	(602,078)	(498,988)	(441,017)	(455,191)	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)	(378,085)
Death benefits	(44,000)	(60,000)	(72,000)	(44,000)	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)	(128,000)
Net change in plan fiduciary net position**	23,710,964	(74,151,803)	26,877,185	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**	232,187,691	306,339,494	279,462,309	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)**	\$ 255,898,655	\$ 232,187,691	\$ 306,339,494	\$ 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)	\$ 7,452,380	\$ 22,219,032	\$ (64,137,714)	\$ (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	97.17%	91.27%	126.48%	119.24%	108.43%	96.87%	109.53%	100.06%	97.54%	102.97%
Covered payroll	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743	\$ 44,076,351
Plan's net pension liability as a percentage of covered payroll	20.93%	59.39%	(168.45%)	(108.61%)	(47.48%)	15.78%	(45.67%)	(0.28%)	11.34%	(13.66%)

Notes to Schedule:

** Excludes amounts related to 401(k) matching contributions.

Knoxville Utilities Board Fiber Division

Required Supplementary Information – Schedule of Employer Pension Contributions

June 30, 2024 and 2023

	Year ended December 31									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 1,866,261	\$ 3,144,770	\$ 3,416,428	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541
Contribution in relation to the actuarially determined contribution	1,866,261	3,144,770	3,416,428	2,876,752	2,871,241	3,456,475	4,286,597	5,243,146	5,991,887	5,908,541
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743	\$ 44,076,351
Contributions as a percentage of covered payroll	5.24%	8.41%	8.97%	6.93%	7.13%	8.20%	9.90%	11.80%	13.48%	13.41%

Notes to Schedule:

Timing: Actuarially determined contributions for a Plan year are based upon 50% of the amounts determined at the actuarial valuations for each of the two prior Plan years.

Valuation Dates: January 1, 2022 and January 1, 2021

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Individual entry age

Asset valuation method: 5-year smoothed market, adjusted to remain within 20% of the market value

Amortization method: As of January 1, 2022: Level dollar, 30-year closed period with 19 years remaining, or a level dollar, 30-year open period for a negative unfunded liability
As of January 1, 2021: Level dollar, 30-year closed period with 20 years remaining, or a level dollar, 30-year open period for a negative unfunded liability
As of January 1, 2022 and 2021, the unfunded liability was negative.

Discount rate: 7.25%

Salary increases: 2.50% to 5.65%, based on years of service; As of January 1, 2021, a one-time reduction was applied to reduce the 2020 compensation by 3.7% to account for an additional 2020 pay period

Mortality: 115% and 110% of the benefits-weighted Public Sector General Healthy Annuitant Mortality Table (PubG-2010), respectively, for males and females, using the Public Sector General Employee Table while in active employment and for annuitant ages prior to the start of the Healthy Annuitant Mortality Table, both projected from the 2010 base rates using scale MP2018 fully generational

Inflation: 2.5%

Please refer to prior year's audited financial statements for prior methods and assumptions.

Knoxville Utilities Board Fiber Division

Required Supplementary Information – Schedule of Changes in Net OPEB Liability and Related Ratios

June 30, 2024 and 2023

	*Year ended June 30						
	2024	2023	2022	2021	2020	2019	2018
Total OPEB liability							
Service cost	\$ 615,753	\$ 595,392	\$ 416,277	\$ 283,786	\$ 256,270	\$ 270,515	\$ 202,603
Interest	4,256,122	4,133,008	3,858,276	3,861,304	3,672,291	3,624,737	3,295,240
Change of benefit terms	(164,746)	-	6,594,293	-	(202,408)	-	-
Differences between expected and actual experience	587,252	117,668	60,951	42,802	43,902	999,098	1,324,769
Changes of assumptions	(2,102,184)	2,527,824	-	(4,105,835)	3,604,843	3,231,601	(397,180)
Benefit payments	(3,786,371)	(4,273,070)	(3,908,635)	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Net change in total OPEB liability	<u>(594,174)</u>	<u>3,100,822</u>	<u>7,021,162</u>	<u>(3,029,122)</u>	<u>4,346,302</u>	<u>4,593,507</u>	<u>1,126,693</u>
Total OPEB liability - beginning	<u>61,637,102</u>	<u>58,536,280</u>	<u>51,515,118</u>	<u>54,544,240</u>	<u>50,197,938</u>	<u>45,604,431</u>	<u>44,477,738</u>
Total OPEB liability - ending (a)	<u>\$ 61,042,928</u>	<u>\$ 61,637,102</u>	<u>\$ 58,536,280</u>	<u>\$ 51,515,118</u>	<u>\$ 54,544,240</u>	<u>\$ 50,197,938</u>	<u>\$ 45,604,431</u>
Plan fiduciary net position							
Contributions - employer	\$ 1,187,768	\$ 1,413,392	\$ 1,989,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Net investment income	5,656,390	4,333,538	(8,122,417)	12,890,602	975,155	2,981,928	3,705,473
Benefit payments	(3,786,371)	(4,273,070)	(3,908,635)	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	(94,379)	(101,186)	(71,187)	(44,496)	(53,286)	(54,787)	(51,668)
Net change in plan fiduciary net position	<u>2,963,408</u>	<u>1,372,674</u>	<u>(10,113,173)</u>	<u>10,492,153</u>	<u>(1,795,403)</u>	<u>(605,303)</u>	<u>355,066</u>
Plan fiduciary net position - beginning	<u>48,706,447</u>	<u>47,333,773</u>	<u>57,446,946</u>	<u>46,954,793</u>	<u>48,750,196</u>	<u>49,355,499</u>	<u>49,000,433</u>
Plan fiduciary net position - ending (b)	<u>\$ 51,669,855</u>	<u>\$ 48,706,447</u>	<u>\$ 47,333,773</u>	<u>\$ 57,446,946</u>	<u>\$ 46,954,793</u>	<u>\$ 48,750,196</u>	<u>\$ 49,355,499</u>
Net OPEB liability (asset) - ending (a) - (b)	<u>\$ 9,373,073</u>	<u>\$ 12,930,655</u>	<u>\$ 11,202,507</u>	<u>\$ (5,931,828)</u>	<u>\$ 7,589,447</u>	<u>\$ 1,447,742</u>	<u>\$ (3,751,068)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	84.65%	79.02%	80.86%	111.51%	86.09%	97.12%	108.23%
Covered employee payroll**	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	11.21%	18.44%	15.15%	(27.49%)	32.48%	5.95%	(15.84%)

Notes to Schedule:

* Information not reflected prior to 2018 due to changes in actuarial methodologies required under GASB 75, which was implemented in 2018.

** The covered-employee payroll increased in FY 2022 due to the inclusion of plan participants eligible for the HRA benefits.

Knoxville Utilities Board Fiber Division

Required Supplementary Information – Schedule of Employer OPEB Contributions

June 30, 2024 and 2023

	2024	2023	2022	*Year ended June 30 2021	2020	2019	2018
Actuarially determined contribution	\$ 1,187,768	\$ 1,413,392	\$ 489,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Contribution in relation to the annual required contribution	1,187,768	1,413,392	1,989,066	757,226	311,324	-	-
Contribution deficiency/(excess)	\$ -	\$ -	\$ (1,500,000)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll*	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Contributions as a percentage of covered employee payroll	1.42%	2.02%	2.69%	3.51%	1.33%	0.00%	0.00%

* The covered-employee payroll increased in FY 2022 due to the inclusion of plan participants eligible for the HRA benefits.

KUB elected to make a \$1,500,000 voluntary contribution to the Trust to initially fund the HRA benefit which was effective January 1, 2022. This contribution was not required.

Notes to Schedule:

Valuation Date: January 1, 2022 and January 1, 2021
Timing: Actuarially determined contribution rates are calculated based on the actuarial valuation completed 18 months before the beginning of the fiscal year.

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age normal
Asset valuation method: 5-year smoothed market
Amortization method: 15-year layered amortization bases for annual changes in the unfunded liabilities as of January 1, 2021 and 2022; 30-year rolling amortization for a funding surplus; As of January 1, 2021 and 2022, there was an unfunded liability
Discount rate: 7.25%
Healthcare cost trend rate: Pre-Medicare: 6.50% grading down to 4.04% over 18 years as of January 1, 2022; 6.75% grading down to 4.04% over 19 years as of January 1, 2021
Medicare: 6.20% grading down to 4.04% over 18 years as of January 1, 2022; 6.30% grading down to 4.04% over 19 years as of January 1, 2021
Administrative expenses: 3.0% per year
Salary increases: From 2.50% to 5.65%, based on years of service
Mortality: 115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational
Inflation: 2.5%
Investment rate of return: 7.25%
Retirement age: 2% at ages 50-57, grading up to 100% at age 70

* Schedule of Employer Contribution information is not reflected prior to 2018 due to changes in actuary methodologies required under GASB 75, which was implemented in 2018. Please refer to prior year's audited financial statement for prior methods and assumptions.

Knoxville Utilities Board Fiber Division
Supplemental Information – Schedule of Debt Maturities by Fiscal Year
June 30, 2024

FY	Electric Division Loan 1		Electric Division Loan 2		Electric Division Loan 3		Electric Division Loan 4A		Electric Division Loan 4B		Totals		Grand Total (P + I)
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
24-25	\$ 500,000	\$ 347,669	\$ 350,000	\$ 244,724	\$ 650,000	\$ 477,961	\$ 250,000	\$ 201,767	\$ 100,000	\$ 80,707	\$ 1,850,000	\$ 1,352,828	\$ 3,202,828
25-26	500,000	328,219	350,000	230,969	650,000	451,831	250,000	191,443	100,000	76,577	1,850,000	1,279,039	3,129,039
26-27	500,000	308,769	350,000	217,214	650,000	425,701	250,000	181,118	100,000	72,447	1,850,000	1,205,249	3,055,249
27-28	2,381,375	289,319	1,647,500	203,459	3,059,643	399,571	250,000	170,793	100,000	68,317	7,438,518	1,131,459	8,569,977
28-29	4,342,500	202,782	3,000,000	142,962	5,571,428	284,646	1,176,786	147,709	100,000	64,187	14,190,714	842,286	15,033,000
29-30	901,125	40,216	660,833	29,493	1,552,263	69,089	2,802,380	85,808	400,000	60,057	6,316,601	284,663	6,601,264
30-31	-	-	-	-	-	-	-	-	400,000	44,569	400,000	44,569	444,569.00
31-32	-	-	-	-	-	-	-	-	691,667	23,920	691,667	23,920	715,587.00
Total	<u>\$ 9,125,000</u>	<u>\$ 1,516,974</u>	<u>\$ 6,358,333</u>	<u>\$ 1,068,821</u>	<u>\$ 12,133,334</u>	<u>\$ 2,108,799</u>	<u>\$ 4,979,166</u>	<u>\$ 978,638</u>	<u>\$ 1,991,667</u>	<u>\$ 490,781</u>	<u>\$ 34,587,500</u>	<u>\$ 6,164,013</u>	<u>\$ 40,751,513</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Fiber Division
Supplemental Information – Schedule of Changes in Long-term Debt by Individual Issue
June 30, 2024

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding Balance 7/1/2023	Issued During Period	Paid/Matured During Period	Refunded During Period	Outstanding Balance 6/30/2024
Business-Type Activities									
<u>LOAN PAYABLE</u>									
Electric Division Loan 1	10,000,000	3.89	10/01/21	06/01/30	\$ 9,625,000	\$	\$ 500,000	\$	\$ 9,125,000
Electric Division Loan 2	7,000,000	3.93	08/01/22	06/01/30	6,708,334		350,000		6,358,334
Electric Division Loan 3	13,000,000	4.02	02/01/23	06/01/30	12,783,333		650,000		12,133,333
Electric Division Loan 4A	5,000,000	4.13	05/01/24	06/01/30	-	5,000,000	20,834		4,979,166
Electric Division Loan 4B	2,000,000	4.13	05/01/24	06/01/32	-	2,000,000	8,333		1,991,667
					<u>\$ 29,116,667</u>	<u>\$ 7,000,000</u>	<u>\$ 1,529,167</u>	<u>\$ -</u>	<u>\$ 34,587,500</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Fiber Division
Supplemental Information – Schedule of Changes in Lease Liabilities
June 30, 2024

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Maturity Date	Outstanding 6/30/2023	Issued During Period	Paid and/or Matured During Period	Remeasure- ments	Outstanding 6/30/2024
<u>Lease Liabilities</u>									
<u>Payable through Fiber Fund</u>									
Centriworks	\$ 899	3.88%	11/1/2020	10/31/2023	\$ 201	\$ -	\$ (133)	\$ (68)	\$ 0
R&S Logistics (Sublease)	1,835,035	3.88%	7/1/2020	3/31/2027	1,369,676	18,331	(336,072)	-	1,051,935
Ricoh Americas	746	3.88%	7/1/2020	7/31/2025	821	-	(248)	(272)	301
RJ Young Company	1,015	3.88%	7/1/2020	6/30/2026	790	-	(258)	(263)	269
Total Lease Liabilities					\$ <u>1,371,488</u>	\$ <u>18,331</u>	\$ <u>(336,711)</u>	\$ <u>(603)</u>	\$ <u>1,052,505</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Fiber Division
Statistical Information – Schedule of Insurance in Force
June 30, 2024
(Unaudited)

Insurance coverage is for KUB as a consolidated entity.

Crime

Covers losses resulting from employee dishonesty, robbery, burglary, and computer fraud. Limits of coverage - \$5,000,000; \$250,000 retention.

Directors' and Officers' Liability Insurance

Covers KUB personnel appropriately authorized to make decisions on behalf of KUB (including but not limited to Commissioners, President and CEO, Senior Vice Presidents, Vice Presidents, and Directors) for wrongful acts. Limits of coverage - \$20,000,000; \$500,000 corporate deductible, \$0 individual deductible.

Employment Practices Liability

Coverage for costs related to actual or alleged employment practices violations for amounts exceeding specified amount (\$500,000). Limits of coverage - \$10,000,000.

Fiduciary

Covers losses resulting from wrongful acts related to KUB's Pension, 401(k), OPEB Trust funds, and Medical Plan. Limits of coverage - \$10,000,000; \$150,000 deductible.

Environmental and Pollution Legal Liability

Environmental and Pollution coverage for covered losses resulting from a pollution or environmental event. Limits of coverage - \$15,000,000.

Property Insurance

This coverage provides protection of KUB's property for fire, extended coverage, vandalism and malicious mischief, and coverage on boilers and machinery. Also included are flood and earthquake damage and mechanical failure. Limits of coverage - \$250,000,000 per occurrence (subject to certain sub limits); \$3,500,000 deductible per occurrence.

Travel Accident

Covers losses related to employees' business travel. Limits of coverage - \$1,000,000 aggregate.

Excess Insurance for General Liability

As a governmental entity, KUB's liability is limited under the Tennessee Governmental Tort Liability Act (TCA §29-20-403). Limits of coverage - \$5,000,000; \$700,000 retention.

Excess Insurance for Workers' Compensation

Covers all losses exceeding specified amount per occurrence (\$1,000,000). Limits of coverage - Statutory; stop loss coverage applies for aggregate losses over \$5,000,000.

Employee Health Plan Stop Loss Coverage

KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses for more than \$700,000 per individual participant.

Cyber Security Liability

Liability coverage resulting from losses related to a covered event such as data breaches, ransomware, regulatory fines, cyber extortion, business interruption and other cyber-related events. Limits of coverage - \$5,000,000; \$500,000 deductible.

Drone

Liability coverage resulting from losses related to bodily injury or damaged property arising out of the ownership, maintenance, or use of a drone aircraft. Limits of coverage - \$2,000,000.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Fiber Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2024
(Unaudited)

Rate Class	Product	Base Charge	Number of Customers
Residential	The Gig (1 Gigabit symmetrical internet service)	\$65.00	10,054
	The Gig 2.5 (2.5 Gigabit symmetrical internet service)	\$150.00	238
	The Gig 10 (10 Gigabit symmetrical internet service)	\$300.00	2
	Smart Gig Managed WiFi Service	\$15.00	5,318
	Residential Phone Unlimited (unlimited long distance continental US)	\$35.00	460
	Bronze TV (~38 Channels with 6 concurrent streams)	\$43.00	108
	Silver TV (~108 Channels with 6 concurrent streams)	\$120.00	243
	Gold TV (~211 Channels with 6 concurrent streams)	\$130.00	182
	Spanish Language TV (~13 Channels)	\$5.00	2
	HBO (~14 Channels)	\$15.00	21
	Starz (~29 Channels)	\$10.00	24
	Showtime (~20 Channels)	\$10.00	15
	Cinemax (~12 Channels)	\$12.00	8
	Additional 4 Concurrent Video Streams	\$5.00	3
Static IP Address	\$10.00	26	
Non-Residential	Business Connect (500 Megabit symmetrical internet service)	\$85.00	304
	The Gig at Work (1 Gigabit symmetrical internet service)	\$150.00	130
	The Gig 2.5 at Work (2.5 Gigabit symmetrical internet service)	\$225.00	4
	Custom Connect Pro	*	27
	Business Phone Unlimited – First Line	\$40.00	119
	Business Phone Unlimited – Second Line	\$35.00	45
	Smart Gig at Work Router Service	\$20.00	156
	Smart Gig for Work Plus	*	4
	Commercial Static IP Address	\$5.00	139

*Custom Pricing

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
Fiber Division of the Knoxville Utilities Board
Knoxville, Tennessee

We have audited, 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 (*Government Auditing Standards*), the financial statements of the Fiber Division (the Division) of the Knoxville Utilities Board, a component unit of the City of Knoxville, Tennessee, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements, and have issued our report thereon dated October 23, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Division'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 the Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division'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 the Division's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Board of Commissioners
Fiber Division of the Knoxville Utilities Board
Knoxville, Tennessee

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Division’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 the Division’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Coulter & Justus, P.C.

Knoxville, Tennessee
October 23, 2024



Gas Division

Financial Statements and Supplemental Information June 30, 2024 and 2023

KUB Board of Commissioners

Adrienne Simpson-Brown, Chair **Claudia Caballero** **Kathy Hamilton** **Dr. Craig Pickett, Jr.**
Ron Feinbaum, Vice Chair **Cynthia Gibson** **Celeste Herbert**

Management

Gabriel Bolas II

President and Chief Executive Officer

Mark Walker

Senior Vice President and Chief Financial Officer

Jamie Davis

Senior Vice President Fiber and Chief Technology Officer

Susan Edwards

Senior Vice President and Chief Administrative Officer

Tiffany Martin

Senior Vice President and Chief Customer Officer

John Williams

Senior Vice President and Chief Infrastructure and Compliance Officer

John Gresham

Senior Vice President and Chief Engineering and Operations Officer

Knoxville Utilities Board Gas Division

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June 30, 2024 and 2023

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Independent Auditor's Report

Board of Commissioners
Gas Division of the Knoxville Utilities Board
Knoxville, Tennessee

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Gas Division (the Division) of the Knoxville Utilities Board, a component unit of the City of Knoxville, Tennessee, as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the index.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Division as of June 30, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Division and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Division's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Board of Commissioners
Gas Division of the Knoxville Utilities Board
Knoxville, Tennessee

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Division's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 24 and the required supplementary information on pages 63 through 67 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Commissioners
Gas Division of the Knoxville Utilities Board
Knoxville, Tennessee

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Division's basic financial statements. The supplemental information, 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 supplemental information 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information. The other information comprises the statistical information but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Gas Division and do not purport to, and do not, present fairly the financial position of the Knoxville Utilities Board, as of June 30, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2024, on our consideration of the Division'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 the Division's internal control over financial reporting and compliance.

Coulter & Justus, P.C.

Knoxville, Tennessee
October 23, 2024

Knoxville Utilities Board Gas Division Management's Discussion and Analysis June 30, 2024 and 2023

Knoxville Utilities Board (KUB), comprised of Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. The Gas Division (Division) provides services to certain customers in Knox County and portions of Anderson and Loudon counties. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Gas Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board as of June 30, 2024, and 2023, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Division's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Division's financial activity, (c) identify major changes in the Division's financial position, and (d) identify any financial concerns.

The Division's Management Discussion and Analysis (MD&A) focuses on the fiscal year ended June 30, 2024, activities, resulting changes, and current known facts, and should be read in conjunction with the Division's financial statements.

Gas Division Highlights

System Highlights

KUB's natural gas system serves 109,972 customers, and its service territory covers 298 square miles. KUB maintains 2,594 miles of service mains to provide 13.4 million dekatherms of natural gas to its customers annually.

KUB's natural gas system service territory experienced much warmer than normal temperatures this winter, which were also slightly warmer compared to the previous year. Billed natural gas sales increased 1.7 percent when compared to fiscal year 2023. Gas Division margin (operating revenue less purchased gas cost) was \$1.8 million higher in fiscal year 2024.

The natural gas system's record peak in demand remains 169,458 dekatherms, set in December 2022.

The natural gas system has added 3,962 customers over the past three years, representing annual growth of one percent. In fiscal year 2024, 1,274 customers were added. The typical residential gas customer's average monthly gas bill was \$56.75 for the twelve months ended June 30, 2024.

KUB's natural gas system was named to the American Public Gas Association's (APGA) System Operational Achievement Recognition (SOAR) Program in 2018, reflecting KUB's focus on system integrity, continuous improvement, safety, and employee development. KUB is a Gold Level winner and remains a member of the program through 2024. KUB was recognized as a Safety Contest Winner for calendar year 2023 by APGA. KUB received the 2023 APGA Communications & Marketing Award for its natural gas growth efforts.

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

Knoxville Utilities Board Gas Division

Management's Discussion and Analysis

June 30, 2024 and 2023

of service by improving each system through sound planning, resource allocation, and continued investment.

In June 2024, as part of KUB's Inflation Response Plan, the Board approved the next phase of gas rate increases to support the Century II program. The three approved 3 percent gas rate increases are effective October 2024, October 2025, and October 2026 and are expected to provide an additional \$4.1 million, \$4.2 million, and \$4.3 million in additional annual Gas Division revenue, respectively.

During the fiscal year, KUB replaced 7 miles of steel gas main, while staying on track with Century II goals and within the Gas Division's total capital budget.

Financial Highlights

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's net position increased \$16 million in fiscal year 2024 compared to a \$13.5 million increase in fiscal year 2023.

Operating revenue decreased \$31.8 million or 21.7 percent. The decrease is attributable to lower natural gas prices compared to the prior year. KUB flows changes to wholesale gas costs directly through to its retail gas rates via the Purchased Gas Adjustment.

Purchased gas expense was \$33.7 million or 40.4 percent lower due to lower natural gas prices. Margin on gas sales (operating revenue less purchased gas expense) increased \$1.8 million or 2.9 percent, reflecting higher sales volumes.

Operating expenses (excluding purchased gas expense) increased \$0.5 million or 1.1 percent. Operating and maintenance (O&M) expenses were \$0.2 million lower than the prior fiscal year. Depreciation and amortization expense increased \$0.6 million. Taxes and tax equivalents were \$0.2 million higher than the prior year.

Wholesale purchased gas expense represented 43 percent of natural gas sales revenue for the fiscal year ended June 30, 2024.

Interest income increased \$0.8 million due to higher interest rates throughout the year. Interest expense decreased \$0.3 million.

Total plant assets (net) increased \$12.6 million or 3.7 percent, reflecting capital investment associated with the replacement of key gas system assets and other major system projects.

Long-term debt represented 18.5 percent of the Division's capital structure as of June 30, 2024, as compared to 20.8 percent last year. Capital structure equals long-term debt (which includes the current and long-term portion of revenue bonds) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Debt coverage for the current fiscal year was 4.26. Maximum debt service coverage for future fiscal years is 4.42.

Fiscal Year 2023 Compared to Fiscal Year 2022

The Division's net position increased \$13.5 million in fiscal year 2023 compared to a \$17.1 million increase in fiscal year 2022.

Knoxville Utilities Board Gas Division Management's Discussion and Analysis June 30, 2024 and 2023

Operating revenue increased \$4.7 million or 3.3 percent. The increase is attributable to higher natural gas prices compared to the prior year. KUB flows changes to wholesale gas costs directly through to its retail gas rates via the Purchased Gas Adjustment.

Purchased gas expense was \$5.2 million or 6.6 percent higher due to higher natural gas prices. Margin on gas sales (operating revenue less purchased gas expense) decreased \$0.4 million or 0.7 percent, reflecting the lower sales volumes.

Operating expenses (excluding purchased gas expense) increased \$5.4 million or 12.5 percent. Operating and maintenance (O&M) expenses were \$4.9 million higher than the prior fiscal year. Depreciation and amortization expense increased \$0.4 million. Taxes and tax equivalents were \$0.1 million higher than the prior year.

Wholesale purchased gas expense represented 57 percent of natural gas sales revenue for the fiscal year ended June 30, 2023.

Interest income increased \$1.1 million due to higher interest rates throughout the year. Interest expense decreased \$0.3 million.

Total plant assets (net) increased \$5.9 million or 1.8 percent, reflecting capital investment associated with the replacement of key gas system assets and other major system projects.

Long-term debt represented 20.8 percent of the Division's capital structure as of June 30, 2023, as compared to 23 percent last year. Capital structure equals long-term debt (which includes the current and long-term portion of revenue bonds) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Debt coverage for the current fiscal year was 3.84. Maximum debt service coverage for future fiscal years is 3.97.

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Knoxville Utilities Board Gas Division Management's Discussion and Analysis June 30, 2024 and 2023

Knoxville Utilities Board Gas Division - Financial Statements

The Division's financial performance is reported under three basic 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

The Division 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, gas plant in service, intangible, 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 represents what was previously reported as accumulated or retained earnings. Net position tells the user what the Division has done with its accumulated earnings, not just the balance.

Net investment in capital assets reflects the book value of all capital assets and intangible assets, less lease and subscription liabilities and the outstanding balances of debt used to acquire, construct, or improve those assets.

Restricted net position includes assets that have been limited to specific uses by the Division'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

The Division reports its revenues and expenses (both operating and non-operating) on the Statement of Revenues, Expenses and Changes in Net Position. In addition, any contributions in aid of construction (funds received via grants, developers, etc. to fund capital projects) and associated write-downs of plant assets 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

The Divisions reports its cash flows from operating activities, capital and related financing activities, non-capital and related financing activities, and investing activities on its Statement of Cash Flows. This statement tells the user the Division's sources and uses of cash during the reporting period.

The statement indicates the Division's 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 back to operating income as it appears on the Statement of Revenues, Expenses and Changes in Net Position.

**Knoxville Utilities Board Gas Division
Management's Discussion and Analysis
June 30, 2024 and 2023**

Condensed Financial Statements

Statement of Net Position

The following table reflects the condensed Statement of Net Position for the Gas Division compared to the prior two fiscal years.

Statements of Net Position As of June 30			
<i>(in thousands of dollars)</i>	2024	2023	2022 as restated
Current, restricted, intangible, and other assets	\$ 60,804	\$ 67,112	\$ 82,880
Capital assets, net	347,605	335,050	329,129
Deferred outflows of resources	5,506	9,944	2,519
Total assets and deferred outflows of resources	<u>413,915</u>	<u>412,106</u>	<u>414,528</u>
Current and other liabilities	25,962	33,711	34,381
Long-term debt outstanding	71,872	79,414	87,006
Deferred inflows of resources	2,086	993	8,674
Total liabilities and deferred inflows of resources	<u>99,920</u>	<u>114,118</u>	<u>130,061</u>
Net position			
Net investment in capital assets	268,290	247,959	234,171
Restricted	2,207	2,224	2,230
Unrestricted	43,498	47,805	48,066
Total net position	<u>\$ 313,995</u>	<u>\$ 297,988</u>	<u>\$ 284,467</u>

Normal Impacts on Statement of Net Position

The following is a description of activities which will normally impact the comparability of the Statement of Net Position presentation:

- Change in net position (from Statement of Revenues, Expenses and Changes in Net Position): impacts (increase/decrease) current and other assets and/or capital and intangible assets, and unrestricted net position.
- Issuing debt for capital: increases deferred outflows of resources and long-term debt.
- Spending debt proceeds on new capital: reduces current assets and increases capital assets.
- Spending of non-debt related current assets on new capital: (a) reduces current assets and increases capital assets, and (b) reduces unrestricted net position and increases net investment in capital assets.
- Principal payment on debt: (a) reduces current and other assets and reduces long-term debt, and (b) reduces unrestricted net position and increases net investment in capital assets.
- Reduction of capital assets through depreciation: reduces capital assets and net investment in capital assets.

Knoxville Utilities Board Gas Division Management's Discussion and Analysis June 30, 2024 and 2023

Impacts and Analysis

Current, Restricted, Intangible, and Other Assets

Fiscal Year 2024 Compared to Fiscal Year 2023

Current, restricted, intangible, and other assets decreased \$6.3 million or 9.4 percent, primarily due to a \$5.9 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) and a \$2.2 million decrease in gas storage offset by a \$1.1 million increase in under recovered purchased gas costs.

KUB under recovered \$1.1 million in wholesale gas costs from its customers in fiscal year 2024, as compared to an over recovery of \$4.4 million in fiscal year 2023. This under recovery of costs will be charged to KUB's gas customers during the next fiscal year through adjustments to rates via the Purchased Gas Adjustment.

Fiscal Year 2023 Compared to Fiscal Year 2022

Current, restricted, intangible, and other assets decreased \$15.8 million or 19 percent, primarily due to a \$12.3 million decrease in the actuarially determined net pension asset and a \$2.2 million decrease in accounts receivable.

Capital Assets

Fiscal Year 2024 Compared to Fiscal Year 2023

Capital assets increased \$12.6 million or 3.7 percent. Major capital expenditures during the year included \$7.7 million for the construction of service extensions, \$7.2 million for gas main improvements, \$5.1 million for steel mains and services, and \$2.7 million for the replacement and relocation of gas system assets to accommodate Tennessee Department of Transportation (TDOT) highway improvement projects. The Gas Division retired \$5.6 million of natural gas system assets during the fiscal year.

Fiscal Year 2023 Compared to Fiscal Year 2022

Capital assets increased \$5.9 million or 1.8 percent. Major capital expenditures during the year included \$7.4 million for the construction of service extensions, \$6.8 million for the replacement and relocation of gas system assets to accommodate Tennessee Department of Transportation (TDOT) highway improvement projects, \$2.9 million for steel mains and services, and \$1.5 million for gas main improvements. The Gas Division retired \$2 million of natural gas system assets during the fiscal year.

Deferred Outflows of Resources

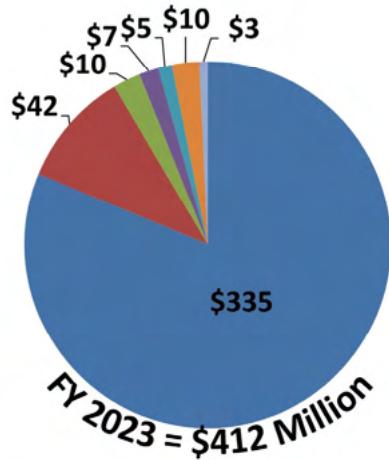
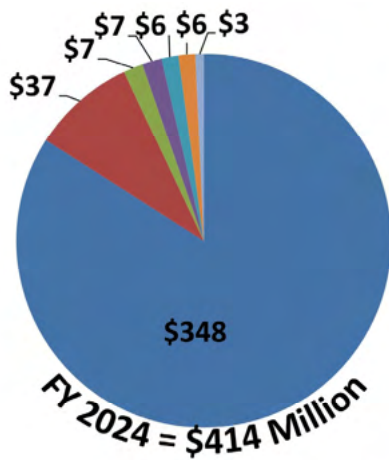
Fiscal Year 2024 Compared to Fiscal Year 2023

Deferred outflows of resources decreased \$4.4 million compared to the prior fiscal year. The decrease is attributable to a \$3.8 million decrease in pension outflow and a \$0.6 million decrease in OPEB outflow.

Fiscal Year 2023 Compared to Fiscal Year 2022

Deferred outflows of resources increased \$7.4 million compared to the prior fiscal year. The increase is attributable to a \$7.4 million increase in pension outflow.

**Knoxville Utilities Board Gas Division
Management’s Discussion and Analysis
June 30, 2024 and 2023**



**Gas Division Total Assets and Deferred Outflows of Resources
(in Millions)**

	<u>FY24</u>	<u>FY23</u>
Plant	84%	81%
General and Contingency Funds	9%	10%
Gas Storage	2%	2%
Accounts Receivable	2%	2%
Other Assets	1%	1%
Deferred Outflows of Resources	1%	3%
Restricted Assets	1%	1%

Current and Other Liabilities

Fiscal Year 2024 Compared to Fiscal Year 2023

Current and other liabilities decreased \$7.7 million compared to the prior fiscal year, the result of a \$4.4 million decrease in over recovered purchased gas costs and a \$2.7 million decrease in the actuarially determined net pension liability.

Fiscal Year 2023 Compared to Fiscal Year 2022

Current and other liabilities decreased \$0.7 million compared to the prior fiscal year, the result of a \$3.5 million decrease in accounts payable and a \$0.9 million decrease in accrued expenses offset by a \$3.9 million increase in the actuarially determined net pension liability.

KUB over recovered \$4.4 million in wholesale gas costs from its customers in fiscal year 2023, as compared to an over recovery of \$4.2 million in fiscal year 2022. This over recovery of costs will be credited to KUB’s gas customers during the next fiscal year through adjustments to rates via the Purchased Gas Adjustment.

**Knoxville Utilities Board Gas Division
Management's Discussion and Analysis
June 30, 2024 and 2023**

Long-Term Debt

Fiscal Year 2024 Compared to Fiscal Year 2023

Long-term debt was \$7.5 million lower than the prior year. The decrease is due to the impact of the scheduled repayment of debt.

Fiscal Year 2023 Compared to Fiscal Year 2022

Long-term debt was \$7.6 million lower than the prior year. The decrease is due to the impact of the scheduled repayment of debt.

Deferred Inflows of Resources

Fiscal Year 2024 Compared to Fiscal Year 2023

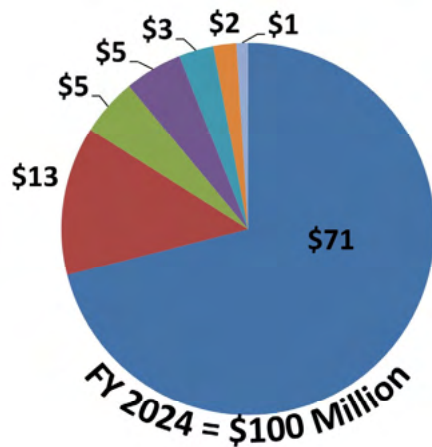
Deferred inflows of resources increased \$1.1 million compared to the prior fiscal year due to a \$0.7 million increase in lease inflow and a \$0.5 million increase in OPEB inflow offset by a \$0.1 million decrease in pension inflow.

Fiscal Year 2023 Compared to Fiscal Year 2022

Deferred inflows of resources decreased \$7.7 million compared to the prior fiscal year due to a \$7.7 million decrease in pension inflow.

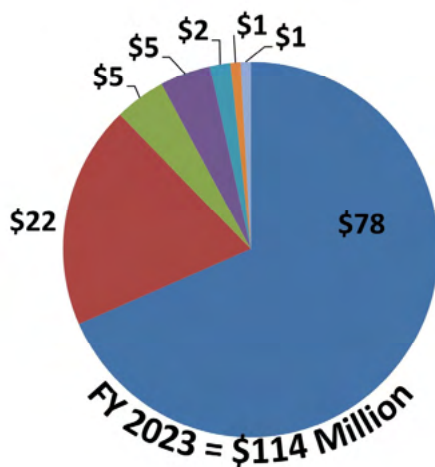
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**Knoxville Utilities Board Gas Division
Management’s Discussion and Analysis
June 30, 2024 and 2023**



**Gas Division Total Liabilities and
Deferred Inflows of Resources
(in Millions)**

	<u>FY24</u>	<u>FY23</u>
■ Bond Debt	71%	69%
■ Other Liabilities	13%	19%
■ Customer Deposits	5%	4%
■ Payables	5%	4%
■ Misc Current	3%	2%
■ Deferred Inflows of Resources	2%	1%
■ Interest Accrued	1%	1%



Net Position

Fiscal Year 2024 Compared to Fiscal Year 2023

Net position increased \$16 million in fiscal year 2024. Net investment in capital assets increased \$20.3 million, primarily due to an increase in net plant in service of \$12.6 million and a decrease in the current and long-term portions of revenue bonds of \$6.7 million. Restricted net position was consistent with the prior fiscal year. Unrestricted net position decreased \$4.3 million, primarily due to a \$5.9 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments).

Fiscal Year 2023 Compared to Fiscal Year 2022

Net position increased \$13.5 million in fiscal year 2023. Net investment in capital assets increased \$13.8 million, primarily due to an increase in net plant in service of \$5.9 million and a decrease in the current and long-term portions of revenue bonds of \$6.7 million. Restricted net position was consistent with the prior fiscal year. Unrestricted net position decreased \$0.3 million.

**Knoxville Utilities Board Gas Division
Management's Discussion and Analysis
June 30, 2024 and 2023**

Statement of Revenues, Expenses and Changes in Net Position

The following table reflects the condensed Statement of Revenues, Expenses and Changes in Net Position for the Gas Division compared to the prior two fiscal years.

**Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30**

<i>(in thousands of dollars)</i>	2024	2023	2022 as restated
Operating revenues	\$ 114,859	\$ 146,699	\$ 141,950
Less: Purchased gas expense	49,712	83,362	78,194
Margin from sales	<u>65,147</u>	<u>63,337</u>	<u>63,756</u>
Operating expenses			
Distribution	11,696	11,238	11,220
Customer service	1,328	2,245	2,534
Administrative and general	11,834	11,618	6,406
Depreciation and amortization	16,316	15,720	15,310
Taxes and tax equivalents	8,172	8,003	7,946
Total operating expenses	<u>49,346</u>	<u>48,824</u>	<u>43,416</u>
Operating income	<u>15,801</u>	<u>14,513</u>	<u>20,340</u>
Interest income	2,077	1,262	195
Interest expense	(3,095)	(3,351)	(3,639)
Other income/(expense)	1,199	773	113
Change in net position before capital contributions	<u>15,982</u>	<u>13,197</u>	<u>17,009</u>
Capital contributions	25	324	86
Change in net position	<u>\$ 16,007</u>	<u>\$ 13,521</u>	<u>\$ 17,095</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 natural gas sales for the fiscal year. Any change (increase/decrease) in retail gas rates would also be a cause of change in operating revenue. The Division utilizes a Purchased Gas Adjustment (PGA) mechanism in setting its monthly retail gas rates. Through the PGA, the Division adjusts its retail rates each month based on current wholesale gas prices. If wholesale gas prices increase/decrease, the Division increases/decreases its retail gas rates accordingly.
- Volumes of gas purchased from the Division's wholesale gas suppliers for resale to customers impact purchased gas expense. The Division purchases gas for resale to its customers from a variety of wholesale suppliers. Changes (increase/decrease) in wholesale gas prices would also result in a change in purchased gas expense.
- Operating expenses (distribution, customer service, administrative and general) are normally impacted by changes in areas including, but not limited to, labor costs (staffing, wage rates), active employee and retiree medical costs, and gas distribution system maintenance.

Knoxville Utilities Board Gas Division

Management's Discussion and Analysis

June 30, 2024 and 2023

- Depreciation and amortization expense is impacted by intangible assets, plant additions, and retirements during the fiscal year.
- Taxes and tax equivalents are impacted by plant additions/retirements, changes in property tax rates, and margin (operating revenue less purchased gas expense) levels.
- Interest income is impacted by the level of interest rates and investments.
- Interest expense on debt is impacted by the level of outstanding debt and the interest rates on the outstanding debt.
- Other income/(expense) is impacted by miscellaneous non-operating revenues and expenses.

Impacts and Analysis

Change in Net Position

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's Change in Net Position increased \$16 million in fiscal year 2024. Comparatively, net position increased by \$13.5 million in fiscal year 2023.

Fiscal Year 2023 Compared to Fiscal Year 2022

The Division's Change in Net Position increased \$13.5 million in fiscal year 2023. Comparatively, net position increased by \$17.1 million in fiscal year 2022.

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Knoxville Utilities Board Gas Division Management’s Discussion and Analysis June 30, 2024 and 2023

Margin from Sales

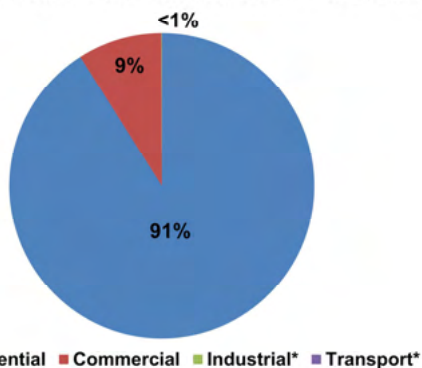
Fiscal Year 2024 Compared to Fiscal Year 2023

Margin on gas sales (operating revenue less purchased gas expense) increased \$1.8 million or 2.9 percent, due to higher sales volumes.

Operating revenue decreased \$31.8 million or 21.7 percent for the fiscal year ended June 30, 2024, due to lower natural gas prices. The gas system service territory experienced a warmer than normal winter.

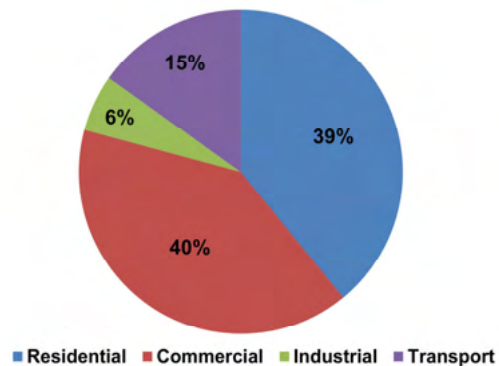
Purchased gas expense decreased \$33.7 million or 40.4 percent, due to lower natural gas prices. Total volumes delivered to KUB’s gas distribution system increased 1.1 percent this fiscal year. The Division’s weighted average cost of gas purchased for fiscal year 2024 was \$2.51 per dekatherm, as compared to \$5.20 per dekatherm the prior fiscal year.

FY 2024 Total Gas Customers = 109,972



*Industrial and Transport customers represent less than 1% of the total.

FY 2024 Gas Sales = 13.4 million Dekatherms



Residential customers, whose natural gas is primarily used as a heating source during winter months, accounted for 91 percent of customers billed and 39 percent of total volumes sold during the year.

Residential sales volumes increased 2.2 percent, commercial sales volumes increased 1.8 percent, industrial sales volumes increased 4.5 percent, and transport sales volumes decreased 0.6 percent.

KUB’s ten largest gas customers accounted for 27 percent of KUB’s billed gas volumes. Those ten customers represent six commercial and four industrial customers, including three governmental and two hospitals.

KUB has added 3,962 gas customers over the past three years, representing annual growth of one percent. Natural Gas system growth has increased due to increased new housing construction and KUB reaching new customers through its gas growth programs.

KUB has 13 transport customers who purchase gas directly from a supplier other than KUB. KUB provides transportation service on its gas distribution system to those customers.

Knoxville Utilities Board Gas Division Management's Discussion and Analysis June 30, 2024 and 2023

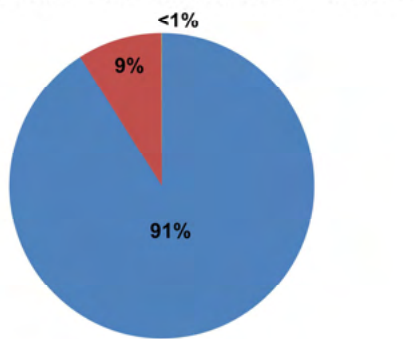
Fiscal Year 2023 Compared to Fiscal Year 2022

Margin on gas sales (operating revenue less purchased gas expense) decreased \$0.4 million or 0.7 percent, due to lower sales volumes.

Operating revenue increased \$4.7 million or 3.3 percent for the fiscal year ended June 30, 2023, due to higher natural gas prices. The gas system service territory experienced a warmer than normal winter.

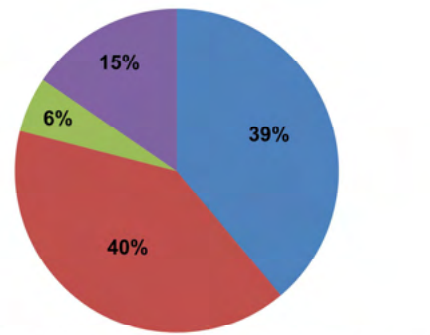
Purchased gas expense increased \$5.2 million or 6.6 percent, due to higher natural gas prices. Total volumes delivered to KUB's gas distribution system increased 8.6 percent this fiscal year. The Division's weighted average cost of gas purchased for fiscal year 2023 was \$5.20 per dekatherm, as compared to \$5.06 per dekatherm the prior fiscal year.

FY 2023 Total Gas Customers = 108,698



■ Residential ■ Commercial ■ Industrial* ■ Transport*
*Industrial and Transport customers represent less than 1% of the total.

FY 2023 Gas Sales = 13.2 million Dekatherms



■ Residential ■ Commercial ■ Industrial ■ Transport

Residential customers, whose natural gas is primarily used as a heating source during winter months, accounted for 91 percent of customers billed and 39 percent of total volumes sold during the year.

Residential sales volumes decreased 3.1 percent, commercial sales volumes increased 0.1 percent, industrial sales volumes decreased 9.9 percent, and transport sales volumes decreased 2.5 percent.

KUB's ten largest gas customers accounted for 24 percent of KUB's billed gas volumes. Those ten customers represent six industrial and four commercial customers, including three governmental and one hospital.

KUB has added 4,265 gas customers over the past three years, representing annual growth of one percent. Natural Gas system growth has increased due to increased new housing construction and KUB reaching new customers through its gas growth programs.

KUB has 13 transport customers who purchase gas directly from a supplier other than KUB. KUB provides transportation service on its gas distribution system to those customers.

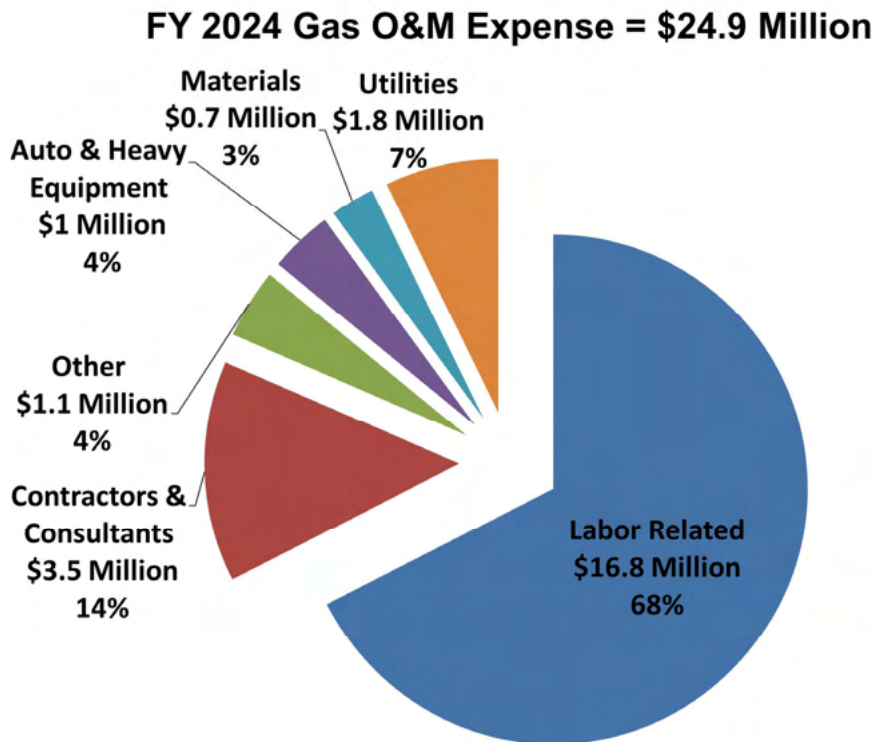
Knoxville Utilities Board Gas Division Management’s Discussion and Analysis June 30, 2024 and 2023

Operating Expenses

Fiscal Year 2024 Compared to Fiscal Year 2023

Operating expenses (excluding purchased gas expense) increased \$0.5 million or 1.1 percent compared to fiscal year 2023. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as distribution, customer service, and administrative and general.

- Distribution system O&M expenses were \$0.5 million higher than the prior fiscal year, primarily due higher outside contractor and consultant costs.
- Customer service expenses were \$0.9 million lower, primarily due to a change in methodology for technology-related costs that resulted in an offsetting increase in administration and general expenses.
- Administrative and general expenses increased \$0.2 million, primarily due to a change in methodology for technology-related costs that resulted in an offsetting decrease in customer service expenses.



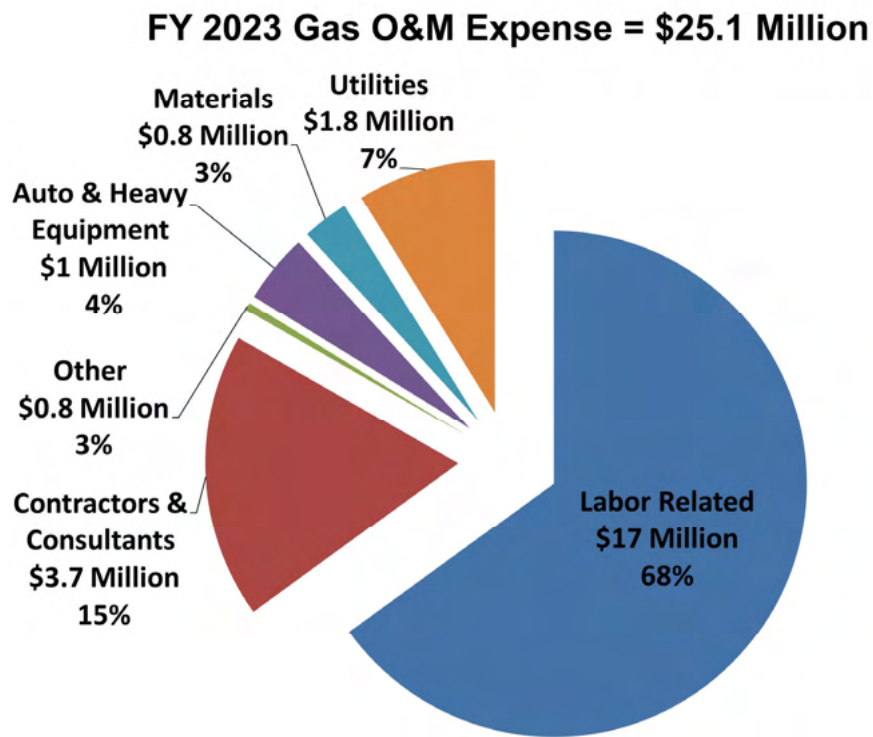
- Depreciation and amortization expense increased \$0.6 million. KUB added \$29.3 million in assets during fiscal year 2024. A partial year of depreciation was recorded on these capital improvements and a full year of depreciation expense was incurred on \$22.6 million in gas system assets placed in service during fiscal year 2023. In addition, \$5.6 million of assets were retired during the fiscal year.
- Taxes and tax equivalents were \$0.2 million higher than the prior fiscal year.

Knoxville Utilities Board Gas Division Management’s Discussion and Analysis June 30, 2024 and 2023

Fiscal Year 2023 Compared to Fiscal Year 2022

Operating expenses (excluding purchased gas expense) increased \$5.4 million or 12.5 percent compared to fiscal year 2022. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as distribution, customer service, and administrative and general.

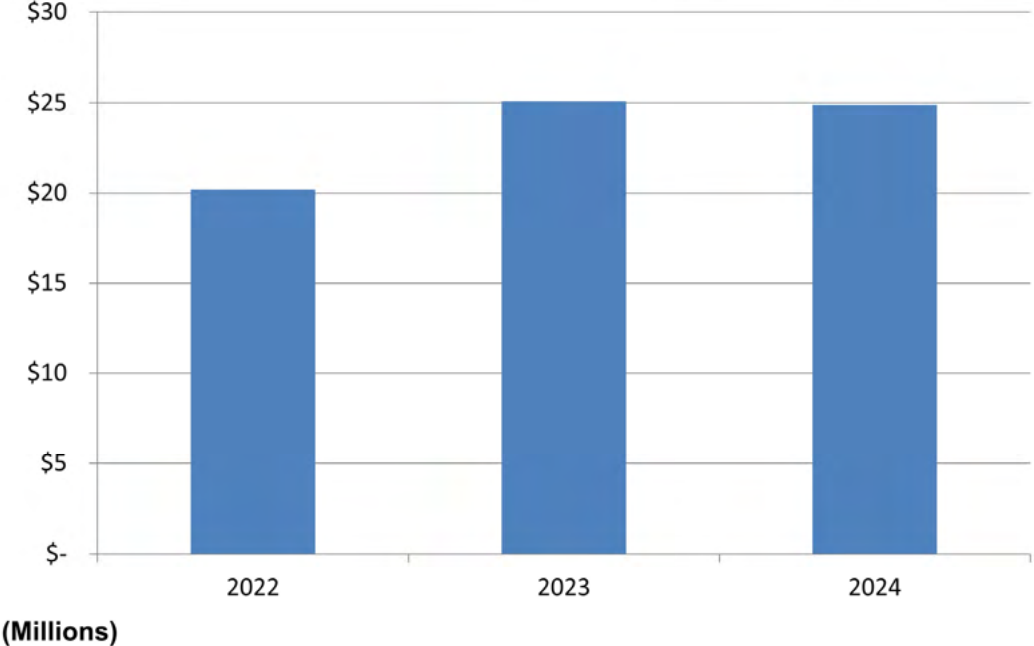
- Distribution system O&M expenses were consistent with the prior fiscal year.
- Customer service expenses decreased \$0.3 million.
- Administrative and general expenses increased \$5.2 million, primarily due to labor-related expenses, driven by higher pension expenses resulting from investment losses.



- Depreciation and amortization expense increased \$0.4 million. KUB added \$22.6 million in assets during fiscal year 2023. A partial year of depreciation was recorded on these capital improvements and a full year of depreciation expense was incurred on \$18.6 million in gas system assets placed in service during fiscal year 2022. In addition, \$2 million of assets were retired during the fiscal year.
- Taxes and tax equivalents were \$0.1 million higher than the prior fiscal year.

**Knoxville Utilities Board Gas Division
 Management’s Discussion and Analysis
 June 30, 2024 and 2023**

Gas Division Operation & Maintenance Expense



Other Income and Expense

Fiscal Year 2024 Compared to Fiscal Year 2023

Interest income was \$0.8 million higher than the prior fiscal year due to higher interest rates throughout the year.

Interest expense decreased \$0.3 million compared with the prior year, reflecting a lower amount of outstanding bonds.

Other income (net) was \$0.4 million higher than the prior fiscal year, partially due to mark-to-market adjustments on investments.

Fiscal Year 2023 Compared to Fiscal Year 2022

Interest income was \$1.1 million higher than the prior fiscal year due to rising interest rates throughout the year.

Interest expense decreased \$0.3 million compared with the prior year, reflecting a lower amount of outstanding bonds.

Other income (net) was \$0.7 million higher than the prior fiscal year, due to mark-to-market adjustments on investments.

**Knoxville Utilities Board Gas Division
 Management’s Discussion and Analysis
 June 30, 2024 and 2023**

Capital Assets

**Capital Assets
 As of June 30
 (Net of Depreciation)**

<i>(in thousands of dollars)</i>	2024	2023	2022
Distribution Plant			
Mains	\$ 212,547	\$ 202,723	\$ 197,482
Services and Meters/Regulators	85,137	83,048	82,723
Other Accounts	988	1,022	1,061
Total Distribution Plant	<u>298,672</u>	<u>286,793</u>	<u>281,266</u>
Total General Plant	\$ 14,687	\$ 13,723	\$ 12,470
Total Plant Assets	<u>313,359</u>	<u>300,516</u>	<u>293,736</u>
Work In Progress	34,246	34,534	35,393
Total Net Plant	<u>\$ 347,605</u>	<u>\$ 335,050</u>	<u>\$ 329,129</u>

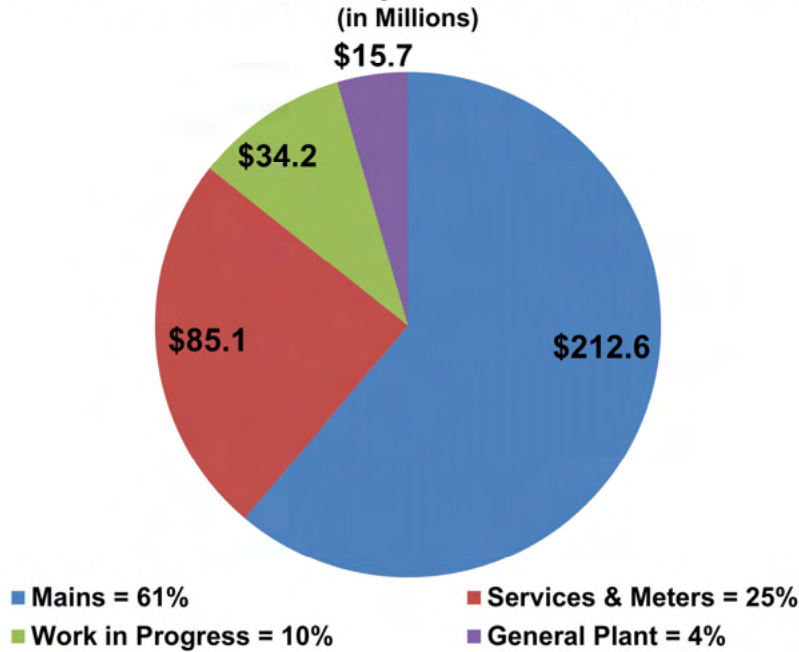
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**Knoxville Utilities Board Gas Division
Management’s Discussion and Analysis
June 30, 2024 and 2023**

Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, the Division had \$347.6 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of \$12.6 million or 3.7 percent over the end of last fiscal year.

FY 2024 Gas Division Capital Assets = \$347.6 Million



Major capital asset expenditures during the year were as follows:

- \$7.7 million for service extensions
- \$7.2 million for main improvements
- \$5.1 million for steel mains and services
- \$2.7 million for replacement and relocation of gas system assets to accommodate TDOT highway improvement projects
- \$0.8 million for heavy equipment
- \$0.5 million for tools and equipment.

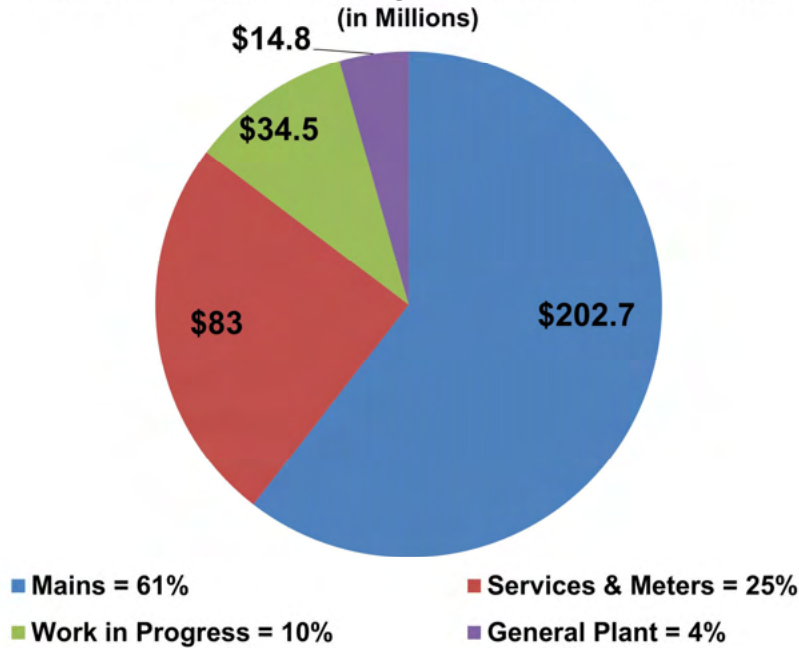
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Knoxville Utilities Board Gas Division Management's Discussion and Analysis June 30, 2024 and 2023

Fiscal Year 2023 Compared to Fiscal Year 2022

As of June 30, 2023, the Division had \$335 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of \$5.9 million or 1.8 percent over the end of last fiscal year.

FY 2023 Gas Division Capital Assets = \$335 Million



Major capital asset expenditures during the year were as follows:

- \$7.4 million for service extensions
- \$6.8 million for replacement and relocation of gas system assets to accommodate TDOT highway improvement projects
- \$2.9 million for steel mains and services
- \$1.5 million for main improvements

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**Knoxville Utilities Board Gas Division
Management’s Discussion and Analysis
June 30, 2024 and 2023**

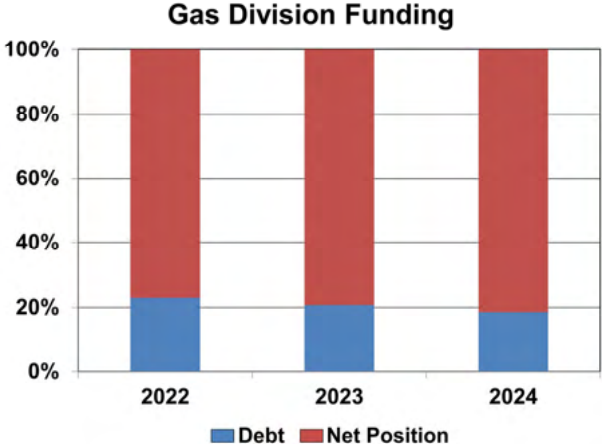
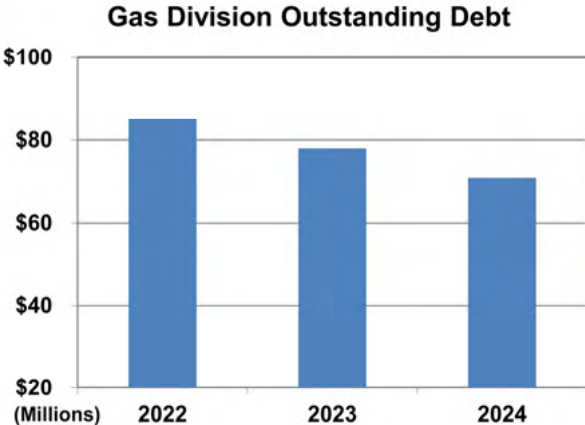
Debt Administration

As of June 30, 2024, the Gas Division had \$71.4 million in outstanding gas system bonds. The bonds are secured solely by revenues of the Gas Division. Debt as a percentage of the Division’s capital structure represented 18.5 percent in 2024, 20.8 percent in 2023, and 23 percent in 2022. KUB’s Debt Management Policy limits the Division’s debt ratio to 50 percent or less.

**Outstanding Debt
As of June 30**

(in thousands of dollars)

	2024	2023	2022
Revenue bonds	\$ 71,435	\$ 78,105	\$ 84,795
Total outstanding debt	<u>\$ 71,435</u>	<u>\$ 78,105</u>	<u>\$ 84,795</u>



The Division will pay \$54.1 million in principal payments over the next ten years, representing 75.7 percent of the outstanding bonds. KUB’s Debt Management Policy requires a minimum of 30 percent of gas debt principal be repaid over the next ten years.

Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, the Division had \$71.4 million in outstanding debt (including current portions of revenue bonds), representing a decrease of \$6.7 million or 8.5 percent. The Division’s weighted average cost of debt as of June 30, 2024, was 3.85 percent.

The Division’s outstanding debt is rated by S&P Global Ratings and Moody’s Investors Service. As of June 30, 2024, the Division’s revenue bonds were rated AA by S&P Global Ratings and Aa2 by Moody’s Investors Service.

Fiscal Year 2023 Compared to Fiscal Year 2022

As of June 30, 2023, the Division had \$78.1 million in outstanding debt (including current portions of revenue bonds), representing a decrease of \$6.7 million or 7.9 percent. The Division’s weighted average cost of debt as of June 30, 2023, was 3.92 percent.

The Division’s outstanding debt is rated by S&P Global Ratings and Moody’s Investors Service. As of June 30, 2023, the Division’s revenue bonds were rated AA by S&P Global Ratings and Aa2 by Moody’s Investors Service.

Knoxville Utilities Board Gas Division Management's Discussion and Analysis June 30, 2024 and 2023

Impacts on Future Financial Position

KUB expects to add 1,100 new gas customers in fiscal year 2025.

In May 2024, the Board and the Tennessee Comptroller approved a Gas Division revenue anticipation note (line of credit) in the amount not to exceed \$20 million, for the purpose of natural gas purchases, storage, and pipeline capacity. If utilized, the note will be repaid within 12 months.

The Pension Plan actuarial valuation resulted in an actuarially determined contribution of \$2,210,234 for the fiscal year ending June 30, 2025, based on the Plan's current funding policy. The Gas Division's portion of this contribution will be determined as part of the actuarial analysis for the December 31, 2024, measurement date. Subsequent to June 30, 2024, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$2,793,313 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. The Gas Division's portion of this contribution will be determined as part of the actuarial analysis for the December 31, 2025, measurement date. For the Plan year beginning January 1, 2024, the Plan's actuarial funded ratio is 105.19 percent, and the market value funded ratio is 96.77 percent.

The OPEB Plan actuarial valuation resulted in an actuarially determined contribution of \$1,279,985 for the fiscal year ending June 30, 2025, based on the Plan's current funding policy. The Gas Division's portion of this contribution will be determined as part of the actuarial analysis for the June 30, 2025, measurement date. Subsequent to June 30, 2024, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$1,217,234 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. The Gas Division's portion of this contribution will be determined as part of the actuarial analysis for the June 30, 2026, measurement date. The Plan's actuarial funded ratio is 94.19 percent, and the market value funded ratio is 87.91 percent.

GASB Statement No. 101, *Compensated Absences*, is effective for fiscal years beginning after December 15, 2023. GASB Statement No. 102, *Certain Risk Disclosures*, is effective for fiscal years beginning after June 15, 2024. GASB Statement No. 103, *Financial Reporting Model Improvements*, is effective for fiscal years beginning after June 15, 2025. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on the Division's financial position or results of operations during fiscal year 2024.

Financial Contact

The Division's financial statements are designed to present users (citizens, customers, investors, and creditors) with a general overview of the Division's financial position and results of operations for the fiscal years ended June 30, 2024, and 2023. If you have questions about the statements or need additional financial information, contact KUB's Chief Financial Officer at 445 South Gay Street, Knoxville, Tennessee 37902.

Knoxville Utilities Board Gas Division
Statements of Net Position
June 30, 2024 and 2023

	2024	2023
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	\$ 19,731,406	\$ 26,093,814
Short-term contingency fund investments	9,555,016	16,301,328
Other current assets	679,772	909,200
Accrued interest receivable	14,327	21,052
Accounts receivable, less allowance of uncollectible accounts of \$49,087 in 2024 and \$41,683 in 2023	7,125,826	6,622,868
Current portion of lease receivable	128,301	88,353
Inventories	1,497,474	1,446,601
Gas storage	7,442,708	9,679,117
Prepaid expenses	88,617	73,123
Total current assets	<u>46,263,447</u>	<u>61,235,456</u>
Restricted assets:		
Gas bond fund	3,122,863	3,243,630
Other funds	259	258
Total restricted assets	<u>3,123,122</u>	<u>3,243,888</u>
Gas plant in service	516,643,403	492,866,322
Less accumulated depreciation	<u>(203,284,001)</u>	<u>(192,350,028)</u>
	313,359,402	300,516,294
Retirement in progress	432,988	15,776
Construction in progress	33,812,774	34,517,786
Net plant in service	<u>347,605,164</u>	<u>335,049,856</u>
Intangible assets:		
Intangible right of use asset	425,877	431,569
Intangible subscription asset	1,190,979	1,034,403
Less accumulated amortization	<u>(679,739)</u>	<u>(398,650)</u>
Net intangible assets	<u>937,117</u>	<u>1,067,322</u>
Other assets:		
Long-term contingency fund investments	7,199,912	-
Long-term lease receivable	1,343,662	621,765
Under recovered purchased gas costs	1,050,732	-
Other	885,817	944,309
Total other assets	<u>10,480,123</u>	<u>1,566,074</u>
Total assets	<u>408,408,973</u>	<u>402,162,596</u>
Deferred outflows of resources:		
Pension outflow	5,049,306	8,894,550
OPEB outflow	457,165	1,048,928
Total deferred outflows of resources	<u>5,506,471</u>	<u>9,943,478</u>
Total assets and deferred outflows of resources	<u>\$ 413,915,444</u>	<u>\$ 412,106,074</u>

The accompanying notes are an integral part of these financial statements.

Knoxville Utilities Board Gas Division
Statements of Net Position
June 30, 2024 and 2023

	2024	2023
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	\$ 6,620,000	\$ 6,670,000
Current portion of accrued compensated absences	1,076,932	1,084,221
Current portion of lease liability	77,302	73,420
Current portion of subscription liability	164,947	147,130
Sales tax collections payable	98,181	103,253
Accounts payable	5,064,229	4,525,488
Accrued expenses	1,199,157	1,157,366
Customer deposits plus accrued interest	5,289,810	4,984,029
Accrued interest on revenue bonds	916,097	1,020,197
Total current liabilities	<u>20,506,655</u>	<u>19,765,104</u>
Other liabilities:		
Accrued compensated absences	554,783	558,538
Customer advances for construction	1,484,084	1,739,503
Lease liability	191,569	267,342
Subscription liability	542,590	609,647
Net pension liability	1,177,238	3,888,855
Net OPEB liability	1,473,428	2,467,169
Over recovered purchased gas costs	-	4,371,708
Other	31,841	43,236
Total other liabilities	<u>5,455,533</u>	<u>13,945,998</u>
Long-term debt:		
Gas revenue bonds	64,815,000	71,435,000
Unamortized premiums/discounts	7,056,536	7,978,913
Total long-term debt	<u>71,871,536</u>	<u>79,413,913</u>
Total liabilities	<u>97,833,724</u>	<u>113,125,015</u>
Deferred inflows of resources:		
Pension inflow	87,303	211,506
Unamortized bond refunding costs	89,910	101,726
OPEB inflow	497,880	-
Lease inflow	1,411,033	679,623
Total deferred inflows of resources	<u>2,086,126</u>	<u>992,855</u>
Total liabilities and deferred inflows of resources	<u>99,919,850</u>	<u>114,117,870</u>
Net position		
Net investment in capital assets	268,290,027	247,958,911
Restricted for:		
Debt service	2,206,766	2,223,433
Other	259	258
Unrestricted	43,498,542	47,805,602
Total net position	<u>313,995,594</u>	<u>297,988,204</u>
Total liabilities, deferred inflows, and net position	<u>\$ 413,915,444</u>	<u>\$ 412,106,074</u>

The accompanying notes are an integral part of these financial statements.

Knoxville Utilities Board Gas Division
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2024 and 2023

	2024	2023
Operating revenues	\$ 114,858,667	\$ 146,698,445
Operating expenses		
Purchased gas	49,712,265	83,361,663
Distribution	11,696,332	11,237,654
Customer service	1,327,344	2,245,004
Administrative and general	11,833,345	11,617,767
Depreciation and amortization	16,316,365	15,720,232
Taxes and tax equivalents	8,171,705	8,002,535
Total operating expenses	<u>99,057,356</u>	<u>132,184,855</u>
Operating income	<u>15,801,311</u>	<u>14,513,590</u>
Non-operating revenues (expenses)		
Contributions in aid of construction	890,038	989,936
Interest income	2,077,398	1,262,321
Interest expense	(3,094,803)	(3,351,181)
Amortization of debt costs	859,462	843,585
Write-down of plant for costs recovered through contributions	(890,038)	(989,936)
Other	338,916	(71,752)
Total non-operating revenues (expenses)	<u>180,973</u>	<u>(1,317,027)</u>
Change in net position before capital contributions	15,982,284	13,196,563
Capital contributions	<u>25,106</u>	<u>323,950</u>
Change in net position	16,007,390	13,520,513
Net position, beginning of year	297,988,204	284,467,691
Net position, end of year	<u>\$ 313,995,594</u>	<u>\$ 297,988,204</u>

The accompanying notes are an integral part of these financial statements.

Knoxville Utilities Board Gas Division
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Cash receipts from customers	\$ 113,821,758	\$ 148,847,324
Cash receipts from other operations	1,376,524	2,392,903
Cash payments to suppliers of goods or services	(64,735,557)	(101,200,979)
Cash payments to employees for services	(12,240,457)	(12,258,845)
Payment in lieu of taxes	(7,259,131)	(7,131,007)
Net cash provided by operating activities	<u>30,963,137</u>	<u>30,649,396</u>
Cash flows from capital and related financing activities:		
Principal paid on revenue bonds	(6,670,000)	(6,690,000)
Interest paid on revenue bonds	(3,060,594)	(3,409,921)
Acquisition and construction of gas plant	(30,202,020)	(22,976,730)
Changes in gas bond fund, restricted	120,767	110,280
Customer advances for construction	(90,179)	(210,540)
Principal paid on lease liabilities	(73,627)	(84,064)
Principal paid on subscription liabilities	(167,600)	(139,302)
Interest paid on lease and subscription liabilities	(43,153)	(44,873)
Cash received from developers and individuals for capital purposes	890,038	989,936
Net cash used in capital and related financing activities	<u>(39,296,368)</u>	<u>(32,455,214)</u>
Cash flows from investing activities:		
Purchase of investment securities	(16,600,000)	-
Maturities of investment securities	16,600,000	3,929,649
Interest received	2,034,401	1,245,509
Other property and investments	(63,578)	(174)
Net cash provided by investing activities	<u>1,970,823</u>	<u>5,174,984</u>
Net (decrease) increase in cash and cash equivalents	(6,362,408)	3,369,166
Cash and cash equivalents, beginning of year	<u>26,093,814</u>	<u>22,724,648</u>
Cash and cash equivalents, end of year	<u>\$ 19,731,406</u>	<u>\$ 26,093,814</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 15,801,311	\$ 14,513,590
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	16,832,257	16,197,321
Changes in operating assets and liabilities:		
Accounts receivable	(502,958)	2,244,465
Lease receivable	(761,845)	14,114
Inventories	(50,873)	(143,397)
Prepaid expenses and gas storage	2,220,914	190,495
Other assets	213,188	502,557
Sales tax collections payable	(5,072)	(43,507)
Accounts payable and other accrued expenses	2,409,786	(3,233,163)
Underrecovered gas costs	(5,422,440)	183,444
Customer deposits plus accrued interest	240,262	251,117
Other liabilities	(11,393)	(27,640)
Net cash provided by operating activities	<u>\$ 30,963,137</u>	<u>\$ 30,649,396</u>
Noncash capital activities:		
Acquisition of plant assets through developer contributions	\$ 25,106	\$ 323,950
Record intangible right of use asset and lease liability	\$ 2,340	\$ 132,681
Record intangible subscription asset and subscription liability	\$ 118,360	\$ 10,956

The accompanying notes are an integral part of these financial statements.

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2024 and 2023

1. Description of Business

Knoxville Utilities Board (KUB), comprised of Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions, including setting rates. The Gas Division (Division) provides services to certain customers in Knox County and portions of Anderson and Loudon counties. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Gas Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board as of June 30, 2024, and 2023, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 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 to the Division is determined by measurement focus. The transactions of the Division 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 April 2022, the GASB issued GASB Statement No. 99 (Statement No. 99), *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements and accounting and financial reporting for financial guarantees. Paragraphs 26-32 were effective immediately. Paragraphs 11-25 were effective for fiscal years beginning after June 15, 2022. Paragraphs 4-10 are

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2024 and 2023

effective for fiscal years beginning after June 15, 2023. Adoption of this Statement did not have a significant impact on KUB's financial statements.

In June 2022, the GASB issued GASB Statement No. 100 (Statement No. 100), *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. Statement No. 100 is effective for fiscal years beginning after June 15, 2023. Adoption of this Statement did not have a significant impact on KUB's financial statements.

Gas Plant

Gas plant and other property are stated on the basis of original cost. The cost of current repairs and minor replacements is charged to operating expense. The cost of renewals and improvements is 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 gas plant in service is based on the estimated useful lives of the assets, which range from three to thirty-three years, and is computed using the straight-line method. Pursuant to FERC, the caption "Depreciation and amortization" in the Statements of Revenues, Expenses and Changes in Net Position does not include depreciation for transportation equipment. Depreciation for transportation equipment of \$515,892 in fiscal year 2024 and \$477,089 in fiscal year 2023 is included in operation and maintenance expense.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of the KUB Gas Division. 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 \$167,273 in fiscal year 2024 and \$133,696 in fiscal year 2023.

Non-operating Revenue

Non-operating revenue consists of revenues that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

Expense

When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is KUB's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net 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 and intangible assets, including restricted capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of any bonds, mortgages, notes, lease and subscription liabilities, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2024 and 2023

those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Net position-restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- Net position-unrestricted – This component of net position consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Contributions in Aid of Construction and Capital Contributions

Contributions in aid of construction are cash collections from customers, grantors, or others for a particular purpose, generally the construction of new facilities to serve new customers in excess of the investment KUB is willing to make for a particular incremental revenue source. KUB reduces the plant account balances to which contributions relate by the actual amount of the contribution and recognizes the contributions as non-operating revenue in accordance with Statement No. 62.

Capital contributions represent contributions of utility plant infrastructure constructed by developers and others in industrial parks and other developments and transferred to KUB upon completion of construction and the initiation of utility service. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, such contributions are recognized as revenues and capital assets upon receipt.

Inventories

Inventories, consisting of plant materials and operating supplies, are valued at the lower of average cost or replacement value.

OPEB Trust

KUB's OPEB Trust was established by KUB's Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. The purpose of the Trust is to fund KUB's post-employment health care plan (the "Plan"), which provides certain medical benefits for qualifying KUB retirees and beneficiaries. Effective January 1, 2022, the Plan was expanded to include two benefit offerings. Employees with a benefit service date prior to July 1, 1999, will continue to be eligible for the Retiree Medical Benefit, while those with a later benefit service date will participate in a new Retiree Health Reimbursement Arrangement, given that each eligible employee meets the "Rule of 80", the sum of age and at least 20 years of qualified service equal to or exceeding 80, at retirement.

KUB's policy is to fully fund the annual actuarially determined contributions, which are determined by actuarial valuation. As required by GASB Statement No. 75, KUB measures net OPEB liability as total OPEB liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2024, and 2023, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2024, and 2023, are based on a June 30, 2024, and 2023, measurement date, respectively. The net OPEB liability is \$9,373,073 (Division's share \$1,473,428) as of June 30, 2024, and \$12,930,655 (Division's share \$2,467,169) as of June 30, 2023.

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2024 and 2023

Pension Plan and Qualified Excess Benefit Arrangement

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 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, 2024, and 2023, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2024, and 2023, are based on a December 31, 2023, and 2022, measurement date, respectively. The pension liability is \$7,452,380 (Division's share \$1,177,238) as of June 30, 2024, and \$22,219,032 (Division's share \$3,888,855) as of June 30, 2023.

KUB implemented a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). The QEBA is a single employer defined benefit pension plan administered by KUB (Note 12). As required by GASB Statement No. 73, KUB measures the total pension liability of the QEBA. The amounts reported as of June 30, 2024, and 2023, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2024, and 2023, are based on a December 31, 2023, and 2022, measurement date, respectively. Due to the increase in the section 415(d) annual benefit limitation from 2021 to 2022, the pension benefit for the sole participant in the Excess Benefit Arrangement is now fully payable under the KUB Pension Plan and, as such, there is no benefit payable under the Excess Benefit Arrangement as of June 30, 2024, and 2023.

Investments

Investments are carried at fair value as determined by quoted market prices at the reporting date.

Self-Insurance

KUB has established self-insurance programs covering portions of workers' compensation, employee health, environmental liability, general liability, property and casualty liability, and automobile liability claims. A liability is accrued for claims as they are incurred. When applicable, claims in excess of the self-insured risk are covered by KUB's insurance carrier. Additionally, KUB provides certain lifetime health benefits to eligible retired employees under a self-insurance plan administered by a third party.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on historical experience and various other assumptions that KUB believes are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require adjustment. Estimates are used for, but not limited to, inventory valuation, allowance for uncollectible accounts, depreciable lives of plant assets, unbilled revenue volumes, over/under purchased gas costs, lease liabilities, subscription liabilities, developer contributions, pension trust valuations, OPEB trust valuations, insurance liability reserves, and potential losses from contingencies and litigation. Actual results could differ from those estimates.

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.

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2024 and 2023

Cash Equivalents

For purposes of the Statements of Cash Flows, KUB considers all unrestricted and undesignated highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Leases

KUB determines if an arrangement is or contains a lease at contract inception and recognizes an intangible right of use asset and a lease liability at the lease commencement date. Subsequently, the intangible right of use asset is amortized on a straight-line basis over its useful life. KUB also enters into agreements, as lessor, to lease office space or property, recognizing a lease receivable and a deferred inflow of resources. The lease term includes the non-cancelable period of the lease plus an additional period covered by either an option to extend or not to terminate the lease that the lessee is reasonably certain to exercise, or an option to extend or not to terminate the lease controlled by the lessor. KUB uses its estimated incremental borrowing rate as the discount rate for leases.

KUB monitors for events or changes in circumstances that require a reassessment of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the intangible right of use asset.

Subscription-Based Information Technology Arrangements

KUB determines if an arrangement is or contains a subscription-based information technology arrangement (subscription) at contract inception and recognizes an intangible subscription asset and a subscription liability at the commencement date. Subsequently, the subscription asset is amortized on a straight-line basis over its useful life. The subscription term includes the non-cancelable period of the subscription plus an additional period covered by either an option to extend or not to terminate the subscription that KUB is reasonably certain to exercise, or an option to extend or not to terminate the subscription controlled by the vendor. KUB uses its estimated incremental borrowing rate as the discount rate for subscriptions.

KUB monitors for events or changes in circumstances that require a reassessment of its subscriptions. When a reassessment results in the remeasurement of a subscription liability, a corresponding adjustment is made to the carrying amount of the subscription asset.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are items related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. Deferred inflows of resources are items related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. KUB records costs associated with the gain or loss on refunding of debt as either a deferred outflow or inflow based on the parameters of Statement No. 65. Deferred outflows of resources also include employer pension contributions made subsequent to the measurement date of the net pension liability and before the end of the employer's reporting period in accordance with Statement No. 71. Deferred inflows and deferred outflows also include the net difference between projected and actual earnings on pension plan investments and OPEB plan investments, differences between expected and actual experience, and changes in assumptions in accordance with Statements No. 68, 73, and 75. Deferred inflows are also recorded at the commencement of the lease term and recognized as revenue over the course of the lease in accordance with Statement No. 87.

Debt Premium/Discount

KUB records unamortized premium and discount on debt as a separate line item in the Long-Term Debt section of the Financial Statements. Amortization of these amounts is recorded over the life of the applicable debt as amortization expense.

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2024 and 2023

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.

Reclassification

Certain 2023 amounts have been reclassified to conform to the 2024 presentation.

Subsequent Events

KUB has evaluated events and transactions through October 23, 2024, the date these financial statements were available to be issued, for items that should potentially be recognized or disclosed.

Purchased Gas Adjustment

In November 1990, the Board implemented a deferred Purchased Gas (Cost) Adjustment (PGA) mechanism, which allows KUB to flow changes in purchased gas costs through to its customers. These changes in gas costs are reflected as adjustments to the base gas rates established by the Board. The rate-setting authority vested in the Board by the City Charter meets the “self-regulated” provisions of GASB Statement No. 62 (Statement No. 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The PGA is intended to ensure that KUB recovers the total cost of natural gas purchased, transported and/or reserved for delivery to its sales and transportation customers on an equitable basis. The PGA is also intended to ensure that no excess or deficient cost recovery from KUB’s customers occurs.

Under the PGA mechanism, KUB tracks the actual over/(under) recovered amount in the Over/(Under) Recovered Purchased Gas Cost accounts. These accounts are rolled into the PGA rate adjustment on June 30 of each year thereby ensuring that any over/(under) recovered amounts are passed on to KUB’s gas system customers. The amount of over/(under) recovered cost was (\$1,050,732) as of June 30, 2024, and \$4,371,708 as of June 30, 2023.

Recently Issued Accounting Pronouncements

In June 2022, the GASB issued GASB Statement No. 101 (Statement No. 101), *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. Statement No. 101 is effective for fiscal years beginning after December 15, 2023.

In December 2023, the GASB issued GASB Statement No. 102 (Statement No. 102), *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government’s vulnerabilities due to certain concentrations or constraints. Statement No. 102 is effective for fiscal years beginning after June 15, 2024.

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2024 and 2023

In April 2024, the GASB issued GASB Statement No. 103 (Statement No. 103), *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. Statement No. 103 is effective for fiscal years beginning after June 15, 2025.

KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

3. Deposits and Investments

KUB follows the provisions of Statement No. 40 of the Governmental Accounting Standards Board, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*. This Statement establishes and modifies disclosure requirements for state and local governments related to deposit and investment risks. KUB classifies its fair value measurements within the fair value hierarchy established by Statement No. 72 of the Governmental Accounting Standards Board, *Fair Value Measurement and Application*.

KUB's investment policy provides the framework for the administration and investment of cash deposits. The investment policy follows Tennessee State law and defines the parameters under which KUB funds should be invested. State law authorizes KUB to invest in obligations of the United States Treasury, its agencies and instrumentalities; certificates of deposit; repurchase agreements; money market funds; and the State Treasurer's Investment Pool.

Interest Rate Risk. KUB's primary investment objectives are to place investments in a manner to ensure the preservation of capital, remain sufficiently liquid to meet all operating requirements, and maximize yield of return. KUB minimizes its exposure to interest rate risk by adhering to Tennessee State law requirements for the investment of public funds. This includes limiting investments to those types described above and limiting maturity horizons. The maximum maturity is four years from the date of investment. KUB also limits its exposure by holding investments to maturity unless cash flow requirements dictate otherwise.

Credit Risk. KUB's investment policy, as required by state law, is to apply the prudent-person rule: Investments are made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable income to be derived, as well as the probable safety of their capital.

Custodial Credit Risk. KUB's investment policy limits exposure to custodial credit risk by restricting investments to a standard set forth by state law. All deposits in excess of federal depository insurance limits are collateralized with government securities held in KUB's name by a third-party custodian bank(s) acting as KUB's agent(s), or through the State of Tennessee's collateral pool. Financial institutions that participate in the collateral pool are subject to special assessment; therefore, the deposits are considered insured. A portion of KUB's investments is generally held in the State of Tennessee Local Government Investment Pool (LGIP). The LGIP is a part of the State Pooled Investment Fund and is sponsored by the State of Tennessee Treasury Department. Tennessee Code Annotated ¶9-4-701 *et seq.* authorizes local governments to invest in the LGIP. None of KUB's investments are exposed to custodial credit risk.

Knoxville Utilities Board Gas Division
Notes to Financial Statements
June 30, 2024 and 2023

Classification of deposits and investments per Statement of Net Position:

	2024	2023
Current assets		
Cash and cash equivalents	\$ 19,731,406	\$ 26,093,814
Short-term contingency fund investments	9,448,682	16,285,934
Other assets		
Long-term contingency fund investments	7,199,912	-
Restricted assets		
Gas bond fund	3,122,863	3,243,630
Other funds	259	258
	<u>\$ 39,503,122</u>	<u>\$ 45,623,636</u>

The above amounts do not include accrued interest of \$106,334 in fiscal year 2024 and \$15,394 in fiscal year 2023 . Interest income is recorded on an accrual basis.

Investments and maturities of KUB's deposits and investments as held by financial institutions as of June 30, 2024:

	Deposit and Investment Maturities (in Years)		
	Fair	Less	
	Value	Than 1	1-5
Supersweep NOW and Other Deposits	\$ 20,822,920	\$ 20,822,920	\$ -
State Treasurer's Investment Pool	12,571,446	12,571,446	-
Agency Bonds	7,199,912	-	7,199,912
	<u>\$ 40,594,278</u>	<u>\$ 33,394,366</u>	<u>\$ 7,199,912</u>

KUB categorizes its fair value measurements within the fair value hierarchy established by Statement No. 72 of the Governmental Accounting Standards Board, *Fair Value Measurement and Application*. The hierarchy is based on the valuation inputs used to measure the fair value of an asset with a maturity at purchase of greater than one year. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

KUB has the following recurring fair value measurements as of June 30, 2024.

U.S. Agency bonds of \$7,199,912, which have a maturity at purchase of greater than one year, are valued using quoted market prices (Level 1 inputs)

KUB measures investments with a maturity at purchase of one year or less at amortized cost, which is considered a fair value equivalent due to their nature. Investments in the State Treasurer's Investment Pool are measured at net asset value (NAV) per share.

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Knoxville Utilities Board Gas Division
Notes to Financial Statements
June 30, 2024 and 2023

4. Accounts Receivable

Accounts receivable consists of the following:

	2024	2023
Wholesale and retail customers		
Billed services	\$ 5,392,315	\$ 4,757,953
Unbilled services	1,484,322	1,573,258
Other	298,276	333,340
Allowance for uncollectible accounts	(49,087)	(41,683)
	<u>\$ 7,125,826</u>	<u>\$ 6,622,868</u>

5. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

	2024	2023
Trade accounts	\$ 5,064,229	\$ 4,525,488
Current portion of accrued compensated absences	1,076,932	1,084,221
Salaries and wages	333,569	238,090
Self-insurance liabilities	437,867	432,919
Other current liabilities	427,721	486,357
	<u>\$ 7,340,318</u>	<u>\$ 6,767,075</u>

6. Long-Term Obligations

Long-term debt consists of the following:

	Balance				Balance	Amounts
	June 30,	Additions	Payments	Defeased	June 30,	Due
	2023				2024	Within
						One Year
Gas						
U-2015 - 2.0 - 5.0%	\$ 7,380,000	\$ -	\$ 805,000	\$ -	\$ 6,575,000	\$ 845,000
V-2016 - 2.125 - 5.0%	10,225,000	-	325,000	-	9,900,000	325,000
W-2017 - 5.0%	3,685,000	-	850,000	-	2,835,000	900,000
X-2017 - 2.0 - 5.0%	10,505,000	-	300,000	-	10,205,000	315,000
Y-2018 - 3.0 - 5.0%	7,125,000	-	185,000	-	6,940,000	195,000
Z-2020 - 4.0 - 5.0%	5,000,000	-	615,000	-	4,385,000	645,000
AA-2021 - 4.0 - 5.0%	34,185,000	-	3,590,000	-	30,595,000	3,395,000
Total bonds	<u>\$ 78,105,000</u>	<u>\$ -</u>	<u>\$ 6,670,000</u>	<u>\$ -</u>	<u>\$ 71,435,000</u>	<u>\$ 6,620,000</u>
Unamortized Premium	7,978,913	-	922,377	-	7,056,536	-
Total long term debt	<u>\$ 86,083,913</u>	<u>\$ -</u>	<u>\$ 7,592,377</u>	<u>\$ -</u>	<u>\$ 78,491,536</u>	<u>\$ 6,620,000</u>

Knoxville Utilities Board Gas Division
Notes to Financial Statements
June 30, 2024 and 2023

	Balance				Balance	Amounts
	June 30,				June 30,	Due
	2022	Additions	Payments	Defeased	2023	Within
						One Year
Gas						
U-2015 - 2.0 - 5.0%	\$ 8,175,000	\$ -	\$ 795,000	\$ -	\$ 7,380,000	\$ 805,000
V-2016 - 2.125 - 5.0%	10,525,000	-	300,000	-	10,225,000	325,000
W-2017 - 5.0%	4,500,000	-	815,000	-	3,685,000	850,000
X-2017 - 2.0 - 5.0%	10,790,000	-	285,000	-	10,505,000	300,000
Y-2018 - 3.0 - 5.0%	7,305,000	-	180,000	-	7,125,000	185,000
Z-2020 - 4.0 - 5.0%	5,585,000	-	585,000	-	5,000,000	615,000
AA-2021 - 4.0 - 5.0%	37,915,000	-	3,730,000	-	34,185,000	3,590,000
Total bonds	\$ 84,795,000	\$ -	\$ 6,690,000	\$ -	\$ 78,105,000	\$ 6,670,000
Unamortized Premium	8,901,291	-	922,378	-	7,978,913	-
Total long term debt	\$ 93,696,291	\$ -	\$ 7,612,378	\$ -	\$ 86,083,913	\$ 6,670,000

Debt service over remaining term of the debt is as follows:

Fiscal Year	Total		Grand Total
	Principal	Interest	
2025	\$ 6,620,000	\$ 2,748,294	\$ 9,368,294
2026	6,595,000	2,439,393	9,034,393
2027	6,630,000	2,137,143	8,767,143
2028	6,290,000	1,840,467	8,130,467
2029	6,160,000	1,562,463	7,722,463
2030 - 2034	21,760,000	4,680,842	26,440,842
2035 - 2039	5,935,000	2,377,917	8,312,917
2040 - 2044	6,935,000	1,411,922	8,346,922
2045 - 2048	4,510,000	313,257	4,823,257
Total	\$ 71,435,000	\$ 19,511,698	\$ 90,946,698

The Division has pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet bond principal and interest payments when due. The requirements for the bonds are being met through monthly deposits to the Gas Bond Fund, as required by the bond covenants. As of June 30, 2024, these bond covenant requirements had been satisfied.

The Division's outstanding bonds payable contain provisions that in an event of default, outstanding amounts are to become immediately due if the Division is unable to make payment.

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Knoxville Utilities Board Gas Division
Notes to Financial Statements
June 30, 2024 and 2023

Other liabilities consist of the following:

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Accrued compensated absences	\$ 558,538	\$ 1,065,698	(1,069,453)	\$ 554,783
Customer advances for construction	1,739,503	395,190	(650,609)	1,484,084
Other	43,236	54,714	(66,109)	31,841
	<u>\$ 2,341,277</u>	<u>\$ 1,515,602</u>	<u>\$ (1,786,171)</u>	<u>\$ 2,070,708</u>
	Balance June 30, 2022	Increase	Decrease	Balance June 30, 2023
Accrued compensated absences	\$ 1,900,903	\$ 3,435,132	(4,777,497)	\$ 558,538
Customer advances for construction	2,093,968	598,339	(952,804)	1,739,503
Other	70,875	108,953	(136,592)	43,236
	<u>\$ 4,065,746</u>	<u>\$ 4,142,424</u>	<u>\$ (5,866,893)</u>	<u>\$ 2,341,277</u>

In May 2024, the Board and the Tennessee Comptroller approved a Gas Division revenue anticipation note (line of credit) in the amount not to exceed \$20 million, for the purpose of natural gas purchases, storage, and pipeline capacity. If utilized, the note will be repaid within 12 months. No amounts were drawn as of June 30, 2024.

7. Lease Receivables

KUB, as lessor, leases office space under non-cancelable lease arrangements. Terms of the leases range from one to fourteen years and contain fixed payment terms. Certain leases contain an option to renew that has been considered in the lease receivable when the lessee is reasonably certain to exercise the renewal option. KUB recognized lease revenue, which is included in other operating revenues, of \$151,107 in 2024 and \$100,908 in 2023. KUB also recognized interest income from leases, which is included in non-operating revenues, totaling \$49,373 in 2024 and \$24,617 in 2023. Total lease receivables were \$1,471,963 (\$128,301 current) and \$710,118 (\$88,353 current) as of June 30, 2024, and 2023, respectively, and are included in other assets on the Statement of Net Position.

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Knoxville Utilities Board Gas Division
Notes to Financial Statements
June 30, 2024 and 2023

8. Lease Liabilities

Changes in lease liabilities are summarized as follows:

	Balance June 30, 2023		Increase		Decrease		Balance June 30, 2024
Total lease liabilities	\$ 340,762	\$	<u>2,340</u>	\$	<u>(74,231)</u>	\$	268,871
Less current portion	<u>(73,420)</u>						<u>(77,302)</u>
Long-term portion	<u>\$ 267,342</u>					\$	<u>191,569</u>

	Balance June 30, 2022		Increase		Decrease		Balance June 30, 2023
Total lease liabilities	\$ 295,449	\$	<u>132,681</u>	\$	<u>(87,368)</u>	\$	340,762
Less current portion	<u>(69,367)</u>						<u>(73,420)</u>
Long-term portion	<u>\$ 226,082</u>					\$	<u>267,342</u>

KUB leases certain office space, equipment, and other assets under non-cancelable lease arrangements. Terms of the leases range from one to nineteen years and contain fixed payment terms. Certain office space leases contain the option for renewal, which has been considered in the lease liability when KUB is reasonably certain to exercise the renewal option.

Maturities and future interest requirements related to the balances of lease liabilities outstanding as of June 30, 2024, are summarized as follows:

	Lease Maturities		Interest Requirements
2025	\$ 77,302	\$	9,920
2026	78,347		7,090
2027	68,858		4,149
2028	8,467		2,014
2029	1,471		1,598
2030-2034	9,075		7,706
2035-2039	12,781		6,673
2040-2044	12,570		3,623
	<u>\$ 268,871</u>	\$	<u>42,773</u>

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Knoxville Utilities Board Gas Division
Notes to Financial Statements
June 30, 2024 and 2023

9. Subscription-Based Information Technology Agreement Liabilities

Changes in SBITA liabilities are summarized as follows:

	Balance		Balance
	June 30, 2023	Increase	June 30, 2024
Total SBITA liabilities	\$ 756,777	\$ 118,360	\$ 707,537
Less current portion	<u>(147,130)</u>		<u>(164,947)</u>
Long-term portion	<u>\$ 609,647</u>		<u>\$ 542,590</u>

	Balance		Balance
	June 30, 2022	Increase	June 30, 2023
Total SBITA liabilities	\$ 885,123	\$ 10,956	\$ 756,777
Less current portion	<u>(139,302)</u>		<u>(147,130)</u>
Long-term portion	<u>\$ 745,821</u>		<u>\$ 609,647</u>

KUB has subscription-based information technology agreements (SBITAs) which grant non-cancelable rights to use underlying information technology software. Terms of agreement range from five to eighteen years and contain fixed and variable payment terms. Certain SBITAs contain the option for renewal, which has been considered in the SBITA liability when KUB is reasonably certain to exercise the renewal option.

Maturities and future interest requirements related to the balances of SBITA liabilities outstanding as of June 30, 2024, are summarized as follows:

	Subscription Maturities	Interest Requirements
2025	\$ 164,947	\$ 24,276
2026	172,219	17,748
2027	180,252	10,919
2028	190,119	3,728
	<u>\$ 707,537</u>	<u>\$ 56,671</u>

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Knoxville Utilities Board Gas Division
Notes to Financial Statements
June 30, 2024 and 2023

10. Capital and Intangible Assets

Capital and intangible asset activity was as follows:

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Production Plant	\$ 14,640	\$ -	\$ -	\$ 14,640
Distribution Plant				
Mains	324,278,190	19,804,162	(849,289)	343,233,063
Services and Meters/Regulators	120,665,992	6,381,899	(362,408)	126,685,483
Other Accounts	1,818,069	-	-	1,818,069
Total Distribution Plant	<u>\$ 446,762,251</u>	<u>\$ 26,186,061</u>	<u>\$ (1,211,697)</u>	<u>\$ 471,736,615</u>
Total General Plant	46,089,431	3,154,656	(4,351,939)	44,892,148
Total Plant Assets	<u>\$ 492,866,322</u>	<u>\$ 29,340,717</u>	<u>\$ (5,563,636)</u>	<u>\$ 516,643,403</u>
Less Accumulated Depreciation	(192,350,028)	(16,588,226)	5,654,253	(203,284,001)
Net Plant Assets	<u>\$ 300,516,294</u>	<u>\$ 12,752,491</u>	<u>\$ 90,617</u>	<u>\$ 313,359,402</u>
Work In Progress	34,533,562	29,350,248	(29,638,048)	34,245,762
Total Net Plant	<u><u>\$ 335,049,856</u></u>	<u><u>\$ 42,102,739</u></u>	<u><u>\$ (29,547,431)</u></u>	<u><u>\$ 347,605,164</u></u>
Intangible Right of Use Assets				
Office space	\$ 282,619	\$ 2,832	\$ -	\$ 285,451
Equipment	22,611	-	(8,524)	14,087
Other	126,339	-	-	126,339
Total Intangible Right of Use Assets	<u>\$ 431,569</u>	<u>\$ 2,832</u>	<u>\$ (8,524)</u>	<u>\$ 425,877</u>
Less Accumulated Amortization	(106,607)	(78,878)	8,524	(176,961)
Net Intangible Right of Use Assets	<u><u>\$ 324,962</u></u>	<u><u>\$ (76,046)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 248,916</u></u>
Intangible Subscription Assets				
Intangible Subscription Assets	\$ 1,034,403	\$ 156,576	\$ -	\$ 1,190,979
Less Accumulated Amortization	(292,043)	(210,735)	-	(502,778)
Net Intangible Subscription Assets	<u><u>\$ 742,360</u></u>	<u><u>\$ (54,159)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 688,201</u></u>

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Knoxville Utilities Board Gas Division
Notes to Financial Statements
June 30, 2024 and 2023

	Balance June 30, 2022	Increase	Decrease	Balance June 30, 2023
Production Plant	\$ 14,640	\$ -	\$ -	14,640
Distribution Plant				
Mains	309,958,286	14,746,149	(426,245)	324,278,190
Services and Meters/Regulators	117,545,811	4,070,149	(949,968)	120,665,992
Other Accounts	1,828,692	-	(10,623)	1,818,069
Total Distribution Plant	<u>\$ 429,332,789</u>	<u>\$ 18,816,298</u>	<u>\$ (1,386,836)</u>	<u>\$ 446,762,251</u>
Total General Plant	<u>42,904,226</u>	<u>3,790,569</u>	<u>(605,364)</u>	<u>46,089,431</u>
Total Plant Assets	<u>\$ 472,251,655</u>	<u>\$ 22,606,867</u>	<u>\$ (1,992,200)</u>	<u>\$ 492,866,322</u>
Less Accumulated Depreciation	<u>(178,515,973)</u>	<u>(16,029,271)</u>	<u>2,195,216</u>	<u>(192,350,028)</u>
Net Plant Assets	<u>\$ 293,735,682</u>	<u>\$ 6,577,596</u>	<u>\$ 203,016</u>	<u>\$ 300,516,294</u>
Work In Progress	<u>35,393,442</u>	<u>22,044,166</u>	<u>(22,904,046)</u>	<u>34,533,562</u>
Total Net Plant	<u>\$ 329,129,124</u>	<u>\$ 28,621,762</u>	<u>\$ (22,701,030)</u>	<u>\$ 335,049,856</u>
Intangible Right of Use Assets				
Office space	\$ 316,639	\$ -	\$ (34,020)	\$ 282,619
Equipment	9,349	16,052	(2,790)	22,611
Other	24,443	126,339	(24,443)	126,339
Total Intangible Right of Use Assets	<u>\$ 350,431</u>	<u>\$ 142,391</u>	<u>\$ (61,253)</u>	<u>\$ 431,569</u>
Less Accumulated Amortization	<u>(64,284)</u>	<u>(72,356)</u>	<u>30,033</u>	<u>(106,607)</u>
Net Intangible Right of Use Assets	<u>\$ 286,147</u>	<u>\$ 70,035</u>	<u>\$ (31,220)</u>	<u>\$ 324,962</u>
Intangible Subscription Assets				
Intangible Subscription Assets	\$ 1,029,221	\$ 5,182	\$ -	\$ 1,034,403
Less Accumulated Amortization	<u>(144,098)</u>	<u>(147,945)</u>	<u>-</u>	<u>(292,043)</u>
Net Intangible Subscription Assets	<u>\$ 885,123</u>	<u>\$ (142,763)</u>	<u>-</u>	<u>\$ 742,360</u>

11. Risk Management

KUB is exposed to various risks of loss related to active and retiree medical claims; injuries to workers; theft of, damage to, and destruction of assets; environmental damages; and natural disasters. Claims expenditures and liabilities are reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. As of June 30, 2024, and June 30, 2023, the amount of these liabilities was \$437,867 and \$432,919, respectively, resulting from the following changes:

	2024	2023
Balance, beginning of year	\$ 432,919	\$ 382,878
Current year claims and changes in estimates	3,219,043	3,560,408
Claims payments	<u>(3,214,095)</u>	<u>(3,510,367)</u>
Balance, end of year	<u>\$ 437,867</u>	<u>\$ 432,919</u>

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2024 and 2023

12. Pension Plan

Description of Plan

The Knoxville Utilities Board Pension Plan (the Plan) is a governmental plan as defined by the Employee Retirement Income Security Act of 1974 (ERISA or the Act), is not subject to any of the provisions of the Act, and was revised January 1, 2020, to include all prior approved amendments. The Plan is a single employer contributory, defined benefit pension plan established by Knoxville Utilities Board Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville §1107(J). KUB Board Resolution No. 979, effective July 1, 1999, as amended by Resolution No. 1037, establishing the KUB Retirement System, was amended effective June 18, 2020, to amend the term "Trustee" to include both custodians and/or trustees, in order to provide flexibility should KUB choose to change from its current Pension trustee. The Plan is designed to provide retirement, disability, and death benefits to KUB employees. KUB administers the Plan through an Administrative Committee consisting of seven KUB employees that are appointed by KUB's President and CEO. Any amendments to the Plan involving costs not approved in the operating budget must be adopted by KUB's Board of Commissioners, upon recommendation by KUB's President and CEO. All other amendments to the Plan may be approved by KUB's President and CEO upon 60 days notification to the Board's Audit and Finance Committee. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017. For purposes of this disclosure, presentation is on a consolidated basis unless division's share is specified.

Effective January 1, 2011, KUB closed the Plan such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and to accrue benefits under the Plan.

Participants in the Plan consisted of the following as of December 31:

	2023	2022
Inactive plan members:		
Terminated vested participants	9	14
Retirees and beneficiaries	602	603
Active plan members	<u>389</u>	<u>431</u>
Total	<u>1,000</u>	<u>1,048</u>

Retirement Benefits

The Plan provides three benefit arrangements for KUB participants, retirees, and beneficiaries.

The Plan provides pension benefits through the Career Equity Program ("CEP") for eligible employees hired on or after January 1, 1999, and for eligible former "City System Plan A" participants who elected CEP coverage as of July 1, 1999. The guaranteed pension benefit payable to a participant who has completed five or more years of service (or reached the normal retirement date, if earlier) upon termination of KUB employment shall be a lump sum equal to the participant's average compensation times their benefit percentage, as defined in the Plan document, or an annuity may be chosen by the participant.

In addition, the Plan provided retirement benefits through "Plan A" for former City System Plan A participants who elected not to participate in the CEP. Plan A is a closed plan and is not available to KUB employees hired after July 1, 1999. Plan A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or later. Benefits provided to Plan A participants include several different forms of monthly annuity payments.

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The Plan also provides retirement benefits through “Plan B” for former “City System Plan B” participants. Plan B is a closed plan providing benefits to participants not covered by Social Security. Benefits provided to Plan B participants include several different forms of monthly annuity payments available to participants.

Effective January 1, 2012, KUB began to provide for additional monthly supplements, which are not subject to cost-of-living adjustments, to certain former employees and surviving dependents of former employees who are eligible for and have elected coverage under the KUB retiree medical plan and are eligible for Medicare. This was done to compensate for the elimination of drug coverage under the KUB retiree medical plan and to assist such individuals in obtaining prescription drug coverage under Medicare Part D.

Contributions

Participation in Plan A requires employee contributions of three percent of the first \$4,800 of annual earnings and five percent of annual earnings in excess of \$4,800. KUB contributions are determined by the enrolled actuary of the Plan and equal the amount necessary to provide the benefits under the Plan determined by the application of accepted actuarial methods and assumptions. The method of funding shall be consistent with Plan objectives.

Plan Funding

KUB maintains a Funding Policy for the Plan in accordance with Tennessee State Law. The primary goal of the Policy is to document the method KUB has adopted to provide assurance that future KUB and employee contributions and current Plan assets will be sufficient to fund all benefits expected to be paid to current active, inactive and retired Plan participants and their beneficiaries. Per the Funding Policy, KUB fully funds its annual Actuarially Determined Contribution.

Investments

The Plan’s investments are held by State Street Bank and Trust Company (the “Trustee”). The Plan’s policy in regard to the allocation of invested assets is established by the Retirement System Investment Committee and approved by the KUB Board of Commissioners and may only be amended by the KUB Board of Commissioners. It is the policy of the Retirement System Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Plan’s adopted asset allocation policy as of December 31, 2023:

Asset Class	Target Allocation
Domestic equity – large cap	20% - 50%
Domestic equity – small/mid cap	0% - 30%
Multi-asset credit	0% - 20%
Non-U.S. equity	0% - 20%
U.S. core real estate	0% - 10%
Fixed income	20% - 40%
Cash and deposits	0% - 5%

Contributions of \$1,108,147 and \$2,624,373 for 2022 and 2021, respectively, were made during the Plan sponsor’s fiscal years ended June 30, 2024, and 2023, respectively. Of these amounts, \$175,052 and \$459,328 are attributable to the Gas Division. The fiscal year 2024 contribution was determined as part of the January 1, 2022, valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant’s benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability, or death.

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Net Pension Liability

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (“GASB 68”), which requires measurement of the net pension liability as total pension liability less the amount of the Plan’s fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB’s measurements as of June 30, 2024, and 2023, will be based on the December 31, 2023, and 2022, measurement date, respectively. The net pension liability is \$7,452,380 (Division’s share \$1,177,238) as of June 30, 2024, and \$22,219,032 (Division’s share \$3,888,855) as of June 30, 2023.

GASB 68 requires certain disclosures related to the net pension liability (asset) of the Plan as disclosed below:

	2023		2022
Total pension liability	\$ 263,351,035	\$	254,406,723
Plan fiduciary net position	(255,898,655)		(232,187,691)
Plan's net pension liability	<u>\$ 7,452,380</u>	\$	<u>22,219,032</u>

Plan fiduciary net position as a percentage of the total pension liability	97.17%	91.27%
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Changes in Net Pension Liability (Asset) are as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2022	\$ 254,406,723	\$ 232,187,691	\$ 22,219,032
Changes for the year:			
Service cost	8,221,181	-	8,221,181
Interest	17,868,490	-	17,868,490
Changes of Benefits	-	-	-
Differences between Expected and Actual Experience	2,092,475	-	2,092,475
Changes of Assumptions	-	-	-
Contributions - employer	-	1,866,261	(1,866,261)
Contributions - rollovers	-	3,225	(3,225)
Contributions - member	-	5,749,384	(5,749,384)
Net investment income	-	35,932,006	(35,932,006)
Benefit payments	(19,237,834)	(19,237,834)	-
Administrative expense	-	(602,078)	602,078
Net changes	<u>8,944,312</u>	<u>23,710,964</u>	<u>(14,766,652)</u>
Balances at December 31, 2023	<u>\$ 263,351,035</u>	<u>\$ 255,898,655</u>	<u>\$ 7,452,380</u>

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Actuarial Assumptions

The total pension liability was determined by an actuarial valuation, using the following actuarial assumptions applied to all periods included in the measurement:

Valuation dates	January 1, 2023, rolled forward to December 31, 2023; January 1, 2022, rolled forward to December 31, 2022
Discount rate	7.00% as of December 31, 2023 and 2022
Salary increases	From 2.50% to 5.65%, based on years of service as of December 31, 2023, and 2022
Mortality	115% and 110% of the PubG-2010 table for males and females, respectively, using the Public Sector General Employee Table for ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of December 31, 2023 and 2022
Inflation	2.5% as of December 31, 2023 and 2022

The actuarial assumptions used in the January 1, 2023, and 2022, valuations were based on an actuarial experience study covering the period January 1, 2014, through December 31, 2018.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2023, and 2022, are summarized in the following table. The real rate of return reported for fixed income is for aggregate fixed income. The Plan has both aggregate and long duration fixed income.

Asset Class	Long Term Expected Real Rate of Return	
	2023	2022
Domestic equity	5.6%	5.0%
Non-U.S. equity	6.5%	6.1%
Real estate equity	5.8%	5.4%
Debt securities	1.9%	0.5%
Cash and deposits	0.7%	(0.1%)

Discount rate

The discount rate used to measure the total pension liability was 7.00 percent as of December 31, 2023, and December 31, 2022. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the net pension liability of the Plan as of December 31, 2023, calculated using the discount rate of 7.00 percent, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one percent lower (6.00 percent) or one percent higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Plan's net pension liability	\$ 31,223,728	\$ 7,452,380	\$ (13,022,725)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2024, KUB recognized pension expense of \$6,394,757, and the Gas Division's share was \$1,161,580.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2022, this average was four years. During the measurement year, there was a liability experience loss of \$2,092,475, with \$523,119 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$1,569,356. Unrecognized liability experience losses from prior periods were \$1,951,216, of which \$940,357 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,010,859. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$2,580,215 (Division's share \$407,591). Unrecognized liability gains from prior periods were \$210,825, of which \$210,825 was recognized as a decrease in Pension Expense in the current year and resulted in a deferred inflow of \$0.

During the measurement year, there were no benefit changes or assumption changes. Net unrecognized assumption change losses from prior periods were \$5,646,136, of which \$3,011,800 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$2,634,336 (Division's share \$416,141).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$20,099,370, of which \$4,019,874 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were \$39,628,509, of which \$1,043,676 was recognized as an increase in Pension Expense in the current year. The combination of unrecognized investment gains this year, along with net unrecognized investment losses from prior periods, results in a deferred outflow of \$22,505,337 (Division's share \$3,555,123).

The impact of the change in proportionate share for the Gas Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is four years. This change resulted in a deferred outflow of \$422,910, with \$105,729 of that recognized in the current year and the remaining amount recognized over the next three years, resulting in a deferred outflow of resources of \$317,181. Net proportionate share changes from the prior period were \$398,094, of which \$132,698 was recognized in the current year, resulting in a deferred outflow of resources of \$265,396. Unrecognized proportionate share changes from prior periods of \$174,027, of which \$87,014 was recognized in the current year, resulted in a deferred inflow of \$87,013. In addition, KUB's Gas Division recorded a deferred outflow of resources of \$87,525 for employer contributions made between December 31, 2023, and June 30, 2024.

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The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Gas Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 407,591	\$ -
Changes in assumptions	416,141	-
Net difference between projected and actual earnings on pension plan investments	3,555,123	-
Change in proportionate share	582,577	87,013
Contributions subsequent to measurement date	87,525	-
Total	<u>\$ 5,048,957</u>	<u>\$ 87,013</u>

\$87,525 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2025. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2025	\$ 1,222,802
2026	2,037,893
2027	2,248,735
2028	(635,011)
Thereafter	-

For the year ended June 30, 2023, KUB recognized pension expense of \$8,973,269, and the Gas Division's share was \$1,616,219.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2021, this average was four years. During the measurement year, there was a liability experience loss of \$282,014, with \$70,504 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$211,510. Unrecognized liability experience losses from prior periods were \$2,609,559, of which \$869,853 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,739,706. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$1,951,216 (Division's share \$341,509). Unrecognized liability gains from prior periods were \$542,777, of which \$331,952 was recognized as a decrease in Pension Expense in the current year and resulted in a deferred inflow of \$210,825 (Division's share \$36,899).

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During the measurement year, there was an assumption change loss of \$5,268,672, with \$1,317,168 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$3,951,504. Net unrecognized assumption change losses from prior periods were \$3,389,264, of which \$1,694,632 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$1,694,632. The total deferred outflow is \$5,646,136 (Division's share \$988,207).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment loss of \$85,314,262, of which \$17,062,852 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment gains from prior periods were \$38,969,257, of which \$10,346,356 was recognized as a decrease in Pension Expense in the current year. The combination of unrecognized investment losses this year, along with unrecognized investment gains from prior periods, results in a deferred outflow of \$39,628,509 (Division's share \$6,935,924).

The impact of the change in proportionate share for the Gas Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is four years. This change resulted in a deferred outflow of \$530,793, with \$132,698 of that recognized in the current year and the remaining amount recognized over the next three years, resulting in a deferred outflow of resources of \$398,094. Net proportionate share changes from prior periods were \$261,040, of which \$87,013 was recognized in the current year, resulting in a deferred inflow of resources of \$174,027. In addition, KUB's Gas Division recorded a deferred outflow of resources of \$229,664 for employer contributions made between December 31, 2022, and June 30, 2023.

The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Gas Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 341,509	\$ 36,899
Changes in assumptions	988,207	-
Net difference between projected and actual earnings on pension plan investments	6,935,924	-
Change in proportionate share	398,094	174,027
Contributions subsequent to measurement date	229,664	-
Total	<u>\$ 8,893,398</u>	<u>\$ 210,926</u>

13. Qualified Excess Benefit Arrangement

Description

In fiscal year 2017, KUB implemented a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). The QEBA is a single employer defined benefit pension plan administered by KUB. The number of participants in any given year for the QEBA is determined by the number of KUB Pension Plan participants who exceed the current year's section 415(b) limitations, as calculated by the KUB Pension Plan actuary. The amount of QEBA benefit will be the amount specified by the terms of the KUB Pension Plan without regard to Section 415(b) limitations minus

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the amount payable from the KUB Pension Plan as limited by Section 415(b). QEBA benefits are subject to cost-of-living adjustments.

As of June 30, 2024, there are 372 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the KUB Pension Plan. The KUB Pension Plan was amended to include the provision of QEBA benefits; therefore, amendments to the QEBA require the same authority as amendments to the KUB Pension Plan. As required by federal tax law, the QEBA is unfunded within the meaning of the federal tax laws. KUB may not pre-fund the QEBA to cover future liabilities beyond the current year. KUB has established procedures to pay for these benefits on a pay-as-you-go basis. There are no assets accumulated in a trust that meets the GASB's criteria. Due to the increase in the section 415(d) annual benefit limitation from 2021 to 2022, the pension benefit for the sole participant in the Excess Benefit Arrangement is now fully payable under the KUB Pension Plan and, as such, there is no benefit payable under the Excess Benefit Arrangement as of June 30, 2024, and 2023.

Total Pension Liability of the QEBA

The below summarizes the disclosures of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"). GASB 73 extends a similar approach of financial reporting to plans meeting specific criteria that are not administered through trusts that GASB 68 established for pension plans. GASB 73 requires measurement of the total pension liability of the QEBA. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2024, and 2023, are based on a December 31, 2023, and 2022, measurement date, respectively. There is no Total Pension Liability as of June 30, 2024, and 2023.

GASB 73 requires certain disclosures related to the total pension liability of the QEBA, as disclosed below:

	2023	2022
Total pension liability	\$0	\$0
Deferred outflows	(2,051)	(6,779)
Deferred inflows	1,704	3,408
Net impact on Statement of Net Position	<u>(\$347)</u>	<u>(\$3,371)</u>
Covered payroll	\$35,604,464	\$37,412,132
Total pension liability as a % of covered payroll	0.00%	0.00%

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2024, KUB recognized pension expense of \$3,024 (Division's share \$514) for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$-), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [(\$347) – (\$3,371) + \$-].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December

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31, 2020, this average was four years. There was a deferred inflow at the end of the measurement year of \$1,717 (Division's share \$290) from experience gains in prior years and a deferred outflow of \$2,033 (Division's share \$346) from experience losses in prior years.

There was a deferred outflow of \$18 (Division's share \$3) from assumption changes in prior years.

The following table summarizes the current balances of deferred outflows and deferred inflows of resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,033	\$ 1,717
Changes in assumptions	18	-
Total	<u>\$ 2,051</u>	<u>\$ 1,717</u>
Division's share	<u>\$ 349</u>	<u>\$ 290</u>

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2025	\$ 334
2026	-
2027	-
2028	-
2029	-
Thereafter	-

For the year ended June 30, 2023, KUB recognized pension expense of (\$8,793) (Division's share (\$1,495)) for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$-), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [(\$3,371) - \$5,422 + \$-].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2020, this average was four years. There was a deferred inflow at the end of the measurement year of \$3,408 (Division's share \$579) from experience gains in prior years and a deferred outflow of \$4,073 (Division's share \$692) from experience losses in prior years.

There was a deferred outflow of \$2,706 (Division's share \$460) from assumption changes in prior years.

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The following table summarizes the current balances of deferred outflows and deferred inflows of resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,073	\$ 3,408
Changes in assumptions	<u>2,706</u>	<u>-</u>
Total	<u>\$ 6,779</u>	<u>\$ 3,408</u>
Division's share	<u>\$ 1,152</u>	<u>\$ 579</u>

14. Defined Contribution Plan

The KUB Asset Accumulation 401(k) Plan (the "401(k) Plan") is a defined contribution 401(k) employee retirement savings plan covering eligible KUB employees established by the KUB Board of Commissioners in accordance with the Charter of the City of Knoxville, Tennessee. The 401 (k) Plan's assets are held in trust under an agreement between KUB and Fidelity Management Trust Company. Employees hired prior to January 1, 2011, may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of three percent. Employees hired on or after January 1, 2011, have an enhanced 401(k) due to the closure of the Defined Benefit Pension Plan. They may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of three percent. They also receive a non-elective KUB contribution of three percent to six percent, depending on years of service, whether they contribute or not.

KUB funded 401(k) matching contributions and non-elective contributions of \$3,909,598 (Division's share \$628,689) and \$3,794,561 (Division's share \$645,075), respectively, for the years ended June 30, 2024, and 2023.

Vesting

Participants are immediately vested in their own contributions to the Plan, plus actual earnings on these contributions. Participants become 100% vested and entitled to the full value of their account, less any loans outstanding, upon death or disability or upon retirement after attaining their normal retirement age (first of the month coinciding with or following attainment of age 62).

Otherwise, vesting in the KUB matching contribution and non-elective contribution (as applicable) portion of their account plus related earnings are based on years of service and date of hire, as follows:

Participants hired prior to January 1, 2011 are 100% vested in the KUB matching contribution portion of their account.

Participants hired by KUB after December 31, 2010 are vested in the KUB matching and non-elective contribution portion of their account as follows:

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<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 2 years	0%
2	20%
3	40%
4	60%
5	80%
6 or more	100%

Forfeitures

Forfeitures are created when participants terminate employment before becoming entitled to their full benefits under the Plan. Upon forfeiture, the match and non-elective funds become available to offset Plan expenses. The Plan experienced forfeitures of \$306,016 during calendar year 2023 and \$188,609 during calendar year 2022. Forfeitures of \$295,955 and \$167,891 were used to reduce employer contributions in 2023 and 2022, respectively. The ending balance of forfeited assets in the Plan, including contributions and dividends, totaled \$37,985 and \$26,999 as of December 31, 2023 and 2022, respectively.

15. Other Post-Employment Benefits (OPEB)

Description of Trust

The Knoxville Utilities Board Other Post-Employment Benefits Trust (the Trust) is a single employer trust established by the KUB Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. The Trust, along with the KUB Health Plan, make up a Voluntary Employee Beneficiary Association (“VEBA”) and are intended to be tax-exempt pursuant to Code §501(c)(9). The purpose of the Trust is to fund KUB’s post-employment health care plan (the “Plan”), which provides certain medical benefits for qualifying KUB retirees and beneficiaries. The applicable documentation was submitted to the State Funding Board and, in December 2007, the State Funding Board approved the Trust. The Trust was also approved by the Internal Revenue Service in June 2008. KUB administers the Trust through a Board of Trustees consisting of seven KUB employees that are appointed by KUB’s President and CEO. Any amendments to the Trust involving costs not approved in the operating budget must be approved by KUB’s Board of Commissioners, upon recommendation by KUB’s President and CEO. All other amendments to the Trust may be approved by KUB’s President and CEO upon 60 days notification to the Board’s Audit and Finance Committee. The investment of all deposits to the Trust is governed by an Investment Policy, which was adopted by the KUB Board and approved by the State Funding Board. The Trust issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017. For purposes of this disclosure, presentation is on a consolidated basis unless division’s share is specified.

Effective January 1, 2022, the Plan was expanded to two benefit offerings. Employees with a benefit service date prior to July 1, 1999, will continue to be eligible for the Retiree Medical Benefit, while those with a later benefit service date will participate in a new Retiree Health Reimbursement Arrangement (HRA), given that each eligible employee meets the “Rule of 80”, the sum of age and at least 20 years of qualified service equal to or exceeding 80, at retirement.

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Participants in the Plan consisted of the following as of June 30:

	HRA		Retiree Medical Benefit	
	2024	2023	2024	2023
Retirees	8	6	538	542
Dependents of retirees	6	2	585	596
Eligible active employees	46	25	129	140
Total	60	33	1,252	1,278

Benefits

Benefits for pre-July 1, 1999, eligible participants may include, but shall not be limited to, medical, prescription drugs, dental, vision, hearing, Medicare Part B or Part D premiums, life insurance, long-term care, and long-term disability. Post-July 1, 1999, eligible participants are eligible for HRA benefits, which include up to \$50,000 to be used exclusively for reimbursement of qualified medical expenses of the retiree and his or her spouse and dependents. Any unused HRA amounts will remain assets of the OPEB Trust.

Contributions and Funding

The primary goal of the Funding Policy for the Trust is to document the method KUB has adopted to provide assurance that future KUB and retiree contributions and current Trust assets will be sufficient to fund all benefits expected to be paid to Trust beneficiaries. Per the Funding Policy, KUB's current practice is to fully fund its annual Actuarially Determined Contribution, which is determined by actuarial valuation.

Contributions are authorized by the terms of the Trust as established by KUB Resolution No. 1168, as amended, as approved by the Tennessee State Funding Board. KUB shall have the right at any time to amend, in whole or in part, the provisions of this Trust; however, no such amendment shall authorize or permit the assets of the Trust to be used for or diverted to purposes other than those expressed in the Declaration of Trust.

It shall be the sole and exclusive responsibility of KUB to determine the level of contributions KUB will make to the Trust for the purpose of financing other post-employment benefits accrued by its respective participants. Neither the Trust, nor the Trust's Board, shall be responsible for collecting or otherwise determining the level of contributions needed by KUB to finance any other post-employment benefits offered by KUB. The assets of the Trust shall be expended solely to make payments for other post-employment benefits pursuant to, and in accordance with, the terms of the Trust and to pay the cost of administration.

Based on the date of retirement, certain retired members are required to contribute specified amounts monthly to maintain health insurance. Those who retired prior to July 1983 have no required monthly premiums for themselves or dependents. The retirees, or their surviving dependents, who retired between August 1983 and January 1998 are required to pay \$275 per month for pre-Medicare family health insurance. For individuals who retired after January 1998, the required monthly premium for pre-Medicare health insurance is \$275 for single coverage and \$550 for family coverage. There is currently no premium for Medicare eligible retirees or dependents. KUB is responsible for determining the level of retired plan member contributions on an annual basis as part of its review of healthcare cost sharing.

Participants in the Health Reimbursement Arrangement are not eligible for health insurance and are not required to make contributions.

Knoxville Utilities Board Gas Division
Notes to Financial Statements
June 30, 2024 and 2023

Investments

The Trust holds investments in a balanced fund, which invests in passively managed common trust index funds, managed and sponsored by State Street Global Advisors (SSgA), with an asset allocation mirroring the asset allocation of the Trust and rebalanced monthly. The Trust's Investment Policy was established and may only be amended by the KUB Board of Commissioners. The Trust's Investment Policy is to invest in a manner that will provide sufficient investment return to meet current and future retiree health benefits, while conforming to all governing State and Federal statutes. It allows investment of Trust assets in any type of security instrument allowed for in T.C.A 8-50-1203. The following was the Trust's adopted investment target allocations as set forth in the Trust's Investment Policy as of June 30, 2024:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity:	
Large Cap	30%
Small Cap	8%
International Equity:	
Developed	16%
Emerging	8%
Real Estate Equity	8%
Debt Securities	30%
Total	<u>100%</u>

Actuarially determined contributions for the Gas Division of \$186,715 and \$269,675 were made to the OPEB Trust in fiscal years ended June 30, 2024 and 2023, respectively. These were based on the OPEB actuarial valuations as of January 1, 2022, and 2021.

Net OPEB Liability

The below summarizes the disclosures of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"), which requires measurement of the net OPEB liability as total OPEB liability less the amount of the Trust's fiduciary net position. The amounts reported as of June 30 are based on the reporting date for the KUB Other Post-Employment Benefits Plan which is June 30. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2024, and 2023, and the Total OPEB Liability as of the valuation date, January 1, 2023, updated to June 30, 2024, and January 1, 2022, updated to June 30, 2023, respectively. The Division's share of the total net OPEB liability was \$1,473,428 as of June 30, 2024, and \$2,467,169 as of June 30, 2023.

The components of the net OPEB liability (asset) of the Trust are as follows as of June 30:

	2024	2023
Total OPEB liability	\$ 61,042,928	\$ 61,637,102
Plan fiduciary net position	51,669,855	48,706,447
Net OPEB liability	<u>\$ 9,373,073</u>	<u>\$ 12,930,655</u>
Plan fiduciary net position as a percentage of the total OPEB liability	84.65%	79.02%

Knoxville Utilities Board Gas Division
Notes to Financial Statements
June 30, 2024 and 2023

Changes in Net OPEB Liability are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2023	\$ 61,637,102	\$ 48,706,447	\$ 12,930,655
Changes for the year:			
Service cost	615,753	-	615,753
Interest	4,256,122	-	4,256,122
Changes of Benefits	(164,746)	-	(164,746)
Differences between Expected and Actual Experience	587,252	-	587,252
Changes of Assumptions	(2,102,184)	-	(2,102,184)
Contributions - employer	-	1,187,768	(1,187,768)
Contributions - member	-	-	-
Net investment income	-	5,656,390	(5,656,390)
Benefit payments	(3,786,371)	(3,786,371)	-
Administrative expense	-	(94,379)	94,379
Net changes	(594,174)	2,963,408	(3,557,582)
Balances at June 30, 2024	\$ 61,042,928	\$ 51,669,855	\$ 9,373,073

Actuarial assumptions

The total OPEB liability was determined by actuarial valuations, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation dates:	January 1, 2023, rolled forward to June 30, 2024; January 1, 2022, rolled forward to June 30, 2023
Discount rate:	7.00% as of June 30, 2024 and June 30, 2023
Healthcare cost trend rates:	Pre-Medicare: 5.75% grading down to 3.935% over 20 years as of June 30, 2024 and June 30, 2023 Medicare: 11.30% grading down to 3.935% over 20 years as of June 30, 2024 and June 30, 2023 Administrative expenses: 3.0% per year
Salary increases:	From 2.50% to 5.65
Mortality:	115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010) for males and females, respectively, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Healthy Annuitant Mortality Table, both projected using scale MP2018 fully generational
Inflation:	2.50%

The actuarial assumptions used in the January 1, 2023, and January 1, 2022, valuations were based on the results of actuarial experience studies for the periods January 1, 2014, through December 31, 2018.

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2024 and 2023

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	
	2024	2023
Domestic equity	5.4%	5.1%
International equity	6.1%	6.1%
Emerging Market equity	7.8%	8.4%
Real estate equity	5.5%	5.3%
Debt securities	2.3%	1.8%
Cash and deposits	0.9%	0.7%

Discount rate

The discount rate used to measure the total OPEB liability was 7.00 percent as of June 30, 2024 and June 30, 2023. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate.

The following presents the net OPEB liability of the Trust as of June 30, 2024, calculated using the discount rate of 7.00 percent, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is one percent lower (6.00 percent) or one percent higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB liability	\$15,834,714	\$9,373,073	\$3,950,645

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.

The following presents the net OPEB liability of the Trust as of June 30, 2024, as well as what the Trust's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percent lower or one percent higher than the current rate:

Knoxville Utilities Board Gas Division
Notes to Financial Statements
June 30, 2024 and 2023

	<u>1%</u> <u>Decrease</u>	<u>Baseline</u> <u>Trends</u>	<u>1%</u> <u>Increase</u>
Net OPEB liability	\$3,895,008	\$9,373,073	\$15,785,165

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2024, KUB's Gas Division recognized OPEB expense of \$282,617.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience loss of \$587,252, with \$83,893 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$503,359. Unrecognized experience losses from prior periods were \$100,858, of which \$16,810 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of resources of \$84,048. The combination of unrecognized experience gains or losses results in a deferred outflow of resources of \$587,407 (Division's share \$92,339).

During the measurement year, there was a benefit change gain of \$164,746. The entire amount was recognized as a decrease in OPEB expense in the current year.

During the measurement year, there was an assumption change gain of \$2,102,184, with \$300,312 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$1,801,872 (Division's share \$283,251). Unrecognized assumption losses from prior periods were \$2,166,706, of which \$361,118 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of \$1,805,588 (Division's share \$283,835).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$2,339,599, of which \$467,920 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$1,871,679. Net unrecognized investment losses from prior periods were \$3,211,114, of which \$843,284 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$2,367,829. The combination of unrecognized gains and losses from the current year and prior periods results in a deferred outflow of resources of \$496,150 (Division's share \$77,994).

The impact of the change in proportionate share for the Gas Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is seven years. This change resulted in a deferred inflow of \$250,401, with \$35,772 of that recognized in the current year and the remaining amount recognized over the next six years, resulting in a deferred inflow of resources of \$214,629. Net proportionate share changes from prior periods were \$3,596, with \$599 of that recognized in the current year resulting in a deferred outflow of resources of \$2,997. The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Gas Division.

Knoxville Utilities Board Gas Division
Notes to Financial Statements
June 30, 2024 and 2023

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 92,339	\$ -
Changes in assumptions	283,835	283,251
Net difference between projected and actual earnings on OPEB plan investments	77,994	
Change in proportionate share	2,997	214,629
Total	<u>\$ 457,165</u>	<u>\$ 497,880</u>

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ended June 30:	
2025	\$ (31,864)
2026	269,070
2027	(115,009)
2028	(83,340)
2029	(9,783)
Thereafter	(69,789)

For the year ended June 30, 2023, KUB's Gas Division recognized OPEB expense of \$568,837.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience loss of \$117,668, with \$16,810 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$100,858 (Division's share \$19,244). Unrecognized experience losses from prior periods were \$30,475, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there were no benefit changes.

During the measurement year, there was an assumption change loss of \$2,527,824, with \$361,118 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$2,166,706 (Division's share \$413,407).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$1,007,293, of which \$201,459 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$805,834. Net unrecognized investment losses from prior periods were \$5,179,219, of which \$1,162,271 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$4,016,948. The combination of unrecognized gains this year, along with the net unrecognized investment losses from prior periods, results in a deferred outflow of resources of \$3,211,114 (Division's share \$612,681).

The impact of the change in proportionate share for the Gas Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members,

Knoxville Utilities Board Gas Division
Notes to Financial Statements
June 30, 2024 and 2023

which is seven years. This change resulted in a deferred outflow of \$4,195, with \$599 of that recognized in the current year and the remaining amount recognized over the next six years, resulting in a deferred outflow of resources of \$3,596. Net proportionate share changes from prior periods were \$20,154, of which the entire amount was recognized in the current year. The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Gas Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 19,244	\$ -
Changes in assumptions	413,407	-
Net difference between projected and actual earnings on OPEB plan investments	612,681	
Change in proportionate share	3,596	-
Total	<u>\$ 1,048,928</u>	<u>\$ -</u>

16. Related Party Transactions

The Division, in the normal course of operations, is involved in transactions with the City of Knoxville and with other divisions of KUB. Such transactions for the years ended June 30, 2024, and 2023, are summarized as follows:

	2024	2023
City of Knoxville		
Amounts billed by the Division for utilities and related services	\$ 712,774	\$ 1,029,698
Payments by the Division in lieu of property tax	4,383,231	4,306,443
Payments by the Division for services provided	101	336,263
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	545,617	559,364
Interdivisional rental expense	1,080,419	1,130,629
Interdivisional rental income	134,058	30,315
Amounts billed to the Division by other divisions for utilities services provided	376,613	363,374

With respect to these transactions, accounts receivable from the City of Knoxville included in the balance sheet at year end were as follows:

	2024	2023
Accounts receivable	\$ 13,034	\$ 7,893

Knoxville Utilities Board Gas Division
Notes to Financial Statements
June 30, 2024 and 2023

17. Natural Gas Supply Contract Commitments

For fiscal year 2024, the Gas Division hedged 19 percent of its total gas purchases via gas supply contracts. As of June 30, 2024, the Gas Division had hedged the price on eight percent of its anticipated gas purchases for fiscal year 2025.

The Gas Division contracts separately for the purchase, transportation, and storage of natural gas. Purchase commitments for the next five years and thereafter are as follows:

Firm obligations related to purchased gas - demand

	2025	2026	2027	2028	2029
Transportation					
Tennessee Gas Pipeline	\$ 3,404,640	\$ 1,134,880	\$ -	\$ -	\$ -
East Tennessee Natural Gas	12,582,997	3,435,624	-	-	-
Texas Eastern	328,500	109,500	-	-	-
Storage					
Tennessee Gas Pipeline	1,484,952	494,984	-	-	-
East Tennessee Natural Gas	1,081,500	-	-	-	-
Saltville Natural Gas	3,849,549	2,878,872	2,878,872	2,159,154	-
Bobcat	198,000	66,000	-	-	-
Demand Total	<u>\$ 22,930,138</u>	<u>\$ 8,119,860</u>	<u>\$ 2,878,872</u>	<u>\$ 2,159,154</u>	<u>\$ -</u>

Firm obligations related to purchased gas - commodity

	2025	2026	2027	2028	2029	2030-2054
Baseload						
ConocoPhillips	\$ 417,880	\$ -	\$ -	\$ -	\$ -	\$ -
Shell Energy North America	1,465,900	-	-	-	-	-
NextEra Energy	574,410	-	-	-	-	-
Enervest Operating LLC	2,121,556	-	-	-	-	-
CNX	4,301,580	3,768,654	-	-	-	-
Tennergy Corporation (2021A)	2,457,249	3,061,075	3,235,423	2,980,887	3,262,156	76,345,454
Tennergy Corporation (2022)	2,644,796	3,249,151	3,421,029	3,164,991	3,511,910	88,644,790
Commodity Total	<u>\$ 13,983,371</u>	<u>\$ 10,078,880</u>	<u>\$ 6,656,452</u>	<u>\$ 6,145,878</u>	<u>\$ 6,774,066</u>	<u>\$ 164,990,244</u>

The total commodity values presented here are based upon firm supply obligations with each individual natural gas supplier. The firm obligations value for ConocoPhillips, Shell Energy North America, and NextEra Energy are based upon firm supply obligations and locked prices with those suppliers. The firm obligations value for Enervest Operating LLC and CNX are based upon firm supply obligations and the applicable NYMEX strip prices on June 30, 2024. The firm obligations values for Tennergy Corporation are based upon 30-year prepay gas contracts valued at the applicable Tennessee Zone 0 and Tennessee 800L strip prices on June 30, 2024.

18. Other Commitments and Contingencies

In the normal course of business, there are various lawsuits pending against KUB. Management has reviewed these lawsuits with counsel, who is vigorously defending KUB's position and is of the opinion that the ultimate disposition of these matters will not have a material adverse effect on KUB's financial position, results of operations, or cash flows.

Knoxville Utilities Board Gas Division

Required Supplemental Information - Schedule of Changes in Net Pension Liability and Related Ratios

June 30, 2024

	Year ended December 31									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability										
Service cost	\$ 8,221,181	\$ 6,349,402	\$ 6,647,220	\$ 5,227,657	\$ 6,142,213	\$ 5,095,488	\$ 4,607,486	\$ 4,226,985	\$ 4,157,062	\$ 4,092,808
Interest	17,868,490	17,430,465	16,982,226	16,393,202	16,030,626	15,344,193	15,015,282	14,966,559	14,812,784	14,698,657
Changes of benefit terms	-	-	-	-	163,199	-	-	-	-	-
Differences between expected and actual experience	2,092,475	282,014	1,935,276	1,930,170	(1,054,117)	(605,649)	(1,087,161)	(2,233,762)	(1,890,334)	-
Changes of assumptions	-	5,268,672	-	-	8,473,160	-	(357,633)	(2,932,883)	-	-
Benefit payments, including refunds of member contributions	(19,237,834)	(17,125,610)	(17,725,963)	(16,006,565)	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)	(15,533,167)
Net change in total pension liability	8,944,312	12,204,943	7,838,759	7,544,464	14,660,606	4,559,218	3,207,995	(111,612)	1,728,586	3,258,298
Total pension liability - beginning	254,406,723	242,201,780	234,363,021	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)	\$ 263,351,035	\$ 254,406,723	\$ 242,201,780	\$ 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	\$ 1,866,261	\$ 3,144,770	\$ 3,416,428	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541
Contributions - participants	5,752,609	3,812,595	3,939,687	2,284,727	3,170,825	2,081,125	1,488,632	555,075	487,546	475,854
Net investment income	35,927,438	(63,493,985)	37,575,566	44,814,914	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)	22,292,369
Other additions	4,568	9,415	112,484	7,740	13,579	62,616	82,239	45,848	30,879	29,733
Benefit payments, including refunds of member contributions	(19,193,834)	(17,065,610)	(17,653,963)	(15,962,565)	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)	(15,405,167)
Administrative expense	(602,078)	(498,988)	(441,017)	(455,191)	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)	(378,085)
Death benefits	(44,000)	(60,000)	(72,000)	(44,000)	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)	(128,000)
Net change in plan fiduciary net position**	23,710,964	(74,151,803)	26,877,185	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**	232,187,691	306,339,494	279,462,309	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)**	\$ 255,898,655	\$ 232,187,691	\$ 306,339,494	\$ 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)	\$ 7,452,380	\$ 22,219,032	\$ (64,137,714)	\$ (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	97.17%	91.27%	126.48%	119.24%	108.43%	96.87%	109.53%	100.06%	97.54%	102.97%
Covered payroll	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743	\$ 44,076,351
Plan's net pension liability as a percentage of covered payroll	20.93%	59.39%	(168.45%)	(108.61%)	(47.48%)	15.78%	(45.67%)	(0.28%)	11.34%	(13.66%)

Notes to Schedule:

** Excludes amounts related to 401(k) matching contributions.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division

Required Supplementary Information – Schedule of Employer Pension Contributions

June 30, 2024

	Year ended December 31									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 1,866,261	\$ 3,144,770	\$ 3,416,428	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541
Contribution in relation to the actuarially determined contribution	1,866,261	3,144,770	3,416,428	2,876,752	2,871,241	3,456,475	4,286,597	5,243,146	5,991,887	5,908,541
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743	\$ 44,076,351
Contributions as a percentage of covered payroll	5.24%	8.41%	8.97%	6.93%	7.13%	8.20%	9.90%	11.80%	13.48%	13.41%

Notes to Schedule:

Timing: Actuarially determined contributions for a Plan year are based upon 50% of the amounts determined at the actuarial valuations for each of the two prior Plan years.

Valuation Dates: January 1, 2022 and January 1, 2021

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Individual entry age

Asset valuation method: 5-year smoothed market, adjusted to remain within 20% of the market value

Amortization method: As of January 1, 2022: Level dollar, 30-year closed period with 19 years remaining, or a level dollar, 30-year open period for a negative unfunded liability
As of January 1, 2021: Level dollar, 30-year closed period with 20 years remaining, or a level dollar, 30-year open period for a negative unfunded liability
As of January 1, 2022 and 2021, the unfunded liability was negative.

Discount rate: 7.25%

Salary increases: 2.50% to 5.65%, based on years of service; As of January 1, 2021, a one-time reduction was applied to reduce the 2020 compensation by 3.7% to account for an additional 2020 pay period

Mortality: 115% and 110% of the benefits-weighted Public Sector General Healthy Annuitant Mortality Table (PubG-2010), respectively, for males and females, using the Public Sector General Employee Table while in active employment and for annuitant ages prior to the start of the Healthy Annuitant Mortality Table, both projected from the 2010 base rates using scale MP2018 fully generational

Inflation: 2.5%

Please refer to prior year's audited financial statements for prior methods and assumptions.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division

Required Supplementary Information – Schedule of Changes in Net OPEB Liability and Related Ratios

June 30, 2024

	*Year ended June 30						
	2024	2023	2022	2021	2020	2019	2018
Total OPEB liability							
Service cost	\$ 615,753	\$ 595,392	\$ 416,277	\$ 283,786	\$ 256,270	\$ 270,515	\$ 202,603
Interest	4,256,122	4,133,008	3,858,276	3,861,304	3,672,291	3,624,737	3,295,240
Change of benefit terms	(164,746)	-	6,594,293	-	(202,408)	-	-
Differences between expected and actual experience	587,252	117,668	60,951	42,802	43,902	999,098	1,324,769
Changes of assumptions	(2,102,184)	2,527,824	-	(4,105,835)	3,604,843	3,231,601	(397,180)
Benefit payments	(3,786,371)	(4,273,070)	(3,908,635)	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Net change in total OPEB liability	<u>(594,174)</u>	<u>3,100,822</u>	<u>7,021,162</u>	<u>(3,029,122)</u>	<u>4,346,302</u>	<u>4,593,507</u>	<u>1,126,693</u>
Total OPEB liability - beginning	<u>61,637,102</u>	<u>58,536,280</u>	<u>51,515,118</u>	<u>54,544,240</u>	<u>50,197,938</u>	<u>45,604,431</u>	<u>44,477,738</u>
Total OPEB liability - ending (a)	<u>\$ 61,042,928</u>	<u>\$ 61,637,102</u>	<u>\$ 58,536,280</u>	<u>\$ 51,515,118</u>	<u>\$ 54,544,240</u>	<u>\$ 50,197,938</u>	<u>\$ 45,604,431</u>
Plan fiduciary net position							
Contributions - employer	\$ 1,187,768	\$ 1,413,392	\$ 1,989,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Net investment income	5,656,390	4,333,538	(8,122,417)	12,890,602	975,155	2,981,928	3,705,473
Benefit payments	(3,786,371)	(4,273,070)	(3,908,635)	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	(94,379)	(101,186)	(71,187)	(44,496)	(53,286)	(54,787)	(51,668)
Net change in plan fiduciary net position	<u>2,963,408</u>	<u>1,372,674</u>	<u>(10,113,173)</u>	<u>10,492,153</u>	<u>(1,795,403)</u>	<u>(605,303)</u>	<u>355,066</u>
Plan fiduciary net position - beginning	<u>48,706,447</u>	<u>47,333,773</u>	<u>57,446,946</u>	<u>46,954,793</u>	<u>48,750,196</u>	<u>49,355,499</u>	<u>49,000,433</u>
Plan fiduciary net position - ending (b)	<u>\$ 51,669,855</u>	<u>\$ 48,706,447</u>	<u>\$ 47,333,773</u>	<u>\$ 57,446,946</u>	<u>\$ 46,954,793</u>	<u>\$ 48,750,196</u>	<u>\$ 49,355,499</u>
Net OPEB liability (asset) - ending (a) - (b)	<u>\$ 9,373,073</u>	<u>\$ 12,930,655</u>	<u>\$ 11,202,507</u>	<u>\$ (5,931,828)</u>	<u>\$ 7,589,447</u>	<u>\$ 1,447,742</u>	<u>\$ (3,751,068)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	84.65%	79.02%	80.86%	111.51%	86.09%	97.12%	108.23%
Covered employee payroll**	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	11.21%	18.44%	15.15%	(27.49%)	32.48%	5.95%	(15.84%)

Notes to Schedule:

* Information not reflected prior to 2018 due to changes in actuary methodologies required under GASB 75, which was implemented in 2018.

** The covered-employee payroll increased in FY 2022 due to the inclusion of plan participants eligible for the HRA benefits.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division

Required Supplementary Information – Schedule of Employer OPEB Contributions

June 30, 2024

	2024	2023	2022	*Year ended June 30 2021	2020	2019	2018
Actuarially determined contribution	\$ 1,187,768	\$ 1,413,392	\$ 489,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Contribution in relation to the annual required contribution	<u>1,187,768</u>	<u>1,413,392</u>	<u>1,989,066</u>	<u>757,226</u>	<u>311,324</u>	<u>-</u>	<u>-</u>
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,500,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll*	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Contributions as a percentage of covered employee payroll	1.42%	2.02%	2.69%	3.51%	1.33%	0.00%	0.00%

* The covered-employee payroll increased in FY 2022 due to the inclusion of plan participants eligible for the HRA benefits.

KUB elected to make a \$1,500,000 voluntary contribution to the Trust to initially fund the HRA benefit which was effective January 1, 2022. This contribution was not required.

Notes to Schedule:

Valuation Date: January 1, 2022 and January 1, 2021
Timing: Actuarially determined contribution rates are calculated based on the actuarial valuation completed 18 months before the beginning of the fiscal year.

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age normal
Asset valuation method: 5-year smoothed market
Amortization method: 15-year layered amortization bases for annual changes in the unfunded liabilities as of January 1, 2021 and 2022; 30-year rolling amortization for a funding surplus; As of January 1, 2021 and 2022, there was an unfunded liability
Discount rate: 7.25%
Healthcare cost trend rate: Pre-Medicare: 6.50% grading down to 4.04% over 18 years as of January 1, 2022; 6.75% grading down to 4.04% over 19 years as of January 1, 2021
Medicare: 6.20% grading down to 4.04% over 18 years as of January 1, 2022; 6.30% grading down to 4.04% over 19 years as of January 1, 2021
Administrative expenses: 3.0% per year
Salary increases: From 2.50% to 5.65%, based on years of service
Mortality: 115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational
Inflation: 2.5%
Investment rate of return: 7.25%
Retirement age: 2% at ages 50-57, grading up to 100% at age 70

* Schedule of Employer Contribution information is not reflected prior to 2018 due to changes in actuary methodologies required under GASB 75, which was implemented in 2018. Please refer to prior year's audited financial statement for prior methods and assumptions.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement
Schedule of Changes in Total Pension Liability and Related Ratios
June 30, 2024

	*Year ended December 31							
	2023	2022	2021	2020	2019	2018	2017	2016
Total pension liability								
Service cost	\$ -	\$ -	\$ -	\$ -	\$ 9,181	\$ 941	\$ 584	\$ -
Interest (includes interest on service cost)	-	-	268	388	9,181	9,676	7,535	-
Changes of benefit terms	-	-	-	-	(218,272)	-	-	185,077
Differences between expected and actual experience	-	-	(6,816)	10,165	34	(36,125)	13,684	-
Changes of assumptions	-	-	-	91	13,342	(22,950)	73,461	-
Benefit payments, including refunds of member contributions	-	-	(12,166)	(12,166)	(15,932)	-	-	-
Net change in total pension liability	-	-	(18,714)	(1,522)	(211,647)	(48,458)	95,264	185,077
Total pension liability - beginning	-	-	18,714	20,236	231,883	280,341	185,077	-
Total pension liability - ending	\$ -	\$ -	\$ -	\$ 18,714	\$ 20,236	\$ 231,883	\$ 280,341	\$ 185,077
Covered payroll	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747
Total pension liability as a percentage of covered payroll	0.00%	0.00%	0.00%	0.05%	0.05%	0.55%	0.65%	0.42%

Notes to Schedule:

* There are no assets accumulated in a trust that meet the criteria in paragraph 4 of GASB 73 to pay related benefits.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2024

FY	U-2015		V-2016		W-2017		X-2017		Y-2018		Z-2020		AA-2021		Totals		Grand Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	(P + I)
24-25	845,000	208,850	325,000	280,844	900,000	141,750	315,000	311,919	195,000	236,431	645,000	211,000	3,395,000	1,357,500	6,620,000	2,748,294	9,368,294
25-26	880,000	183,500	350,000	267,844	940,000	96,750	330,000	296,168	200,000	228,631	675,000	178,750	3,220,000	1,187,750	6,595,000	2,439,393	9,034,393
26-27	895,000	154,900	350,000	253,844	995,000	49,750	340,000	286,268	210,000	220,631	710,000	145,000	3,130,000	1,026,750	6,630,000	2,137,143	8,767,143
27-28	985,000	123,573	375,000	243,344			345,000	279,469	215,000	214,331	745,000	109,500	3,625,000	870,250	6,290,000	1,840,467	8,130,467
28-29	975,000	89,100	375,000	232,094			355,000	272,138	220,000	207,881	785,000	72,250	3,450,000	689,000	6,160,000	1,562,463	7,722,463
29-30	955,000	59,850	375,000	220,844			360,000	263,706	230,000	201,281	825,000	33,000	3,230,000	551,000	5,975,000	1,329,681	7,304,681
30-31	1,040,000	31,200	400,000	212,875			375,000	252,906	235,000	194,381			3,285,000	421,800	5,335,000	1,113,162	6,448,162
31-32			400,000	203,875			385,000	241,656	240,000	187,331			3,865,000	290,400	4,890,000	923,262	5,813,262
32-33			425,000	194,375			395,000	230,106	250,000	180,131			3,395,000	135,800	4,465,000	740,412	5,205,412
33-34			425,000	183,750			410,000	218,256	260,000	172,319					1,095,000	574,325	1,669,325
34-35			425,000	173,125			420,000	205,956	265,000	163,869					1,110,000	542,950	1,652,950
35-36			450,000	162,500			435,000	193,356	275,000	155,256					1,160,000	511,112	1,671,112
36-37			450,000	150,686			445,000	180,306	285,000	146,319					1,180,000	477,311	1,657,311
37-38			475,000	138,312			460,000	166,956	295,000	136,700					1,230,000	441,968	1,671,968
38-39			475,000	125,250			475,000	152,582	305,000	126,744					1,255,000	404,576	1,659,576
39-40			500,000	112,188			490,000	137,738	315,000	116,069					1,305,000	365,995	1,670,995
40-41			525,000	98,438			505,000	122,425	325,000	105,044					1,355,000	325,907	1,680,907
41-42			525,000	84,000			520,000	106,644	335,000	93,669					1,380,000	284,313	1,664,313
42-43			550,000	68,250			535,000	90,394	350,000	81,944					1,435,000	240,588	1,675,588
43-44			550,000	51,750			550,000	73,675	360,000	69,694					1,460,000	195,119	1,655,119
44-45			575,000	35,250			570,000	56,488	375,000	57,094					1,520,000	148,832	1,668,832
45-46			600,000	18,000			585,000	38,675	385,000	43,500					1,570,000	100,175	1,670,175
46-47							605,000	19,662	400,000	29,544					1,005,000	49,206	1,054,206
47-48									415,000	15,044					415,000	15,044	430,044
Total	\$ 6,575,000	\$ 850,973	\$ 9,900,000	\$ 3,511,438	\$ 2,835,000	\$ 288,250	\$ 10,205,000	\$ 4,197,449	\$ 6,940,000	\$ 3,383,838	\$ 4,385,000	\$ 749,500	\$ 30,595,000	\$ 6,530,250	\$ 71,435,000	\$ 19,511,698	\$ 90,946,698

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Changes in Long-term Debt by Individual Issue
June 30, 2024

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding Balance 7/1/2023	Issued During Period	Paid/Matured During Period	Refunded During Period	Outstanding Balance 6/30/2024
Business-Type Activities									
BONDS PAYABLE									
<u>Payable through Gas Fund</u>									
Revenue Bond Refunding, Series U-2015	11,780,000	2.0-5.0	05/01/15	03/01/31	\$ 7,380,000	\$	\$ 805,000	\$	\$ 6,575,000
Revenue Bond, Series V-2016	12,000,000	2.125-5.0	08/05/16	03/01/46	10,225,000		325,000		9,900,000
Revenue Bond Refunding, Series W-2017	8,065,000	5.0	04/07/17	03/01/27	3,685,000		850,000		2,835,000
Revenue Bond, Series X-2017	12,000,000	2.0-5.0	09/15/17	03/01/47	10,505,000		300,000		10,205,000
Revenue Bond, Series Y-2018	8,000,000	3.0-5.0	09/14/18	03/01/48	7,125,000		185,000		6,940,000
Revenue Bond Refunding, Series Z-2020	6,755,000	4.0-5.0	05/22/20	03/01/30	5,000,000		615,000		4,385,000
Revenue Bond Refunding, Series AA-2021	41,920,000	4.0-5.0	04/19/21	03/01/33	34,185,000		3,590,000		30,595,000
					<u>\$ 78,105,000</u>	\$ -	\$ 6,670,000	\$ -	\$ 71,435,000

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Changes in Lease Liabilities
June 30, 2024

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Maturity Date	Outstanding 6/30/2023	Issued During Period	Paid and/or Matured During Period	Remeasurements	Outstanding 6/30/2024
<u>Lease Liabilities</u>									
<u>Payable through Natural Gas Fund</u>									
American Towers - Rocky Hill	\$ 34,545	3.90%	11/1/2022	10/31/2027	\$ 30,762	\$ -	\$ (6,317)	\$ -	\$ 24,445
American Towers - Tillery/Bluegrass	34,759	3.90%	11/1/2022	10/31/2027	30,762	-	(6,317)	-	24,445
Centriworks	7,194	3.88%	11/1/2020	10/31/2023	1,135	-	(1,068)	(67)	-
Crown Castle	42,250	3.90%	3/1/2023	2/1/2043	41,914	-	(1,044)	-	40,870
Manki 1 Investments	48,360	3.88%	7/1/2020	5/31/2027	38,662	-	(9,321)	-	29,341
R&S Logistics (Sublease)	234,260	3.88%	7/1/2020	3/31/2027	174,853	2,340	(42,902)	-	134,291
Ricoh Americas	5,969	3.88%	7/1/2020	7/31/2025	4,654	-	(1,976)	(274)	2,404
RJ Young Company	8,117	3.88%	7/1/2020	6/30/2026	4,479	-	(2,067)	(263)	2,149
SBA Properties	14,786	3.90%	1/1/2023	12/31/2027	13,541	-	(2,615)	-	10,926
Total Lease Liabilities					\$ 340,762	\$ 2,340	\$ (73,627)	\$ (604)	\$ 268,871

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Statistical Information - Schedule of Insurance in Force
June 30, 2024
(Unaudited)

Insurance coverage is for KUB as a consolidated entity.

Crime

Covers losses resulting from employee dishonesty, robbery, burglary, and computer fraud. Limits of coverage - \$5,000,000; \$250,000 retention.

Directors' and Officers' Liability Insurance

Covers KUB personnel appropriately authorized to make decisions on behalf of KUB (including but not limited to Commissioners, President and CEO, Senior Vice Presidents, Vice Presidents, and Directors) for wrongful acts. Limits of coverage - \$20,000,000; \$500,000 corporate deductible, \$0 individual deductible.

Employment Practices Liability

Coverage for costs related to actual or alleged employment practices violations for amounts exceeding specified amount (\$500,000). Limits of coverage - \$10,000,000.

Fiduciary

Covers losses resulting from wrongful acts related to KUB's Pension, 401(k), OPEB Trust funds, and Medical Plan. Limits of coverage - \$10,000,000; \$150,000 deductible.

Environmental and Pollution Legal Liability

Environmental and Pollution coverage for covered losses resulting from a pollution or environmental event. Limits of coverage - \$15,000,000.

Property Insurance

This coverage provides protection of KUB's property for fire, extended coverage, vandalism and malicious mischief, and coverage on boilers and machinery. Also included are flood and earthquake damage and mechanical failure. Limits of coverage - \$250,000,000 per occurrence (subject to certain sub limits); \$3,500,000 deductible per occurrence.

Travel Accident

Covers losses related to employees' business travel. Limits of coverage - \$1,000,000 aggregate.

Excess Insurance for General Liability

As a governmental entity, KUB's liability is limited under the Tennessee Governmental Tort Liability Act (TCA §29-20-403). Limits of coverage - \$5,000,000; \$700,000 retention.

Excess Insurance for Workers' Compensation

Covers all losses exceeding specified amount per occurrence (\$1,000,000). Limits of coverage - Statutory; stop loss coverage applies for aggregate losses over \$5,000,000.

Employee Health Plan Stop Loss Coverage

KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses for more than \$700,000 per individual participant.

Cyber Security Liability

Liability coverage resulting from losses related to a covered event such as data breaches, ransomware, regulatory fines, cyber extortion, business interruption and other cyber-related events. Limits of coverage - \$5,000,000; \$500,000 deductible.

Drone

Liability coverage resulting from losses related to bodily injury or damaged property arising out of the ownership, maintenance, or use of a drone aircraft. Limits of coverage - \$2,000,000.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2024
(Unaudited)

Rate Class	Base Charge	Number of Customers
Residential (G-2)	<p>For the regular monthly billing period for the months of November to April, inclusive:</p> <p>Customer charge per month \$10.90</p> <p>First 30 therms per month at \$1.0079 per therm</p> <p>Excess over 30 therms per month at \$0.7957 per therm</p> <p>For the regular monthly billing periods for the months of May to October, inclusive:</p> <p>Customer charge per month \$10.90</p> <p>First 50 therms per month \$0.8292 per therm</p> <p>Excess over 50 therms per month at \$0.7106 per therm</p>	100,100
Commercial (G-4)	<p>Available to any commercial or industrial customer:</p> <p>Customer charge per month \$31.00</p> <p>First 250 therms per month at \$0.9830 per therm</p> <p>Excess over 250 therms per month at \$0.8639 per therm</p>	9,651
Commercial (G-6)	<p>Available to any commercial or industrial customer incurring a demand of twenty-seven therms or more during the current monthly billing period or during any of the eleven net preceding monthly billing periods.</p> <p>The net rate is the sum of the following demand and commodity charges:</p> <p>Customer charge: \$185.00 per month</p> <p>Demand charge: \$2.05 per therm of demand</p> <p>Commodity charge: First 30,000 therms per month at \$0.6206 per therm</p> <p>Excess over 30,000 therms per month at \$0.5226 per therm</p>	199
Industrial (G-7)	<p>Service under Rate Schedule G-7 shall be available to any customer who meets the following conditions:</p> <p>(a) Customer's annual Interruptible Gas use, on an actual or projected basis, shall not be less than 25,000 dekatherms;</p> <p>(b) Customer shall be permitted to purchase only one (1) dekatherm of Firm Gas under Rate Schedule G-7 for each two (2) dekatherms of Interruptible Gas which are purchased;</p> <p>(c) Customer must have standby equipment of sufficient capacity capable of providing the customer's normal gas service requirements for a period of five (5) working days without replenishment when Interruptible Gas is completely interrupted. Customer shall maintain such equipment ready for operation at any time and shall utilize a fuel other than gas furnished by KUB and shall be subject to periodic inspections by KUB to ensure compliance with this provision; and</p> <p>(d) KUB must determine that its existing distribution system facilities are adequate and available for the requested service.</p>	9

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2024
(Unaudited)

Rate Class	Base Charge	Number of Customers
	The net rate is the sum of the following demand and commodity charges:	
	Customer charge: \$575.00 per month	
	Demand charge: \$20.50 per month per dekatherm of demand	
	Commodity charge: (a) Firm Gas - \$5.226 per dekatherm (b) Interruptible Gas - (i) First 3,000 dekatherms per month at \$4.581 per dekatherm; excess of 3,000 to 20,000 dekatherms per month at \$3.958 per dekatherm; plus excess over 20,000 to 50,000 dekatherms per month at \$3.127 per dekatherm; excess over 50,000 dekatherms per month at \$2.847 per dekatherm (c) Supplemental Gas - The Commodity Charge for Supplemental Gas shall be the total of: (a) the cost per dekatherm to KUB for the applicable Day of acquiring Supplemental Gas on the open market, subject to the approval of the Customer to purchase Supplemental Gas at or above such price and (b) the costs incurred by KUB in transporting such Supplemental Gas via connecting pipelines to one or more of KUB's delivery points.	
	Transportation charge: \$2.449 per dekatherm for the first 3,000 dekatherms of gas Redelivered plus Unauthorized Gas; plus \$1.826 per dekatherm for each dekatherm from 3,000 to and including 20,000 dekatherms of gas Redelivered plus Unauthorized Gas; plus \$0.995 per dekatherm for each dekatherm from 20,000 to and including 50,000 dekatherms of gas Redelivered plus Unauthorized Gas; plus \$0.715 per dekatherm for the excess over 50,000 dekatherms of gas Redelivered plus Unauthorized Gas.	
	Unauthorized Gas charge: \$25.00 per dekatherm of Unauthorized Gas as a penalty, plus the total of: (a) the cost per dekatherm of obtaining such gas on the open market as determined by the higher of (1) the applicable Gulf Coast Price Index for the applicable Day as published in <i>Gas Daily</i> or, if <i>Gas Daily</i> is no longer published, in a comparable reliable source for natural gas prices or (2) the applicable first of the month Gulf Coast Price Index as published in <i>Inside FERC</i> , or if <i>Inside FERC</i> is no longer published, in a comparable reliable source for natural gas prices and (b) the costs incurred by KUB in transporting such Unauthorized Gas via connecting pipelines to one or more of KUB's delivery points.	

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2024
(Unaudited)

Rate Class	Base Charge	Number of Customers
G-11	<p>Service under Rate Schedule G-11 shall be available to any customer who meets the following conditions:</p> <ul style="list-style-type: none"> (a) Customer's annual gas usage (excluding Firm Gas), on an actual or projected basis, shall not be less than 25,000 dekatherms; (b) Customer shall be permitted to purchase only one (1) dekatherm of Firm Gas under Rate Schedule G-11 for each two (2) dekatherms of Transport Gas delivered by KUB to the Customer; (c) Customer must have standby equipment of sufficient capacity capable of providing the customer's normal gas service requirements for a period of five (5) working days without replenishment when Transport Gas is completely interrupted. Customer shall maintain such equipment ready for operation at any time and shall utilize a fuel other than gas furnished by KUB and shall be subject to periodic inspections by KUB to ensure compliance with this provision; (d) Customer's use under this rate shall not work a hardship on any other customers of KUB, nor adversely affect any other class of KUB's customers and further provided the Customer's use under this rate shall not adversely affect KUB's gas purchase plans and/or effective utilization of the daily demands under KUB's gas purchase contracts with its suppliers, as solely determined by KUB. (e) KUB must determine that its existing distribution system facilities are adequate and available for the requested service; and (f) Customer must execute a Transportation Service Agreement for interruptible transportation gas service. <p>The net rate is the sum of the following charges:</p> <ul style="list-style-type: none"> Customer charge: \$750.00 Demand charge: \$20.50 per dekatherm of demand Firm Gas charge: \$5.226 per dekatherm Transportation charge: \$2.449 per dekatherm for the first 3,000 dekatherms of non-Firm gas delivered to Customer; plus \$1.826 per dekatherm for each dekatherm from 3,000 to and including 20,000 dekatherms of non-Firm gas delivered to Customer; plus \$0.995 per dekatherm for each dekatherm from 20,000 to and including 50,000 dekatherms of non-Firm gas delivered to Customer; plus \$0.715 per dekatherm for the excess over 50,000 dekatherms of non-Firm gas delivered to Customer. 	13

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2024
(Unaudited)

Unauthorized Gas charge:	\$25.00 per dekatherm of Unauthorized Gas as a penalty, plus (a), the total cost per dekatherm of obtaining such gas on the open market, as defined below, plus (b), the costs incurred by KUB in transporting such Unauthorized Gas via connecting pipelines to one or more of KUB's delivery points. The cost per dekatherm of obtaining such gas on the open market, (a) above, is defined as an index price based on the High Common price for "Transco zone 5 delivered" or "Tennessee 500 Leg," whichever is higher for the applicable Day as published in <i>Gas Daily</i> . If <i>Gas Daily</i> is no longer published, or one of the aforementioned indices is not published, or for any other reason as determined by KUB, KUB will select an industry recognized index at its sole discretion.
Other charges:	Imbalance Charges, and any pipeline scheduling, balancing, transportation, or other similar charges incurred by KUB in connection with the transportation of gas on behalf of the Customer, as applicable.

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
Gas Division of the Knoxville Utilities Board
Knoxville, Tennessee

We have audited, 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 (*Government Auditing Standards*), the financial statements of the Gas Division (the Division) of the Knoxville Utilities Board, a component unit of the City of Knoxville, Tennessee, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements, and have issued our report thereon dated October 23, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Division'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 the Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division'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 the Division's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Board of Commissioners
Gas Division of the Knoxville Utilities Board
Knoxville, Tennessee

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Division'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 the Division's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Coulter & Justus, P.C.

Knoxville, Tennessee
October 23, 2024



Water Division

Financial Statements and Supplemental Information
June 30, 2024 and 2023

KUB Board of Commissioners

Adrienne Simpson-Brown, Chair **Claudia Caballero** **Kathy Hamilton** **Dr. Craig Pickett, Jr.**
Ron Feinbaum, Vice Chair **Cynthia Gibson** **Celeste Herbert**

Management

Gabriel Bolas II

President and Chief Executive Officer

Mark Walker

Senior Vice President and Chief Financial Officer

Jamie Davis

Senior Vice President Fiber and Chief Technology Officer

Susan Edwards

Senior Vice President and Chief Administrative Officer

Tiffany Martin

Senior Vice President and Chief Customer Officer

John Williams

Senior Vice President and Chief Infrastructure and Compliance Officer

John Gresham

Senior Vice President and Chief Engineering and Operations Officer

Knoxville Utilities Board Water Division

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June 30, 2024 and 2023

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Independent Auditor's Report

Board of Commissioners
Water Division of the Knoxville Utilities Board
Knoxville, Tennessee

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Water Division (the Division) of the Knoxville Utilities Board, a component unit of the City of Knoxville, Tennessee, as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the index.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Division as of June 30, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Division and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Division's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Board of Commissioners
Water Division of the Knoxville Utilities Board
Knoxville, Tennessee

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Division's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 26 and the required supplementary information on pages 65 through 69 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Commissioners
Water Division of the Knoxville Utilities Board
Knoxville, Tennessee

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Division's basic financial statements. The supplemental information, 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 supplemental information 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information. The other information comprises the statistical information but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water Division and do not purport to, and do not, present fairly the financial position of the Knoxville Utilities Board, as of June 30, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2024, on our consideration of the Division'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 the Division's internal control over financial reporting and compliance.

Coulter & Justus, P.C.

Knoxville, Tennessee
October 23, 2024

Knoxville Utilities Board Water Division Management's Discussion and Analysis June 30, 2024 and 2023

Knoxville Utilities Board (KUB), comprised of the Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. The Water Division (Division) provides services to certain customers in Knox County and in two surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners (NARUC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Water Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board as of June 30, 2024, and 2023, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Division's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Division's financial activity, (c) identify major changes in the Division's financial position, and (d) identify any financial concerns.

The Division's Management Discussion and Analysis (MD&A) focuses on the fiscal year ended June 30, 2024, activities, resulting changes, and current known facts, and should be read in conjunction with the Division's financial statements.

Water Division Highlights

System Highlights

KUB serves 83,687 water system customers over a 188 square mile service area. KUB maintains 1,417 miles of service mains, 28 storage facilities, 26 booster pump stations, and one treatment plant, which provided 12.9 billion gallons of water to KUB's water customers in fiscal year 2024. The average daily flow for fiscal year 2024 was 35.3 million gallons.

The water system has added 2,181 customers over the past three years representing annual growth of less than one percent. In fiscal year 2024, 888 customers were added.

The typical residential water customer's average monthly bill was \$31.50 as of June 30, 2024 (based on monthly use of 500 cubic feet or 3,740 gallons). The average monthly bill increased \$1.50 compared to the prior fiscal year, the result of the July 2023 water rate increase.

Despite the fact that residential sales volumes continue to decline on a per customer basis, KUB experienced increased water sales this year across commercial and industrial customer classes.

Century II Infrastructure Program

Century II is KUB's proactive long-range program to improve and maintain the electric, natural gas, water, and wastewater systems for its customers. It includes maintenance and asset replacement strategies for each system and establishes sustainable replacement cycles. Century II moves KUB into its second century of service by improving each system through sound planning, resource allocation, and continued investment.

In June 2022, the Board approved three water rate increases to support the Century II program. The first two of three approved 5 percent water rate increases went into effect July 2022 and July 2023, generating

Knoxville Utilities Board Water Division Management's Discussion and Analysis June 30, 2024 and 2023

\$3.4 million of additional annual Water Division revenue each. The remaining rate increase is effective July 2024 and is expected to provide an additional \$3.6 million in annual Water Division revenue.

In June 2024, as part of KUB's Inflation Response Plan, the Board approved the next phase of water rate increases to support the Century II program. The three approved 6 percent water rate increases are effective July 2025, July 2026, and July 2027 and are expected to provide an additional \$4.5 million, \$4.8 million, and \$5.1 million in additional annual Water Division revenue, respectively.

KUB remains on track with its Century II water system infrastructure program. In fiscal year 2024, KUB replaced 3.4 miles of galvanized water main and 4.9 miles of cast iron main while staying within the Water Division's total capital budget.

KUB is currently in the process of implementing a Water Plant Redundancy initiative to ensure that high quality, reliable water service will be provided to customers over the long term. KUB maintains a single water treatment plant for its system. In lieu of building a second treatment facility to ensure capacity will be available to meet the needs of current and future water customers, KUB will invest approximately \$161 million in various redundant facilities at the site of its existing Mark B. Whitaker Water Treatment Plant over a 16-year period that began in fiscal year 2017. Construction of a new generator building with three 2,500 kW diesel generators and associated switchgear was completed in fiscal year 2022 at the Mark B. Whitaker Water Treatment Plant. Construction of the new water filter project commenced in October 2022 and is projected to be completed by June 2025.

Knox County has committed \$2.6 million in a Tennessee Department of Environment and Conservation (TDEC) non-competitive grant and \$10 million in direct American Rescue Plan Act (ARPA) funding, and the City of Knoxville has committed \$7.5 million in a TDEC non-competitive grant and \$5 million in direct ARPA funding for a total of \$25.1 million in grant money. The grants will be used to help fund KUB's new water filter project at its Mark B. Whitaker Water Treatment Plant. Approximately \$14.9 million of the \$25.1 million has been received by KUB.

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Knoxville Utilities Board Water Division Management's Discussion and Analysis June 30, 2024 and 2023

Financial Highlights

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's net position increased \$16.1 million in fiscal year 2024. Comparatively, net position increased \$13.1 million in fiscal year 2023.

Operating revenues increased \$4.2 million or 6.1 percent. This reflects an increase in billed sales of \$4 million, due to an increase in billed water sales volumes of 1.8 percent and additional revenue from a 5 percent rate increase effective in July 2023.

Operating expenses increased \$2.2 million or 4.3 percent. Operating and maintenance expenses (O&M) increased \$2.3 million compared to the prior year. Depreciation and amortization expense decreased \$0.2 million. Taxes and tax equivalents were consistent with the prior year.

Interest income was \$0.5 million higher than the prior fiscal year, due to higher interest rates throughout the year. Interest expense increased \$0.2 million compared to the prior year.

Other income (net) was \$0.7 million higher than the prior fiscal year, due to mark-to-market adjustments on investments and grant reimbursements.

Capital contributions were \$0.1 million lower than the prior fiscal year, the result of a decrease in assets contributed by developers.

Total plant assets (net) increased \$20.4 million or 5.3 percent, due to water main replacements, treatment plant improvements, and system improvements.

KUB sold \$20 million in water system revenue bonds in November 2023 for the purpose of funding water system capital improvements.

Long-term debt represented 43.6 percent of the Division's capital structure as of June 30, 2024, remaining unchanged from last fiscal year. Capital structure equals long-term debt (which includes the current and long-term portion of revenue bonds) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Debt coverage for the current fiscal year was 2.58. Maximum debt service coverage for future fiscal years is 2.45.

Fiscal Year 2023 Compared to Fiscal Year 2022

The Division's net position increased \$13.1 million in fiscal year 2023, which was \$1.3 million lower than the prior fiscal year. Comparatively, net position increased \$14.4 million in fiscal year 2022.

Operating revenues increased \$4.1 million or 6.4 percent. This reflects an increase in billed sales of \$4.4 million, due to an increase in billed water sales volumes of 2.8 percent and additional revenue from a 5 percent rate increase effective in July 2022.

Operating expenses increased \$7.4 million or 16.7 percent. Operating and maintenance expenses (O&M) increased \$6.6 million compared to the prior year. Depreciation and amortization expense increased \$0.6 million. Taxes and tax equivalents were \$0.2 million higher than the prior year.

Interest income was \$1.2 million higher than the prior fiscal year, due to rising interest rates throughout the year. Interest expense decreased \$0.3 million compared to the prior year.

Knoxville Utilities Board Water Division Management's Discussion and Analysis June 30, 2024 and 2023

Other income (net) was \$0.7 million higher than the prior fiscal year, due to mark-to-market adjustments on investments.

Capital contributions were \$0.2 million lower than the prior fiscal year, the result of a decrease in assets contributed by developers.

Total plant assets (net) increased \$12.3 million or 3.3 percent, due to water main replacements, treatment plant improvements, and system improvements.

Long-term debt represented 43.6 percent of the Division's capital structure as of June 30, 2023, as compared to 45.9 percent last year. Capital structure equals long-term debt (which includes the current and long-term portion of revenue bonds) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Debt coverage for the current fiscal year was 2.49. Maximum debt service coverage for future fiscal years is 2.49.

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Knoxville Utilities Board Water Division Management's Discussion and Analysis June 30, 2024 and 2023

Knoxville Utilities Board Water Division - Financial Statements

The Division's financial performance is reported under three basic 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

The Division 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, water plant in service, intangible, 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 the Division has done with its accumulated earnings, not just the balance.

Net investment in capital assets reflects the book value of all capital assets and intangible assets, less lease and subscription liabilities and the outstanding balances of debt used to acquire, construct, or improve those assets.

Restricted net position are assets that have been limited to specific uses by the Division'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

The Division 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

The Division reports cash flows from operating activities, capital and related financing activities, non-capital and related financing activities, and investing activities on the Statement of Cash Flows. This statement tells the user the Division's sources and uses of cash during the reporting period.

The statement indicates the Division's 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 Water Division
Management's Discussion and Analysis
June 30, 2024 and 2023**

Condensed Financial Statements

Statement of Net Position

The following table reflects the condensed Statement of Net Position for the Water Division compared to the prior two fiscal years.

**Statements of Net Position
As of June 30**

<i>(in thousands of dollars)</i>	2024	2023	2022 as restated
Current, restricted, intangible, and other assets	\$ 64,633	\$ 55,307	\$ 70,798
Capital assets, net	407,906	387,498	375,152
Deferred outflows of resources	<u>7,509</u>	<u>11,529</u>	<u>4,559</u>
Total assets and deferred outflows of resources	<u>480,048</u>	<u>454,334</u>	<u>450,509</u>
Current and other liabilities	21,102	23,377	17,882
Long-term debt outstanding	202,411	191,229	199,506
Deferred inflows of resources	<u>1,784</u>	<u>1,033</u>	<u>7,537</u>
Total liabilities and deferred inflows of resources	<u>225,297</u>	<u>215,639</u>	<u>224,925</u>
Net position			
Net investment in capital assets	201,448	192,819	172,830
Restricted	2,707	2,492	2,412
Unrestricted	<u>50,596</u>	<u>43,384</u>	<u>50,342</u>
Total net position	<u>\$ 254,751</u>	<u>\$ 238,695</u>	<u>\$ 225,584</u>

Normal Impacts on Statement of Net Position

The following is a description of activities which will normally impact the comparability of the Statement of Net Position presentation:

- Change in net position (from Statement of Revenues, Expenses and Changes in Net Position): impacts (increase/decrease) current and other assets and/or capital and intangible assets, and unrestricted net position.
- Issuing debt for capital: increases deferred outflows of resources and long-term debt.
- Spending debt proceeds on new capital: reduces current assets and increases capital assets.
- Spending of non-debt related current assets on new capital: (a) reduces current assets and increases capital assets, and (b) reduces unrestricted net position and increases net investment in capital assets.
- Principal payment on debt: (a) reduces current and other assets and reduces long-term debt, and (b) reduces unrestricted net position and increases net investment in capital assets.
- Reduction of capital assets through depreciation: reduces capital assets and net investment in capital assets.

Knoxville Utilities Board Water Division Management's Discussion and Analysis June 30, 2024 and 2023

Impacts and Analysis

Current, Restricted, Intangible, and Other Assets

Fiscal Year 2024 Compared to Fiscal Year 2023

Current, restricted, intangible, and other assets increased \$9.3 million or 16.9 percent. The increase is due to a \$6.9 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments), a \$0.9 million increase in accounts receivable, a \$0.7 million increase in lease receivable, and a \$0.5 million increase in inventories.

Fiscal Year 2023 Compared to Fiscal Year 2022

Current, restricted, intangible, and other assets decreased \$15.5 million or 21.9 percent. This decrease is primarily due to a \$10.7 million decrease in the actuarially determined net pension asset and a \$12.4 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) offset by a \$7 million increase in accounts receivable.

Capital Assets

Fiscal Year 2024 Compared to Fiscal Year 2023

Capital assets, net of depreciation, increased \$20.4 million or 5.3 percent. Capital expenditures included \$11.2 million for water plant redundancy, \$9.1 million for water main replacement, \$3.6 million for services and extensions, \$3.3 million for system improvements, \$1.4 million building improvements, and \$1.1 million for heavy equipment. During the fiscal year, \$4.7 million of water system assets were retired.

Fiscal Year 2023 Compared to Fiscal Year 2022

Capital assets, net of depreciation, increased \$12.3 million or 3.3 percent. Capital expenditures included \$9.6 million for water main replacement, \$6.4 million for water plant redundancy, \$3.3 million for system improvements, and \$1.8 million for services and extensions. During the fiscal year, \$2.2 million of water system assets were retired.

Deferred Outflows of Resources

Fiscal Year 2024 Compared to Fiscal Year 2023

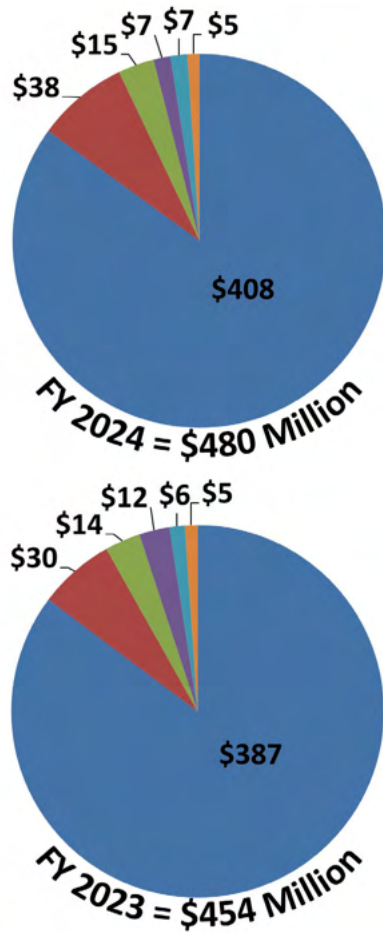
Deferred outflows of resources decreased \$4 million compared to the prior fiscal year, primarily due to a \$3.5 million decrease in pension outflow.

Fiscal Year 2023 Compared to Fiscal Year 2022

Deferred outflows of resources increased \$7 million compared to the prior fiscal year, primarily due to a \$7.2 million increase in pension outflow.

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**Knoxville Utilities Board Water Division
Management’s Discussion and Analysis
June 30, 2024 and 2023**



**Water Division Total Assets and
Deferred Outflows of Resources
(in Millions)**

	<u>FY24</u>	<u>FY23</u>
Plant	85%	85%
General and Contingency Funds	8%	7%
Accounts Receivable	3%	3%
Deferred Outflows of Resources	2%	3%
Other Assets	1%	1%
Restricted Assets	1%	1%

Current and Other Liabilities

Fiscal Year 2024 Compared to Fiscal Year 2023

Current and other liabilities decreased \$2.3 million compared to the prior fiscal year. This decrease reflects a \$2.6 million decrease in the actuarially determined net pension liability and a \$0.5 million decrease in the actuarially determined net OPEB liability offset by a \$0.6 million increase in the current portion of revenue bonds.

Fiscal Year 2023 Compared to Fiscal Year 2022

Current and other liabilities increased \$5.5 million compared to the prior fiscal year. This increase reflects a \$3.9 million increase in the actuarially determined net pension liability, a \$0.8 million increase in payables, a \$0.3 million increase in the actuarially determined net OPEB liability, a \$0.2 million increase in accrued compensated absences, and a \$0.2 million increase in the current portion of revenue bonds.

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Long-Term Debt

Fiscal Year 2024 Compared to Fiscal Year 2023

Long-term debt increased \$11.2 million or 5.8 percent. This increase is the net impact of the issuance of \$20 million in water system revenue bonds sold in November 2023 and the scheduled repayment of debt.

Fiscal Year 2023 Compared to Fiscal Year 2022

Long-term debt decreased \$8.3 million or 4.1 percent. This decrease is the impact of the scheduled repayment of debt.

Deferred Inflows of Resources

Fiscal Year 2024 Compared to Fiscal Year 2023

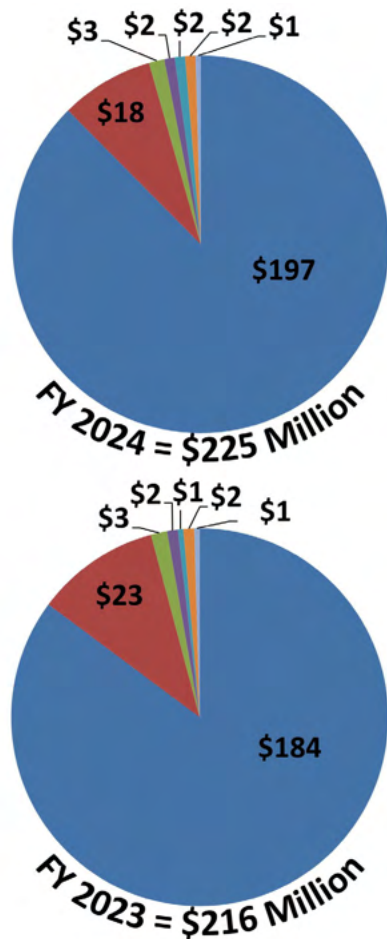
Deferred inflows increased \$0.8 million compared to the prior fiscal year, due to a \$0.6 million increase in lease inflow and a \$0.3 million increase in OPEB inflow offset by a \$0.2 million decrease in pension inflow.

Fiscal Year 2023 Compared to Fiscal Year 2022

Deferred inflows decreased \$6.5 million compared to the prior fiscal year, primarily due to a \$6.5 million decrease in pension inflow.

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**Knoxville Utilities Board Water Division
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**Water Division Total Liabilities and
Deferred Inflows of Resources
(in Millions)**

	<u>FY24</u>	<u>FY23</u>
■ Bond Debt	87%	85%
■ Other Liabilities	8%	10%
■ Payables	1%	1%
■ Interest Accrued	1%	1%
■ Deferred Inflows of Resources	1%	1%
■ Misc Current	1%	1%
■ Customer Deposits	1%	1%

Net Position

Fiscal Year 2024 Compared to Fiscal Year 2023

Net position increased \$16.1 million in fiscal year 2024. Net investment in capital assets increased \$8.6 million, the result of \$20.4 million in net plant additions and an increase in current and long-term portions of revenue bonds of \$12.3 million. Restricted net position increased \$0.2 million, due to an increase in required bond fund reserves. Unrestricted net position increased \$7.2 million, primarily due to a \$6.9 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments).

Fiscal Year 2023 Compared to Fiscal Year 2022

Net position increased \$13.1 million in fiscal year 2023. Net investment in capital assets increased \$20 million, the result of \$12.3 million in net plant additions and a decrease in current and long-term portions of revenue bonds of \$7.3 million. Restricted net position increased \$0.1 million, due to an increase in required bond fund reserves. Unrestricted net position decreased \$7 million, primarily due to changes in the pension and OPEB accruals for the fiscal year.

**Knoxville Utilities Board Water Division
Management's Discussion and Analysis
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Statement of Revenues, Expenses and Changes in Net Position

The following table reflects the condensed Statement of Revenues, Expenses and Changes in Net Position for the Water Division compared to the prior two fiscal years.

**Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30**

<i>(in thousands of dollars)</i>	2024	2023	2022 as restated
Operating revenues	\$ 72,896	\$ 68,703	\$ 64,558
Operating expenses			
Treatment	5,744	5,453	4,570
Distribution	18,772	17,466	16,764
Customer service	1,018	1,739	1,821
Administrative and general	11,279	9,807	4,732
Depreciation and amortization	12,268	12,440	11,841
Taxes and tax equivalents	4,745	4,717	4,508
Total operating expenses	<u>53,826</u>	<u>51,622</u>	<u>44,236</u>
Operating income	<u>19,070</u>	<u>17,081</u>	<u>20,322</u>
Interest income	1,905	1,362	180
Interest expense	(6,808)	(6,644)	(6,945)
Other income/(expense)	1,142	447	(242)
Change in net position before capital contributions	<u>15,309</u>	<u>12,246</u>	<u>13,315</u>
Capital Contributions	747	865	1,044
Change in net position	<u>\$ 16,056</u>	<u>\$ 13,111</u>	<u>\$ 14,359</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 Change in Net Position presentation:

- Operating revenues are largely determined by the volumes of water sold during the fiscal year. Any change (increase/decrease) in retail water rates would also be a cause of change in operating revenue.
- Operating expenses (treatment, 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 costs, chemicals, and water system maintenance.
- Depreciation and amortization expense is impacted by intangible assets, plant additions, and retirements during the fiscal year.
- Taxes and tax equivalents are impacted by plant additions/retirements and changes in property tax rates.
- Interest income is impacted by the level of interest rates and investments.

Knoxville Utilities Board Water Division Management's Discussion and Analysis June 30, 2024 and 2023

- Interest expense on debt is impacted by the level of outstanding debt and the interest rates on the outstanding debt.
- Other income/(expense) is impacted by miscellaneous non-operating revenues and expenses.
- Capital contributions are impacted by a donation of facilities/infrastructure to KUB by developers and governmental agencies. The contributions are recognized as revenue and recorded as plant in service based on the fair market value of the asset(s).

Impacts and Analysis

Change in Net Position

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's Change in Net Position increased \$16.1 million in fiscal year 2024. Comparatively, net position increased by \$13.1 million in fiscal year 2023.

Fiscal Year 2023 Compared to Fiscal Year 2022

The Division's Change in Net Position increased \$13.1 million in fiscal year 2023. Comparatively, net position increased by \$14.4 million in fiscal year 2022.

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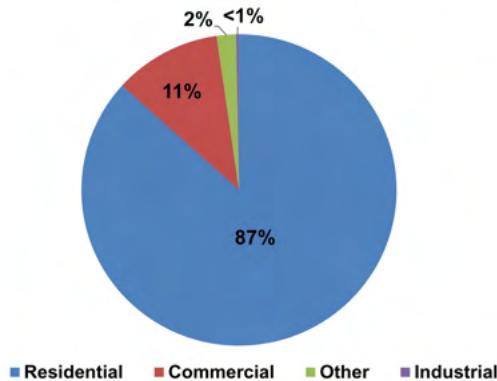
Knoxville Utilities Board Water Division Management’s Discussion and Analysis June 30, 2024 and 2023

Margin from Sales

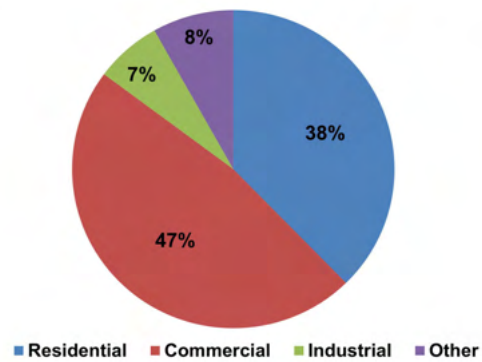
Fiscal Year 2024 Compared to Fiscal Year 2023

Operating revenues increased \$4.2 million or 6.1 percent. This reflects an increase in billed sales of \$4 million, due to an increase in billed water sales volumes of 1.8 percent and additional revenue from a 5 percent rate increase effective in July 2023.

FY 2024 Total Water Customers = 83,687



FY 2024 Water Sales = 8.6 Billion Gallons



Residential customers represented 87 percent of water customers and accounted for 38 percent of water sales volumes for the year. Commercial and industrial customers accounted for the largest portion (54 percent) of total sales volumes during the year.

KUB’s ten largest water customers accounted for 25 percent of KUB’s billed water volumes. Those ten customers represent one industrial, seven commercial, and two water utility districts. Within the top ten, eight governmental customers are represented.

KUB has added 2,181 water customers over the past three years, representing annual growth of less than one percent. Water system growth is up slightly due to increased new housing construction.

Residential water sales volumes increased 0.2 percent compared to the prior fiscal year.

Commercial water sales volumes increased 1.1 percent compared to the prior year. Industrial sales volumes increased 8.8 percent compared to the prior year.

Other water sales volumes (i.e., utility districts) were 7.9 percent higher than the prior year.

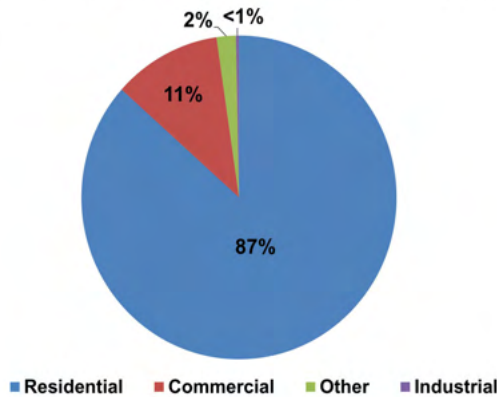
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Knoxville Utilities Board Water Division Management’s Discussion and Analysis June 30, 2024 and 2023

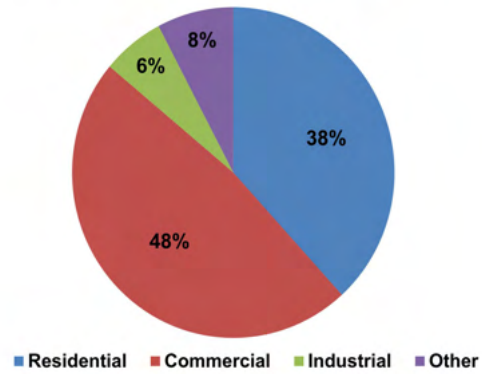
Fiscal Year 2023 Compared to Fiscal Year 2022

Operating revenues increased \$4.1 million or 6.4 percent. This reflects an increase in billed sales of \$4.4 million, due to an increase in billed water sales volumes of 2.8 percent and additional revenue from a 5 percent rate increase effective in July 2022.

FY 2023 Total Water Customers = 82,799



FY 2023 Water Sales = 8.4 Billion Gallons



Residential customers represented 87 percent of water customers and accounted for 38 percent of water sales volumes for the year. Commercial and industrial customers accounted for the largest portion (54 percent) of total sales volumes during the year.

KUB’s ten largest water customers accounted for 25 percent of KUB’s billed water volumes. Those ten customers represent two industrial, six commercial, and two water utility districts. Within the top ten, seven governmental customers are represented.

KUB has added 1,838 water customers over the past three years, representing annual growth of less than one percent. Water system growth is up slightly due to increased new housing construction.

Residential water sales volumes increased three percent compared to the prior fiscal year.

Commercial water sales volumes increased 3.6 percent compared to the prior year. Industrial sales volumes decreased 7.2 percent compared to the prior year.

Other water sales volumes (i.e., utility districts) were 6.1 percent higher than the prior year, primarily due to an increase in usage by wholesale customers.

Water consumption for the fiscal year was impacted by close to normal rainfall. Precipitation for the fiscal year was 1.7 percent lower than normal and one percent lower than the prior fiscal year.

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**Knoxville Utilities Board Water Division
Management’s Discussion and Analysis
June 30, 2024 and 2023**

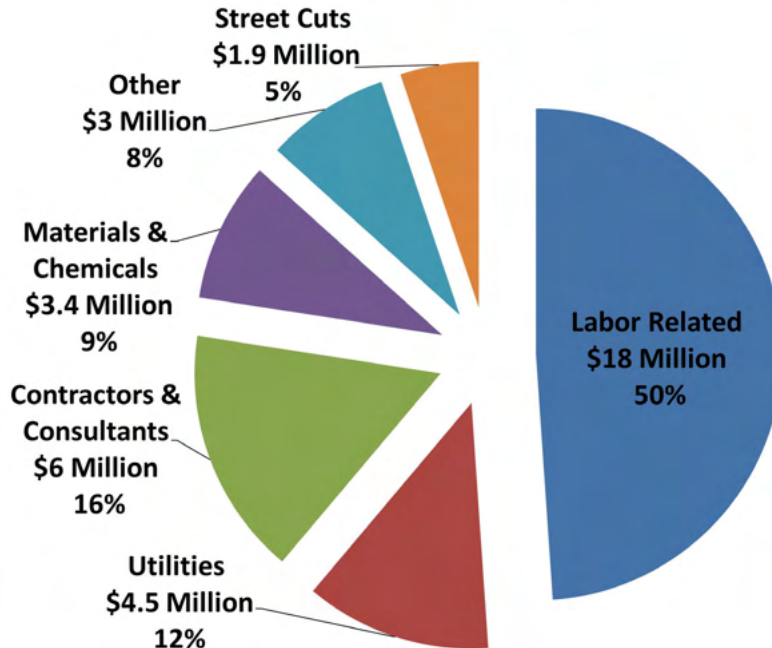
Operating Expenses

Fiscal Year 2024 Compared to Fiscal Year 2023

Operating expenses increased \$2.2 million or 4.3 percent. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as treatment, distribution, customer service, and administrative and general.

- Treatment expenses were \$0.3 million or 5.3 percent higher than the prior fiscal year, due to an increase in labor-related expenses and chemicals costs.
- Distribution expenses were \$1.3 million or 7.5 percent higher than the prior fiscal year, due to an increase in contractor and consultant costs and labor-related expenses.
- Customer service expenses were \$0.7 million lower than the prior fiscal year, primarily due to a change in methodology for technology-related costs that resulted in an offsetting increase in administration and general expenses.
- Administrative and general expenses were \$1.5 million or 15 percent higher than the prior fiscal year, primarily due to an increase in insurance costs, labor-related expenses, and a change in methodology for technology-related costs that resulted in an offsetting decrease in customer service expenses.

FY 2024 Water O&M Expense = \$36.8 Million



- Depreciation and amortization expense decreased \$0.2 million. KUB added \$21.4 million in assets during fiscal year 2024. A partial year of depreciation expense was recorded on these capital investments and a full year of depreciation expense was incurred on \$14.2 million in assets placed in service during fiscal year 2023. In addition, \$4.7 million of assets were retired in fiscal year 2024.

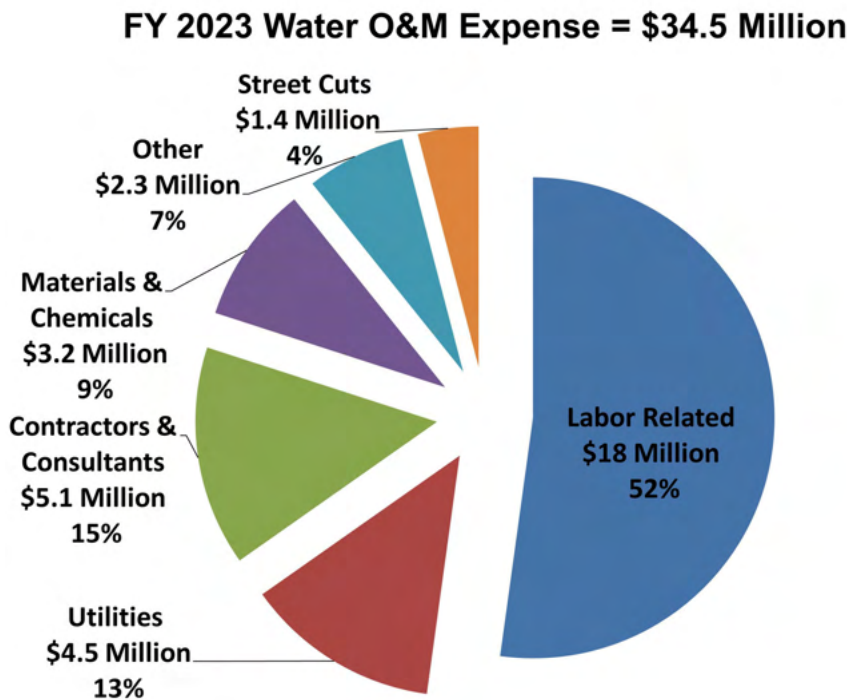
**Knoxville Utilities Board Water Division
Management’s Discussion and Analysis
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- Taxes and tax equivalents were consistent with the prior fiscal year.

Fiscal Year 2023 Compared to Fiscal Year 2022

Operating expenses increased \$7.4 million or 16.7 percent. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as treatment, distribution, customer service, and administrative and general.

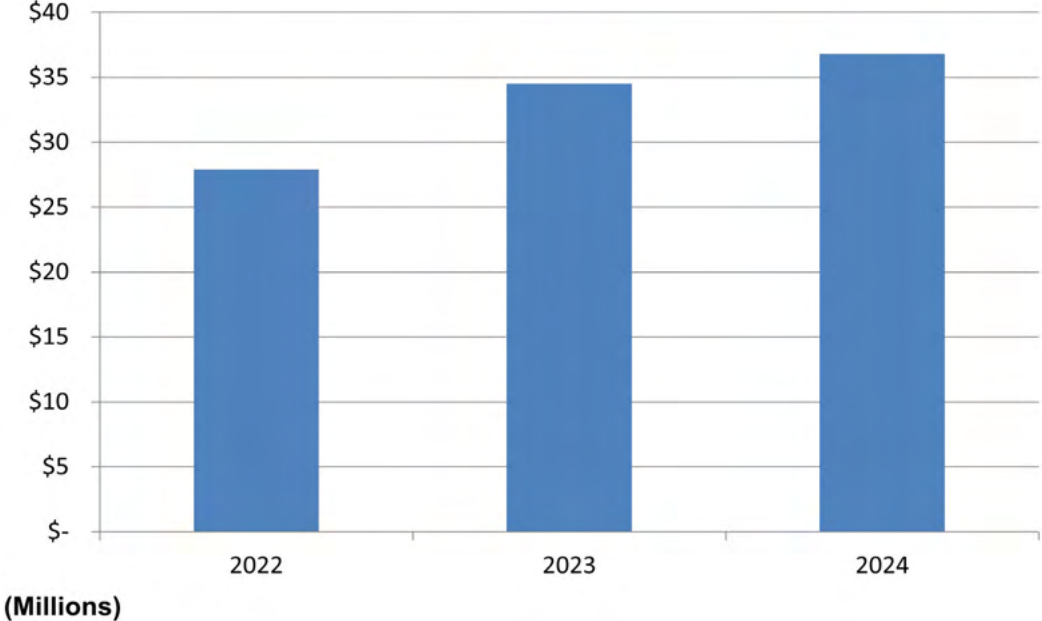
- Treatment expenses were \$0.9 million or 19.3 percent higher than the prior fiscal year, due to an increase in chemical expenses.
- Distribution expenses were \$0.7 million or 4.2 percent higher than the prior fiscal year, due to an increase in utilities and labor-related expenses.
- Customer service expenses were \$0.1 million lower than the prior fiscal year.
- Administrative and general expenses were \$5.1 million higher than the prior fiscal year, primarily due to labor-related expenses, driven by higher pension expenses resulting from investment losses.



- Depreciation and amortization expense increased \$0.6 million. KUB added \$14.2 million in assets during fiscal year 2023. A partial year of depreciation expense was recorded on these capital investments and a full year of depreciation expense was incurred on \$35.4 million in assets placed in service during fiscal year 2022. In addition, \$2.2 million of assets were retired in fiscal year 2023.
- Taxes and tax equivalents were \$0.2 million higher than the prior fiscal year.

**Knoxville Utilities Board Water Division
 Management’s Discussion and Analysis
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Water Division Operation & Maintenance Expense



Other Income and Expense

Fiscal Year 2024 Compared to Fiscal Year 2023

Interest income was \$0.5 million higher than the prior fiscal year, primarily due to higher interest rates throughout the year.

Interest expense increased \$0.2 million compared to the previous fiscal year.

Other income (net) was \$0.7 million higher than the prior fiscal year, primarily due to mark-to-market adjustments on investments and grant reimbursements.

Capital contributions decreased \$0.1 million, the result of a decrease in donated utility assets from developers compared to the previous fiscal year.

Fiscal Year 2023 Compared to Fiscal Year 2022

Interest income was \$1.2 million higher than the prior fiscal year, primarily due to rising interest rates throughout the year.

Interest expense decreased \$0.3 million compared to the previous fiscal year.

Other income (net) was \$0.7 million higher than the prior fiscal year, primarily due to mark-to-market adjustments on investments.

Capital contributions decreased \$0.2 million, the result of a decrease in donated utility assets from developers compared to the previous fiscal year.

**Knoxville Utilities Board Water Division
Management’s Discussion and Analysis
June 30, 2024 and 2023**

Capital Assets

**Capital Assets
As of June 30
(Net of Depreciation)**

<i>(in thousands of dollars)</i>	2024	2023	2022
Production Plant	\$ 6	\$ 6	\$ 6
Pumping & Treatment Plant	67,056	66,371	67,457
Distribution Plant			
Distribution Mains	\$ 196,956	\$ 191,223	\$ 185,225
Transmission Mains	38,382	35,977	36,736
Services & Meters	35,647	36,706	37,977
Other Accounts	13,760	13,689	13,920
Total Distribution Plant	<u>284,745</u>	<u>277,595</u>	<u>273,858</u>
Total General Plant	\$ 13,809	\$ 12,792	\$ 14,120
Total Water Plant	<u>365,616</u>	<u>356,764</u>	<u>355,441</u>
Work In Progress	42,290	30,734	19,711
Total Net Plant	<u>\$ 407,906</u>	<u>\$ 387,498</u>	<u>\$ 375,152</u>

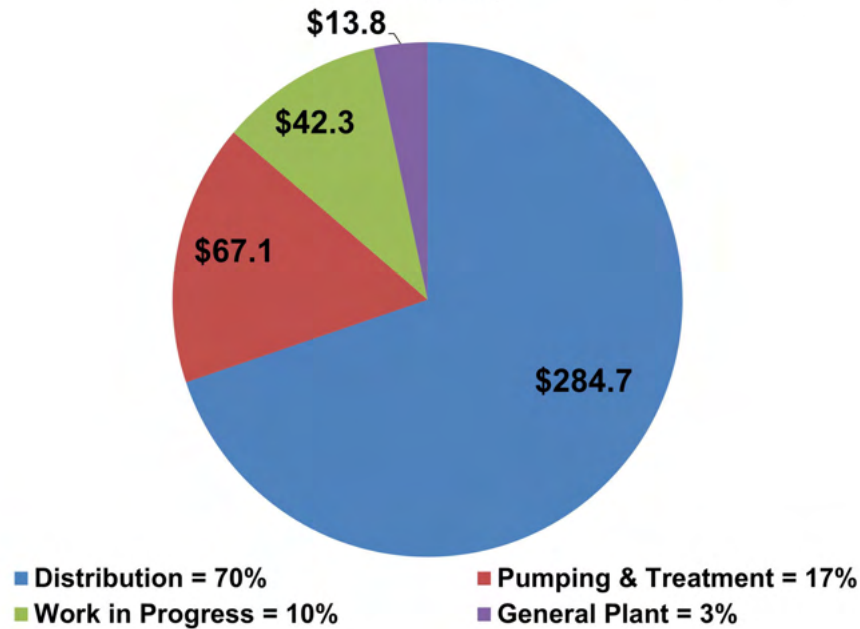
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Knoxville Utilities Board Water Division Management's Discussion and Analysis June 30, 2024 and 2023

Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, the Division had \$407.9 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represented a net increase (including additions, retirements, and depreciation) of \$20.4 million or 5.3 percent over the end of the last fiscal year.

FY 2024 Water Division Capital Assets = \$407.9 Million (in Millions)



Major capital asset expenditures during the year were as follows:

- \$11.2 million for water plant redundancy
- \$9.1 million for galvanized and cast-iron water main replacement
- \$3.6 million for services and extensions
- \$3.3 million for system improvements
- \$1.4 million for building improvements
- \$1.1 million for heavy equipment

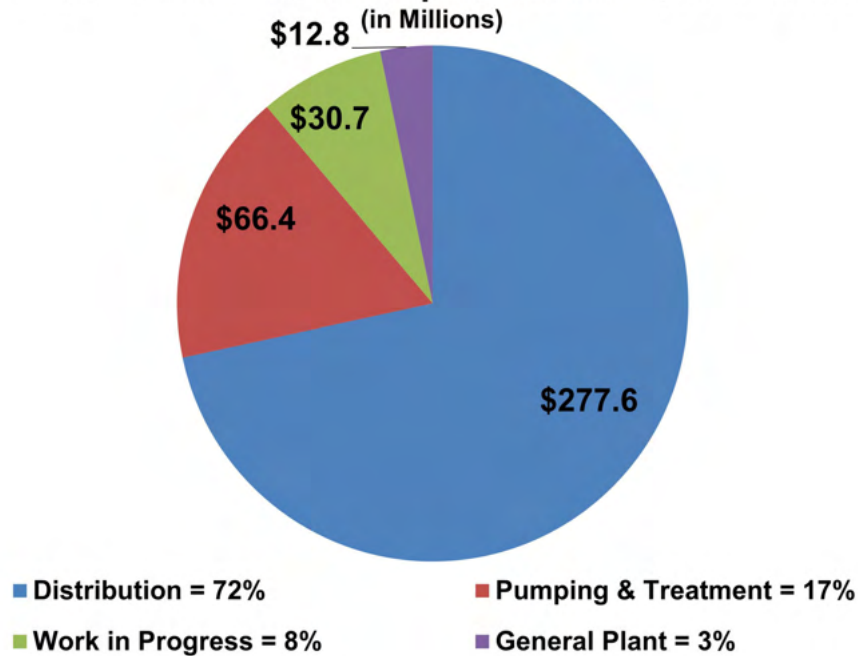
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**Knoxville Utilities Board Water Division
Management’s Discussion and Analysis
June 30, 2024 and 2023**

Fiscal Year 2023 Compared to Fiscal Year 2022

As of June 30, 2023, the Division had \$387.5 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represented a net increase (including additions, retirements, and depreciation) of \$12.3 million or 3.3 percent over the end of the last fiscal year.

FY 2023 Water Division Capital Assets = \$387.5 Million



Major capital asset expenditures during the year were as follows:

- \$9.6 million for galvanized and cast-iron water main replacement
- \$6.4 million for water plant redundancy
- \$3.3 million for system improvements
- \$1.8 million for services and extensions

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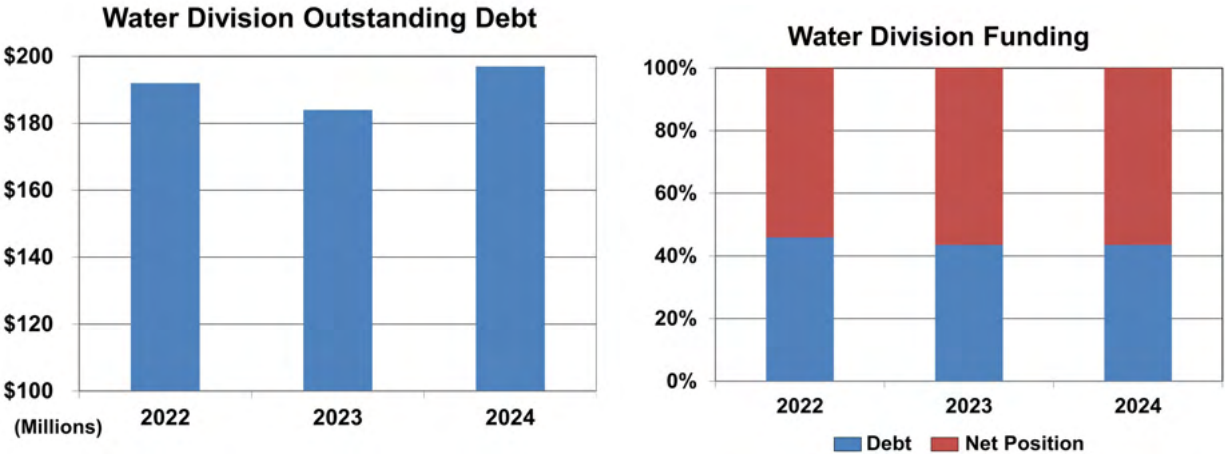
**Knoxville Utilities Board Water Division
Management’s Discussion and Analysis
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Debt Administration

As of June 30, 2024, the Water Division had \$196.5 million in outstanding water system bonds. The bonds are secured solely by revenues of the Water Division. Debt as a percentage of the Division’s capital structure was 43.6 percent in 2024, 43.6 percent in 2023, and 45.9 percent in 2022. KUB’s Debt Management Policy limits the Division’s debt ratio to 50 percent or less.

**Outstanding Debt
As of June 30**

<i>(in thousands of dollars)</i>	2024	2023	2022
Revenue bonds	\$ 196,535	\$ 184,265	\$ 191,540
Total outstanding debt	\$ <u>196,535</u>	\$ <u>184,265</u>	\$ <u>191,540</u>



The Division will pay \$91.6 million in principal payments over the next ten years, representing 46.6 percent of the outstanding bonds. KUB’s Debt Management Policy requires a minimum of 30 percent of water debt principal be repaid over the next ten years.

Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, the Division had \$196.5 million in outstanding debt (including the current portion of revenue bonds), representing a decrease of \$12.3 million or 6.7 percent. As of June 30, 2024, the Division’s weighted average cost of debt was 3.53 percent.

KUB sold \$20 million in water system revenue bonds in November 2023 for the purpose of funding water system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 4.33 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2054.

The Division’s outstanding debt is rated by S&P Global Ratings and Moody’s Investors Service. As of June 30, 2024, the Division’s revenue bonds were rated AAA by S&P Global Ratings and Aa1 by Moody’s Investors Service. The S&P Global Ratings water rating represents the highest credit rating available from S&P Global Ratings.

Knoxville Utilities Board Water Division

Management's Discussion and Analysis

June 30, 2024 and 2023

Fiscal Year 2023 Compared to Fiscal Year 2022

As of June 30, 2023, the Division had \$184.3 million in outstanding debt (including the current portion of revenue bonds), representing a decrease of \$7.2 million or 3.8 percent. As of June 30, 2023, the Division's weighted average cost of debt was 3.46 percent.

The Division's outstanding debt is rated by S&P Global Ratings and Moody's Investors Service. As of June 30, 2023, the Division's revenue bonds were rated AAA by S&P Global Ratings and Aa1 by Moody's Investors Service. The S&P Global Ratings water rating represents the highest credit rating available from S&P Global Ratings.

Impacts on Future Financial Position

KUB anticipates adding 500 additional water system customers during fiscal year 2025.

KUB sold \$20 million in water system revenue bonds in July 2024 for the purpose of funding water system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 4.04 percent.

The Pension Plan actuarial valuation resulted in an actuarially determined contribution of \$2,210,234 for the fiscal year ending June 30, 2025, based on the Plan's current funding policy. The Water Division's portion of this contribution will be determined as part of the actuarial analysis for the December 31, 2024, measurement date. Subsequent to June 30, 2024, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$2,793,313 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. The Water Division's portion of this contribution will be determined as part of the actuarial analysis for the December 31, 2025, measurement date. For the Plan year beginning January 1, 2024, the Plan's actuarial funded ratio is 105.19 percent, and the market value funded ratio is 96.77 percent.

The OPEB Plan actuarial valuation resulted in an actuarially determined contribution of \$1,279,985 for the fiscal year ending June 30, 2025, based on the Plan's current funding policy. The Water Division's portion of this contribution will be determined as part of the actuarial analysis for the June 30, 2025, measurement date. Subsequent to June 30, 2024, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$1,217,234 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. The Water Division's portion of this contribution will be determined as part of the actuarial analysis for the June 30, 2026, measurement date. The Plan's actuarial funded ratio is 94.19 percent, and the market value funded ratio is 87.91 percent.

GASB Statement No. 101, *Compensated Absences*, is effective for fiscal years beginning after December 15, 2023. GASB Statement No. 102, *Certain Risk Disclosures*, is effective for fiscal years beginning after June 15, 2024. GASB Statement No. 103, *Financial Reporting Model Improvements*, is effective for fiscal years beginning after June 15, 2025. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on the Division's financial position or results of operations during fiscal year 2024.

**Knoxville Utilities Board Water Division
Management's Discussion and Analysis
June 30, 2024 and 2023**

Financial Contact

The Division's financial statements are designed to present users (citizens, customers, investors, and creditors) with a general overview of the Division's financial position and results of operations for the fiscal years ended June 30, 2024, and 2023. If you have questions about the statements or need additional financial information, contact KUB's Chief Financial Officer at 445 South Gay Street, Knoxville, Tennessee 37902.

Knoxville Utilities Board Water Division
Statements of Net Position
June 30, 2024 and 2023

	2024	2023
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	\$ 19,803,587	\$ 13,442,541
Short-term contingency fund investments	4,225,681	13,407,017
Other current assets	209,501	198,638
Accrued interest receivable	22,603	27,679
Accounts receivable, less allowance of uncollectible accounts of \$63,857 in 2024 and \$60,504 in 2023	14,650,020	13,746,679
Current portion of lease receivable	104,244	67,564
Inventories	2,948,452	2,489,997
Prepaid expenses	71,927	55,872
Total current assets	<u>42,036,015</u>	<u>43,435,987</u>
Restricted assets:		
Water bond fund	5,018,415	4,617,273
Other funds	198	197
Total restricted assets	<u>5,018,613</u>	<u>4,617,470</u>
Water plant in service	527,950,238	511,223,177
Less accumulated depreciation	<u>(162,334,691)</u>	<u>(154,459,484)</u>
	365,615,547	356,763,693
Retirement in progress	20,741	53,009
Construction in progress	<u>42,269,526</u>	<u>30,681,120</u>
Net plant in service	<u>407,905,814</u>	<u>387,497,822</u>
Intangible assets:		
Intangible right of use asset	71,635	77,480
Intangible subscription asset	864,755	1,133,065
Less accumulated amortization	<u>(431,166)</u>	<u>(359,723)</u>
Net intangible assets	<u>505,224</u>	<u>850,822</u>
Other assets:		
Long-term contingency fund investments	13,607,910	3,903,648
Long-term lease receivable	1,091,725	475,467
Other	2,373,269	2,023,717
Total other assets	<u>17,072,904</u>	<u>6,402,832</u>
Total assets	<u>472,538,570</u>	<u>442,804,933</u>
Deferred outflows of resources:		
Pension outflow	5,024,181	8,478,956
OPEB outflow	552,906	900,112
Unamortized bond refunding costs	<u>1,932,282</u>	<u>2,149,456</u>
Total deferred outflows of resources	<u>7,509,369</u>	<u>11,528,524</u>
Total assets and deferred outflows of resources	<u>\$ 480,047,939</u>	<u>\$ 454,333,457</u>

The accompanying notes are an integral part of these financial statements.

Knoxville Utilities Board Water Division
Statements of Net Position
June 30, 2024 and 2023

	2024	2023
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	\$ 8,120,000	\$ 7,475,000
Current portion of accrued compensated absences	1,286,578	1,282,509
Current portion of lease liability	12,365	12,750
Current portion of subscription liability	142,047	180,818
Sales tax collections payable	411,051	393,587
Accounts payable	2,723,363	2,660,028
Accrued expenses	721,689	607,268
Customer deposits plus accrued interest	1,243,415	1,176,158
Accrued interest on revenue bonds	2,311,648	2,125,507
Total current liabilities	<u>16,972,156</u>	<u>15,913,625</u>
Other liabilities:		
Accrued compensated absences	662,783	660,687
Customer advances for construction	150,121	117,395
Lease liability	34,299	46,664
Subscription liability	303,935	611,037
Net pension liability	1,324,191	3,880,967
Net OPEB liability	1,617,952	2,123,214
Other	36,179	23,216
Total other liabilities	<u>4,129,460</u>	<u>7,463,180</u>
Long-term debt:		
Water revenue bonds	188,415,000	176,790,000
Unamortized premiums/discounts	13,996,203	14,439,030
Total long-term debt	<u>202,411,203</u>	<u>191,229,030</u>
Total liabilities	<u>223,512,819</u>	<u>214,605,835</u>
Deferred inflows of resources:		
Pension inflow	326,827	513,442
OPEB inflow	311,034	-
Lease inflow	1,146,464	519,711
Total deferred inflows of resources	<u>1,784,325</u>	<u>1,033,153</u>
Total liabilities and deferred inflows of resources	<u>225,297,144</u>	<u>215,638,988</u>
Net position		
Net investment in capital assets	201,447,697	192,818,920
Restricted for:		
Debt service	2,706,766	2,491,766
Other	198	197
Unrestricted	50,596,134	43,383,586
Total net position	<u>254,750,795</u>	<u>238,694,469</u>
Total liabilities, deferred inflows, and net position	<u>\$ 480,047,939</u>	<u>\$ 454,333,457</u>

The accompanying notes are an integral part of these financial statements.

Knoxville Utilities Board Water Division
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2024 and 2023

	2024	2023
Operating revenues	\$ 72,896,489	\$ 68,702,749
Operating expenses		
Treatment	5,744,601	5,453,159
Distribution	18,772,285	17,465,753
Customer service	1,017,796	1,739,250
Administrative and general	11,278,649	9,806,790
Depreciation and amortization	12,268,290	12,439,495
Taxes and tax equivalents	4,744,733	4,717,414
Total operating expenses	<u>53,826,354</u>	<u>51,621,861</u>
Operating income	<u>19,070,135</u>	<u>17,080,888</u>
Non-operating revenues (expenses)		
Contributions in aid of construction	16,800,864	7,972,512
Interest income	1,904,641	1,361,782
Interest expense	(6,807,918)	(6,644,158)
Amortization of debt costs	459,508	460,382
Write-down of plant for costs recovered through contributions	(16,800,864)	(7,972,512)
Other	682,963	(13,484)
Total non-operating revenues (expenses)	<u>(3,760,806)</u>	<u>(4,835,478)</u>
Change in net position before capital contributions	15,309,329	12,245,410
Capital contributions	<u>746,997</u>	<u>865,108</u>
Change in net position	16,056,326	13,110,518
Net position, beginning of year	<u>238,694,469</u>	<u>225,583,951</u>
Net position, end of year	<u>\$ 254,750,795</u>	<u>\$ 238,694,469</u>

The accompanying notes are an integral part of these financial statements.

Knoxville Utilities Board Water Division
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Cash receipts from customers	\$ 71,035,965	\$ 67,223,999
Cash receipts from other operations	1,913,933	1,106,564
Cash payments to suppliers of goods or services	(23,519,034)	(20,821,404)
Cash payments to employees for services	(14,047,054)	(13,278,265)
Payment in lieu of taxes	(3,629,904)	(3,646,197)
Net cash provided by operating activities	<u>31,753,906</u>	<u>30,584,697</u>
Cash flows from capital and related financing activities:		
Net proceeds from bonds issued to refund capital debt		
Net proceeds from bond issuance	19,944,023	-
Principal paid on revenue bonds	(7,725,000)	(7,275,000)
Interest paid on revenue bonds	(6,581,604)	(6,603,353)
Acquisition and construction of water plant	(49,148,324)	(38,223,415)
Changes in water bond fund, restricted	(401,142)	(83,066)
Customer advances for construction	32,726	91,616
Proceeds received on disposal of plant	-	2,933
Principal paid on lease liabilities	(12,750)	(28,570)
Principal paid on subscription liabilities	(345,873)	(172,230)
Interest paid on lease and subscription liabilities	(23,309)	(37,739)
Cash received from developers and individuals for capital purposes	16,800,864	7,972,512
Net cash used in capital and related financing activities	<u>(27,460,389)</u>	<u>(44,356,312)</u>
Cash flows from investing activities:		
Purchase of investment securities	(13,597,427)	(6,000,000)
Maturities of investment securities	13,600,000	6,000,000
Interest received	1,867,715	1,318,996
Other property and investments	197,241	26,804
Net cash provided by investing activities	<u>2,067,529</u>	<u>1,345,800</u>
Net increase (decrease) in cash and cash equivalents	6,361,046	(12,425,815)
Cash and cash equivalents, beginning of year	<u>13,442,541</u>	<u>25,868,356</u>
Cash and cash equivalents, end of year	<u>\$ 19,803,587</u>	<u>\$ 13,442,541</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 19,070,135	\$ 17,080,888
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	12,836,834	12,963,821
Changes in operating assets and liabilities:		
Accounts receivable	(903,341)	(1,165,549)
Lease receivable	(652,938)	10,794
Inventories	(458,455)	(654,125)
Prepaid expenses	(16,054)	1,575
Other assets	(75,586)	8,442
Sales tax collections payable	17,464	25,761
Accounts payable and other accrued expenses	1,870,995	2,288,464
Customer deposits plus accrued interest	51,891	56,491
Other liabilities	12,961	(31,865)
Net cash provided by operating activities	<u>\$ 31,753,906</u>	<u>\$ 30,584,697</u>
Noncash capital activities:		
Acquisition of plant assets through developer contributions	\$ 746,997	\$ 865,108
Record intangible right of use asset and lease liability	\$ -	\$ 22,725
Record intangible subscription asset and subscription liability	\$ -	\$ 8,377

The accompanying notes are an integral part of these financial statements.

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2024 and 2023

1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions, including setting rates. The Water Division (Division) provides services to certain customers in Knox County and in two surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners (NARUC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Water Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board as of June 30, 2024, and 2023, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 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 to the Division is determined by measurement focus. The transactions of the Division 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 April 2022, the GASB issued GASB Statement No. 99 (Statement No. 99), *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements and accounting and financial reporting for financial guarantees. Paragraphs 26-32 were effective immediately. Paragraphs 11-25 were effective for fiscal years beginning after June 15, 2022. Paragraphs 4-10

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2024 and 2023

are effective for fiscal years beginning after June 15, 2023. Adoption of this Statement did not have a significant impact on KUB's financial statements.

In June 2022, the GASB issued GASB Statement No. 100 (Statement No. 100), *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. Statement No. 100 is effective for fiscal years beginning after June 15, 2023. Adoption of this Statement did not have a significant impact on KUB's financial statements.

Water Plant

Water plant and other property are stated on the basis of original cost. The cost of current repairs and minor replacements is charged to operating expense. The cost of renewals and improvements is 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 water plant 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 NARUC, the caption "Depreciation and amortization" in the Statements of Revenues, Expenses and Changes in Net Position does not include depreciation for transportation equipment. Depreciation for transportation equipment of \$568,544 in fiscal year 2024 and \$524,326 in fiscal year 2023 is included in operation and maintenance expense.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of the KUB Water Division. 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 \$195,660 in fiscal year 2024 and \$170,632 in fiscal year 2023.

Non-operating Revenue

Non-operating revenue consists of revenues that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

Expense

When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is KUB's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net 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 and intangible assets, including restricted capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of any bonds, mortgages, notes, lease and subscription liabilities, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2024 and 2023

are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Net position-restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- Net position-unrestricted – This component of net position consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Contributions in Aid of Construction and Capital Contributions

Contributions in aid of construction are cash collections from customers, grantors, or others for a particular purpose, generally the construction of new facilities to serve new customers in excess of the investment KUB is willing to make for a particular incremental revenue source. KUB reduces the plant account balances to which contributions relate by the actual amount of the contribution and recognizes the contributions as non-operating revenue in accordance with Statement No. 62.

Capital contributions represent contributions of utility plant infrastructure constructed by developers and others in industrial parks and other developments and transferred to KUB upon completion of construction and the initiation of utility service. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, such contributions are recognized as revenues and capital assets upon receipt.

Inventories

Inventories, consisting of plant materials and operating supplies, are valued at the lower of average cost or replacement value.

OPEB Trust

KUB's OPEB Trust was established by KUB's Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. The purpose of the Trust is to fund KUB's post-employment health care plan (the "Plan"), which provides certain medical benefits for qualifying KUB retirees and beneficiaries. Effective January 1, 2022, the Plan was expanded to include two benefit offerings. Employees with a benefit service date prior to July 1, 1999, will continue to be eligible for the Retiree Medical Benefit, while those with a later benefit service date will participate in a new Retiree Health Reimbursement Arrangement, given that each eligible employee meets the "Rule of 80", the sum of age and at least 20 years of qualified service equal to or exceeding 80, at retirement.

KUB's policy is to fully fund the annual actuarially determined contributions, which are determined by actuarial valuation. As required by GASB Statement No. 75, KUB measures net OPEB liability as total OPEB liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2024, and 2023, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2024, and 2023, are based on a June 30, 2024, and 2023, measurement date, respectively. The net OPEB liability is \$9,373,073 (Division's share \$1,617,952) as of June 30, 2024, and \$12,930,655 (Division's share \$2,123,214) as of June 30, 2023.

Pension Plan and Qualified Excess Benefit Arrangement

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 12). KUB's policy is to fully fund the annual

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2024 and 2023

actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2024, and 2023, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2024, and 2023, are based on a December 31, 2023, and 2022, measurement date, respectively. The net pension liability is \$7,452,380 (Division's share \$1,324,191) as of June 30, 2024, and \$22,219,032 (Division's share \$3,880,968) as of June 30, 2023.

KUB implemented a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). The QEBA is a single employer defined benefit pension plan administered by KUB (Note 13). As required by GASB Statement No. 73, KUB measures the total pension liability of the QEBA. The amounts reported as of June 30, 2024, and 2023, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2024, and 2023, are based on a December 31, 2023, and 2022, measurement date, respectively. Due to the increase in the section 415(d) annual benefit limitation from 2021 to 2022, the pension benefit for the sole participant in the Excess Benefit Arrangement is now fully payable under the KUB Pension Plan and, as such, there is no benefit payable under the Excess Benefit Arrangement as of June 30, 2024, and 2023.

Investments

Investments are carried at fair value as determined by quoted market prices at the reporting date.

Self-Insurance

KUB has established self-insurance programs covering portions of workers' compensation, employee health, environmental liability, general liability, property and casualty liability, and automobile liability claims. A liability is accrued for claims as they are incurred. When applicable, claims in excess of the self-insured risk are covered by KUB's insurance carrier. Additionally, KUB provides certain lifetime health benefits to eligible retired employees under a self-insurance plan administered by a third party.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on historical experience and various other assumptions that KUB believes are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require adjustment. Estimates are used for, but not limited to, inventory valuation, allowance for uncollectible accounts, depreciable lives of plant assets, unbilled revenue volumes, lease liabilities, subscription liabilities, developer contributions, pension trust valuations, OPEB trust valuations, insurance liability reserves, and potential losses from contingencies and litigation. Actual results could differ from those estimates.

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.

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2024 and 2023

Leases

KUB determines if an arrangement is or contains a lease at contract inception and recognizes an intangible right of use asset and a lease liability at the lease commencement date. Subsequently, the intangible right of use asset is amortized on a straight-line basis over its useful life. KUB also enters into agreements, as lessor, to lease office space or property, recognizing a lease receivable and a deferred inflow of resources. The lease term includes the non-cancelable period of the lease plus an additional period covered by either an option to extend or not to terminate the lease that the lessee is reasonably certain to exercise, or an option to extend or not to terminate the lease controlled by the lessor. KUB uses its estimated incremental borrowing rate as the discount rate for leases.

KUB monitors for events or changes in circumstances that require a reassessment of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the intangible right of use asset.

Subscription-Based Information Technology Arrangements

KUB determines if an arrangement is or contains a subscription-based information technology arrangement (subscription) at contract inception and recognizes an intangible subscription asset and a subscription liability at the commencement date. Subsequently, the subscription asset is amortized on a straight-line basis over its useful life. The subscription term includes the non-cancelable period of the subscription plus an additional period covered by either an option to extend or not to terminate the subscription that KUB is reasonably certain to exercise, or an option to extend or not to terminate the subscription controlled by the vendor. KUB uses its estimated incremental borrowing rate as the discount rate for subscriptions.

KUB monitors for events or changes in circumstances that require a reassessment of its subscriptions. When a reassessment results in the remeasurement of a subscription liability, a corresponding adjustment is made to the carrying amount of the subscription asset.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are items related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. Deferred inflows of resources are items related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. KUB records costs associated with the gain or loss on refunding of debt as either a deferred outflow or inflow based on the parameters of Statement No. 65. Deferred outflows of resources also include employer pension contributions made subsequent to the measurement date of the net pension liability and before the end of the employer's reporting period in accordance with Statement No. 71. Deferred inflows and deferred outflows also include the net difference between projected and actual earnings on pension plan investments and OPEB plan investments, differences between expected and actual experience, and changes in assumptions in accordance with Statements No. 68, 73, and 75. Deferred inflows are also recorded at the commencement of the lease term and recognized as revenue over the course of the lease in accordance with Statement No. 87.

Debt Premium/Discount

KUB records unamortized premium and discount on debt as a separate line item in the Long-Term Debt section of the Financial Statements. Amortization of these amounts is recorded over the life of the applicable debt as amortization expense.

Debt Issuance Costs

In accordance with regulatory accounting, KUB records debt issuance costs as an Other Asset. Amortization of these amounts is recorded over the life of the applicable debt as amortization expense.

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2024 and 2023

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. 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.

Reclassification

Certain 2023 amounts have been reclassified to conform to the 2024 presentation.

Subsequent Events

KUB sold \$20 million in water system revenue bonds in July 2024 for the purpose of funding water system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 4.04 percent.

KUB has evaluated events and transactions through October 23, 2024, the date these financial statements were available to be issued, for items that should potentially be recognized or disclosed.

Recently Issued Accounting Pronouncements

In June 2022, the GASB issued GASB Statement No. 101 (Statement No. 101), *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. Statement No. 101 is effective for fiscal years beginning after December 15, 2023.

In December 2023, the GASB issued GASB Statement No. 102 (Statement No. 102), *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. Statement No. 102 is effective for fiscal years beginning after June 15, 2024.

In April 2024, the GASB issued GASB Statement No. 103 (Statement No. 103), *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. Statement No. 103 is effective for fiscal years beginning after June 15, 2025.

KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

3. Deposits and Investments

KUB follows the provisions of Statement No. 40 of the Governmental Accounting Standards Board, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*. This Statement establishes and modifies disclosure requirements for state and local governments related to deposit and investment risks. KUB classifies its fair value measurements within the fair value hierarchy established by Statement No. 72 of the Governmental Accounting Standards Board, *Fair Value Measurement and Application*.

KUB's investment policy provides the framework for the administration and investment of cash deposits. The investment policy follows Tennessee State law and defines the parameters under which KUB funds should be invested. State law authorizes KUB to invest in obligations of the

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2024 and 2023

United States Treasury, its agencies and instrumentalities; certificates of deposit; repurchase agreements; money market funds; and the State Treasurer's Investment Pool.

Interest Rate Risk. KUB's primary investment objectives are to place investments in a manner to ensure the preservation of capital, remain sufficiently liquid to meet all operating requirements, and maximize yield of return. KUB minimizes its exposure to interest rate risk by adhering to Tennessee State law requirements for the investment of public funds. This includes limiting investments to those types described above and limiting maturity horizons. The maximum maturity is four years from the date of investment. KUB also limits its exposure by holding investments to maturity unless cash flow requirements dictate otherwise.

Credit Risk. KUB's investment policy, as required by state law, is to apply the prudent-person rule: Investments are made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable income to be derived, as well as the probable safety of their capital.

Custodial Credit Risk. KUB's investment policy limits exposure to custodial credit risk by restricting investments to a standard set forth by state law. All deposits in excess of federal depository insurance limits are collateralized with government securities held in KUB's name by a third-party custodian bank(s) acting as KUB's agent(s), or through the State of Tennessee's collateral pool. Financial institutions that participate in the collateral pool are subject to special assessment; therefore, the deposits are considered insured. A portion of KUB's investments is generally held in the State of Tennessee Local Government Investment Pool (LGIP). The LGIP is a part of the State Pooled Investment Fund and is sponsored by the State of Tennessee Treasury Department. Tennessee Code Annotated ¶9-4-701 *et seq.* authorizes local governments to invest in the LGIP. None of KUB's investments are exposed to custodial credit risk.

Classification of deposits and investments per Statement of Net Position:

	2024	2023
Current assets		
Cash and cash equivalents	\$ 19,803,587	\$ 13,442,541
Short-term contingency fund investments	4,129,411	13,400,921
Other assets		
Long-term contingency fund investments	13,607,910	3,861,134
Restricted assets		
Water bond fund	5,018,415	4,617,273
Other funds	198	197
	<u>\$ 42,559,521</u>	<u>\$ 35,322,066</u>

The above amounts do not include accrued interest of \$96,270 in fiscal year 2024 and \$48,610 in fiscal year 2023. Interest income is recorded on an accrual basis.

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Knoxville Utilities Board Water Division
Notes to Financial Statements
June 30, 2024 and 2023

Investments and maturities of KUB's deposits and investments as held by financial institutions as of June 30, 2024:

	Deposit and Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	\$ 20,909,451	\$ 20,909,451	\$ -
State Treasurer's Investment Pool	5,092,292	5,092,292	-
Agency Bonds	17,663,343	4,055,433	13,607,910
	<u>\$ 43,665,086</u>	<u>\$ 30,057,176</u>	<u>\$ 13,607,910</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.

The Division has the following recurring fair value measurements as of June 30, 2024:

- U.S. Agency bonds of \$13,607,910, 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.

4. Accounts Receivable

Accounts receivable consists of the following:

	2024	2023
Wholesale and retail customers		
Billed services	\$ 4,836,165	\$ 4,378,476
Unbilled services	2,520,074	2,400,039
Other	7,357,638	7,028,668
Allowance for uncollectible accounts	<u>(63,857)</u>	<u>(60,504)</u>
	<u>\$ 14,650,020</u>	<u>\$ 13,746,679</u>

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Knoxville Utilities Board Water Division
Notes to Financial Statements
June 30, 2024 and 2023

5. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

	2024	2023
Trade accounts	\$ 2,723,363	\$ 2,660,028
Current portion of accrued compensated absences	1,286,578	1,282,509
Salaries and wages	364,796	270,359
Self-insurance liabilities	356,893	336,909
	<u>\$ 4,731,630</u>	<u>\$ 4,549,805</u>

6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2023	Additions	Payments	Defeased	Balance June 30, 2024	Amounts Due Within One Year
Water						
BB-2015 - 2.0 - 5.0%	\$ 17,025,000	\$ -	\$ 1,110,000	\$ -	\$ 15,915,000	\$ 1,170,000
CC-2015 - 2.0 - 4.0%	1,575,000	-	500,000	-	1,075,000	525,000
DD-2016 - 3.0 - 5.0%	21,475,000	-	650,000	-	20,825,000	675,000
EE-2016 - 2.0 - 5.0%	15,870,000	-	1,380,000	-	14,490,000	1,435,000
FF-2017 - 3.0 - 5.0%	2,365,000	-	550,000	-	1,815,000	575,000
GG-2017 - 2.125 - 5.0%	17,710,000	-	485,000	-	17,225,000	505,000
HH-2018 - 3.0 - 5.0%	17,855,000	-	440,000	-	17,415,000	465,000
II-2019 - 3.0 - 5.0%	18,450,000	-	420,000	-	18,030,000	440,000
JJ-2020 - 3.0 - 5.0%	17,950,000	-	445,000	-	17,505,000	450,000
KK-2020 - 3.0 - 5.0%	8,485,000	-	190,000	-	8,295,000	195,000
LL-2021 - 4.0 - 5.0%	30,690,000	-	1,305,000	-	29,385,000	1,350,000
MM-2022 - 3.0 - 5.0%	14,815,000	-	-	-	14,815,000	-
NN-2023 - 4.0 - 5.0%	-	19,995,000	250,000	-	19,745,000	335,000
Total bonds	<u>\$ 184,265,000</u>	<u>\$ 19,995,000</u>	<u>\$ 7,725,000</u>	<u>\$ -</u>	<u>\$ 196,535,000</u>	<u>\$ 8,120,000</u>
Unamortized Premium	<u>14,439,030</u>	<u>365,073</u>	<u>807,900</u>	<u>-</u>	<u>13,996,203</u>	<u>-</u>
Total long term debt	<u>\$ 198,704,030</u>	<u>\$ 20,360,073</u>	<u>\$ 8,532,900</u>	<u>\$ -</u>	<u>\$ 210,531,203</u>	<u>\$ 8,120,000</u>

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Knoxville Utilities Board Water Division
Notes to Financial Statements
June 30, 2024 and 2023

	Balance June 30, 2022	Additions	Payments	Defeased	Balance June 30, 2023	Amounts Due Within One Year
Water						
BB-2015 - 2.0 - 5.0%	\$ 18,075,000	\$ -	\$ 1,050,000	\$ -	\$ 17,025,000	\$ 1,110,000
CC-2015 - 2.0 - 4.0%	2,050,000	-	475,000	-	1,575,000	500,000
DD-2016 - 3.0 - 5.0%	22,100,000	-	625,000	-	21,475,000	650,000
EE-2016 - 2.0 - 5.0%	17,185,000	-	1,315,000	-	15,870,000	1,380,000
FF-2017 - 3.0 - 5.0%	2,895,000	-	530,000	-	2,365,000	550,000
GG-2017 - 2.125 - 5.0%	18,170,000	-	460,000	-	17,710,000	485,000
HH-2018 - 3.0 - 5.0%	18,285,000	-	430,000	-	17,855,000	440,000
II-2019 - 3.0 - 5.0%	18,850,000	-	400,000	-	18,450,000	420,000
JJ-2020 - 3.0 - 5.0%	18,395,000	-	445,000	-	17,950,000	445,000
KK-2020 - 3.0 - 5.0%	8,665,000	-	180,000	-	8,485,000	190,000
LL-2021 - 4.0 - 5.0%	31,955,000	-	1,265,000	-	30,690,000	1,305,000
MM-2022 - 3.0 - 5.0%	14,915,000	-	100,000	-	14,815,000	-
Total bonds	<u>\$ 191,540,000</u>	<u>\$ -</u>	<u>\$ 7,275,000</u>	<u>\$ -</u>	<u>\$ 184,265,000</u>	<u>\$ 7,475,000</u>
Unamortized Premium	15,240,672	-	801,642	-	14,439,030	-
Total long term debt	<u>\$ 206,780,672</u>	<u>\$ -</u>	<u>\$ 8,076,642</u>	<u>\$ -</u>	<u>\$ 198,704,030</u>	<u>\$ 7,475,000</u>

Debt service over remaining term of the debt is as follows:

Fiscal Year	Principal	Total Interest	Grand Total
2025	\$ 8,120,000	\$ 6,934,945	\$ 15,054,945
2026	8,420,000	6,622,020	15,042,020
2027	8,675,000	6,304,406	14,979,406
2028	9,025,000	5,961,182	14,986,182
2029	9,365,000	5,617,864	14,982,864
2030 - 2034	47,970,000	22,745,676	70,715,676
2035 - 2039	40,350,000	15,448,403	55,798,403
2040 - 2044	37,860,000	8,701,306	46,561,306
2045 - 2049	21,935,000	2,959,220	24,894,220
2050 - 2053	<u>4,815,000</u>	<u>500,807</u>	<u>5,315,807</u>
Total	<u>\$ 196,535,000</u>	<u>\$ 81,795,829</u>	<u>\$ 278,330,829</u>

The Division has pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet bond principal and interest payments when due. The requirements for the bonds are being met through monthly deposits to the Water Bond Fund, as required by the bond covenants. As of June 30, 2024, these bond covenants had been satisfied.

The Division's outstanding bonds payable contain provisions that in an event of default, outstanding amounts are to become immediately due if the Division is unable to make payment.

During fiscal year 2024, KUB's Water Division issued Series NN 2023 bonds to fund water system capital improvements.

Knoxville Utilities Board Water Division
Notes to Financial Statements
June 30, 2024 and 2023

Other liabilities consist of the following:

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Accrued compensated absences	\$ 660,687	\$ 1,092,163	\$ (1,090,067)	\$ 662,783
Customer advances for construction	117,395	32,726	-	150,121
Other	23,216	42,779	(29,816)	36,179
	<u>\$ 801,298</u>	<u>\$ 1,167,668</u>	<u>\$ (1,119,883)</u>	<u>\$ 849,083</u>

	Balance June 30, 2022	Increase	Decrease	Balance June 30, 2023
Accrued compensated absences	\$ 1,734,465	\$ 3,507,241	\$ (4,581,019)	\$ 660,687
Customer advances for construction	25,779	91,616	-	117,395
Other	55,082	51,532	(83,398)	23,216
	<u>\$ 1,815,326</u>	<u>\$ 3,650,389</u>	<u>\$ (4,664,417)</u>	<u>\$ 801,298</u>

7. Lease Receivables

KUB, as lessor, leases office space under non-cancelable lease arrangements. Terms of the leases range from one to fourteen years and contain fixed payment terms. Certain leases contain an option to renew that has been considered in the lease receivable when the lessee is reasonably certain to exercise the renewal option. KUB recognized lease revenue, which is included in other operating revenues, of \$122,775 in 2024 and \$77,165 in 2023. KUB also recognized interest income from leases, which is included in non-operating revenues, totaling \$40,115 in 2024 and \$18,825 in 2023. Total lease receivables were \$1,195,969 (\$104,244 current) and \$543,031 (\$67,564 current) as of June 30, 2024, and 2023, respectively, and are included in other assets on the Statement of Net Position.

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Knoxville Utilities Board Water Division
Notes to Financial Statements
June 30, 2024 and 2023

8. Lease Liabilities

Changes in lease liabilities are summarized as follows:

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Total lease liabilities	\$ 59,414	\$ -	\$ (12,750)	\$ 46,664
Less current portion	(12,750)			(12,365)
Long-term portion	<u>\$ 46,664</u>			<u>\$ 34,299</u>

	Balance June 30, 2022	Increase	Decrease	Balance June 30, 2023
Total lease liabilities	\$ 61,955	\$ 26,029	\$ (28,570)	\$ 59,414
Less current portion	(22,779)			(12,750)
Long-term portion	<u>\$ 39,176</u>			<u>\$ 46,664</u>

KUB leases certain office space, equipment, and other assets under non-cancelable lease arrangements. Terms of the leases range from one to nineteen years and contain fixed payment terms. Certain office space leases contain the option for renewal, which has been considered in the lease liability when KUB is reasonably certain to exercise the renewal option.

Maturities and future interest requirements related to the balances of lease liabilities outstanding as of June 30, 2024, are summarized as follows:

	Lease Maturities	Interest Requirements
2025	\$ 12,365	\$ 1,610
2026	9,604	1,194
2027	8,926	845
2028	581	679
2029	622	676
2030-2034	3,839	3,260
2035-2039	5,407	2,823
2040-2044	5,320	1,533
	<u>\$ 46,664</u>	<u>\$ 12,620</u>

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Knoxville Utilities Board Water Division
Notes to Financial Statements
June 30, 2024 and 2023

9. Subscription-Based Information Technology Agreement Liabilities

Changes in SBITA liabilities are summarized as follows:

	Balance			Balance
	June 30, 2023	Increase	Decrease	June 30, 2024
Total SBITA liabilities	\$ 791,855	\$ -	\$ (345,873)	\$ 445,982
Less current portion	<u>(180,818)</u>			<u>(142,047)</u>
Long-term portion	<u>\$ 611,037</u>			<u>\$ 303,935</u>

	Balance			Balance
	June 30, 2022	Increase	Decrease	June 30, 2023
Total SBITA liabilities	\$ 955,708	\$ 8,377	\$ (172,230)	\$ 791,855
Less current portion	<u>(172,230)</u>			<u>(180,818)</u>
Long-term portion	<u>\$ 783,478</u>			<u>\$ 611,037</u>

KUB has subscription-based information technology agreements (SBITAs) which grant non-cancelable rights to use underlying information technology software. Terms of agreement range from five to eighteen years and contain fixed and variable payment terms. Certain SBITAs contain the option for renewal, which has been considered in the SBITA liability when KUB is reasonably certain to exercise the renewal option.

Maturities and future interest requirements related to the balances of SBITA liabilities outstanding as of June 30, 2024, are summarized as follows:

	Subscription Maturities		Interest Requirements	
2025	\$	142,047	\$	15,792
2026		147,240		10,190
2027		76,261		4,619
2028		80,434		1,577
	<u>\$</u>	<u>445,982</u>	<u>\$</u>	<u>32,178</u>

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Knoxville Utilities Board Water Division
Notes to Financial Statements
June 30, 2024 and 2023

10. Capital and Intangible Assets

Capital and intangible asset activity was as follows:

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Production Plant	\$ 727,863	\$ -	\$ -	\$ 727,863
Pumping & Treatment Plant	110,101,620	3,915,838	(238,037)	113,779,421
Distribution Plant				
Distribution Mains	233,568,350	9,234,262	(1,170,364)	241,632,248
Transmission Mains	47,706,941	3,228,431	-	50,935,372
Services & Meters	50,878,581	1,399,588	(71,245)	52,206,924
Other Accounts	28,990,928	796,772	(29,073)	29,758,627
Total Distribution Plant	<u>\$ 361,144,800</u>	<u>\$ 14,659,053</u>	<u>\$ (1,270,682)</u>	<u>\$ 374,533,171</u>
Total General Plant	<u>39,248,894</u>	<u>2,814,639</u>	<u>(3,153,750)</u>	<u>38,909,783</u>
Total Water Plant	<u>\$ 511,223,177</u>	<u>\$ 21,389,530</u>	<u>\$ (4,662,469)</u>	<u>\$ 527,950,238</u>
Less Accumulated Depreciation	<u>(154,459,484)</u>	<u>(12,690,166)</u>	<u>4,814,959</u>	<u>(162,334,691)</u>
Net Plant Assets	<u>\$ 356,763,693</u>	<u>\$ 8,699,364</u>	<u>\$ 152,490</u>	<u>\$ 365,615,547</u>
Work In Progress	<u>30,734,129</u>	<u>32,360,377</u>	<u>(20,804,239)</u>	<u>42,290,267</u>
Total Net Plant	<u>\$ 387,497,822</u>	<u>\$ 41,059,741</u>	<u>\$ (20,651,749)</u>	<u>\$ 407,905,814</u>
Intangible Right of Use Assets				
Office space	\$ 42,315	\$ -	\$ -	\$ 42,315
Equipment	17,290	-	(5,845)	11,445
Other	17,875	-	-	17,875
Total Intangible Right of Use Assets	<u>\$ 77,480</u>	<u>\$ -</u>	<u>\$ (5,845)</u>	<u>\$ 71,635</u>
Less Accumulated Amortization	<u>(19,121)</u>	<u>(13,457)</u>	<u>5,845</u>	<u>(26,733)</u>
Net Intangible Right of Use Assets	<u>\$ 58,359</u>	<u>\$ (13,457)</u>	<u>\$ -</u>	<u>\$ 44,902</u>
Intangible Subscription Assets				
Intangible Subscription Assets	\$ 1,133,065	\$ -	\$ (268,310)	\$ 864,755
Less Accumulated Amortization	<u>(340,602)</u>	<u>(63,831)</u>	<u>-</u>	<u>(404,433)</u>
Net Intangible Subscription Assets	<u>\$ 792,463</u>	<u>\$ (63,831)</u>	<u>\$ (268,310)</u>	<u>\$ 460,322</u>

Knoxville Utilities Board Water Division
Notes to Financial Statements
June 30, 2024 and 2023

	Balance June 30, 2022	Increase	Decrease	Balance June 30, 2023
Production Plant	\$ 727,863	\$ -	\$ -	\$ 727,863
Pumping & Treatment Plant	108,243,224	2,304,723	(446,327)	110,101,620
Distribution Plant				
Distribution Mains	225,391,774	9,392,292	(1,215,716)	233,568,350
Transmission Mains	47,661,842	45,099	-	47,706,941
Services & Meters	49,994,079	1,123,615	(239,113)	50,878,581
Other Accounts	28,503,703	510,847	(23,622)	28,990,928
Total Distribution Plant	<u>\$ 351,551,398</u>	<u>\$ 11,071,853</u>	<u>\$ (1,478,451)</u>	<u>\$ 361,144,800</u>
Total General Plant	<u>38,738,658</u>	<u>787,067</u>	<u>(276,831)</u>	<u>39,248,894</u>
Total Water Plant	<u>\$ 499,261,143</u>	<u>\$ 14,163,643</u>	<u>\$ (2,201,609)</u>	<u>\$ 511,223,177</u>
Less Accumulated Depreciation	<u>(143,819,803)</u>	<u>(12,816,619)</u>	<u>2,176,938</u>	<u>(154,459,484)</u>
Net Plant Assets	<u>\$ 355,441,340</u>	<u>\$ 1,347,024</u>	<u>\$ (24,671)</u>	<u>\$ 356,763,693</u>
Work In Progress	<u>19,710,963</u>	<u>24,544,108</u>	<u>(13,520,942)</u>	<u>30,734,129</u>
Total Net Plant	<u>\$ 375,152,303</u>	<u>\$ 25,891,132</u>	<u>\$ (13,545,613)</u>	<u>\$ 387,497,822</u>
Intangible Right of Use Assets				
Office space	\$ 62,996	\$ -	\$ (20,681)	\$ 42,315
Equipment	7,149	12,274	(2,133)	17,290
Other	18,692	17,875	(18,692)	17,875
Total Intangible Right of Use Assets	<u>\$ 88,837</u>	<u>\$ 30,149</u>	<u>\$ (41,506)</u>	<u>\$ 77,480</u>
Less Accumulated Amortization	<u>(27,110)</u>	<u>(14,426)</u>	<u>22,415</u>	<u>(19,121)</u>
Net Intangible Right of Use Assets	<u>\$ 61,727</u>	<u>\$ 15,723</u>	<u>\$ (19,091)</u>	<u>\$ 58,359</u>
Intangible Subscription Assets				
Intangible Subscription Assets	\$ 1,124,538	\$ 8,527	\$ -	\$ 1,133,065
Less Accumulated Amortization	<u>(168,830)</u>	<u>(171,772)</u>	<u>-</u>	<u>(340,602)</u>
Net Intangible Subscription Assets	<u>\$ 955,708</u>	<u>\$ (163,245)</u>	<u>\$ -</u>	<u>\$ 792,463</u>

11. Risk Management

KUB is exposed to various risks of loss related to active and retiree medical claims; injuries to workers; theft of, damage to, and destruction of assets; environmental damages; and natural disasters. Claims expenditures and liabilities are reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. As of June 30, 2024, and June 30, 2023, the amount of these liabilities was \$356,893 and \$336,909, respectively, resulting from the following changes:

	2024	2023
Balance, beginning of year	\$ 336,909	\$ 292,789
Current year claims and changes in estimates	2,654,062	2,804,053
Claims payments	<u>(2,634,078)</u>	<u>(2,759,933)</u>
Balance, end of year	<u>\$ 356,893</u>	<u>\$ 336,909</u>

Knoxville Utilities Board Water Division
Notes to Financial Statements
June 30, 2024 and 2023

12. Pension Plan

Description of Plan

The Knoxville Utilities Board Pension Plan (the Plan) is a governmental plan as defined by the Employee Retirement Income Security Act of 1974 (ERISA or the Act), is not subject to any of the provisions of the Act, and was revised January 1, 2020, to include all prior approved amendments. The Plan is a single employer contributory, defined benefit pension plan established by Knoxville Utilities Board Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville §1107(J). KUB Board Resolution No. 979, effective July 1, 1999, as amended by Resolution No. 1037, establishing the KUB Retirement System, was amended effective June 18, 2020, to amend the term “Trustee” to include both custodians and/or trustees, in order to provide flexibility should KUB choose to change from its current Pension trustee. The Plan is designed to provide retirement, disability, and death benefits to KUB employees. KUB administers the Plan through an Administrative Committee consisting of seven KUB employees that are appointed by KUB’s President and CEO. Any amendments to the Plan involving costs not approved in the operating budget must be adopted by KUB’s Board of Commissioners, upon recommendation by KUB’s President and CEO. All other amendments to the Plan may be approved by KUB’s President and CEO upon 60 days notification to the Board’s Audit and Finance Committee. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017. For purposes of this disclosure, presentation is on a consolidated basis unless division’s share is specified.

Effective January 1, 2011, KUB closed the Plan such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and to accrue benefits under the Plan.

Participants in the Plan consisted of the following as of December 31:

	2023	2022
Inactive plan members:		
Terminated vested participants	9	14
Retirees and beneficiaries	602	603
Active plan members	<u>389</u>	<u>431</u>
Total	<u>1,000</u>	<u>1,048</u>

Retirement Benefits

The Plan provides three benefit arrangements for KUB participants, retirees, and beneficiaries.

The Plan provides pension benefits through the Career Equity Program (“CEP”) for eligible employees hired on or after January 1, 1999, and for eligible former “City System Plan A” participants who elected CEP coverage as of July 1, 1999. The guaranteed pension benefit payable to a participant who has completed five or more years of service (or reached the normal retirement date, if earlier) upon termination of KUB employment shall be a lump sum equal to the participant’s average compensation times their benefit percentage, as defined in the Plan document, or an annuity may be chosen by the participant.

In addition, the Plan provided retirement benefits through “Plan A” for former City System Plan A participants who elected not to participate in the CEP. Plan A is a closed plan and is not available to KUB employees hired after July 1, 1999. Plan A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or later. Benefits provided to Plan A participants include several different forms of monthly annuity payments.

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2024 and 2023

The Plan also provides retirement benefits through “Plan B” for former “City System Plan B” participants. Plan B is a closed plan providing benefits to participants not covered by Social Security. Benefits provided to Plan B participants include several different forms of monthly annuity payments available to participants.

Effective January 1, 2012, KUB began to provide for additional monthly supplements, which are not subject to cost-of-living adjustments, to certain former employees and surviving dependents of former employees who are eligible for and have elected coverage under the KUB retiree medical plan and are eligible for Medicare. This was done to compensate for the elimination of drug coverage under the KUB retiree medical plan and to assist such individuals in obtaining prescription drug coverage under Medicare Part D.

Contributions

Participation in Plan A requires employee contributions of three percent of the first \$4,800 of annual earnings and five percent of annual earnings in excess of \$4,800. KUB contributions are determined by the enrolled actuary of the Plan and equal the amount necessary to provide the benefits under the Plan determined by the application of accepted actuarial methods and assumptions. The method of funding shall be consistent with Plan objectives.

Plan Funding

KUB maintains a Funding Policy for the Plan in accordance with Tennessee State Law. The primary goal of the Policy is to document the method KUB has adopted to provide assurance that future KUB and employee contributions and current Plan assets will be sufficient to fund all benefits expected to be paid to current active, inactive and retired Plan participants and their beneficiaries. Per the Funding Policy, KUB fully funds its annual Actuarially Determined Contribution.

Investments

The Plan’s investments are held by State Street Bank and Trust Company (the “Trustee”). The Plan’s policy in regard to the allocation of invested assets is established by the Retirement System Investment Committee and approved by the KUB Board of Commissioners and may only be amended by the KUB Board of Commissioners. It is the policy of the Retirement System Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Plan’s adopted asset allocation policy as of December 31, 2023:

Asset Class	Target Allocation
Domestic equity – large cap	20% - 50%
Domestic equity – small/mid cap	0% - 30%
Multi-asset credit	0% - 20%
Non-U.S. equity	0% - 20%
U.S. core real estate	0% - 10%
Fixed income	20% - 40%
Cash and deposits	0% - 5%

Contributions of \$1,108,147 and \$2,624,373 for 2022 and 2021, respectively, were made during the Plan sponsor’s fiscal years ended June 30, 2024, and 2023, respectively. Of these amounts, \$193,559 and \$458,397 are attributable to the Water Division. The fiscal year 2024 contribution was determined as part of the January 1, 2022, valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant’s benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability, or death.

Knoxville Utilities Board Water Division
Notes to Financial Statements
June 30, 2024 and 2023

Net Pension Liability (Asset)

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (“GASB 68”), which requires measurement of the net pension liability as total pension liability less the amount of the Plan’s fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB’s measurements as of June 30, 2024, and 2023, will be based on the December 31, 2023, and 2022, measurement date, respectively. The net pension liability is \$7,452,380 (Division’s share \$1,324,191) as of June 30, 2024, and \$22,219,032 (Division’s share \$3,880,967) as of June 30, 2023.

GASB 68 requires certain disclosures related to the net pension liability (asset) of the Plan as disclosed below:

	2023	2022
Total pension liability	\$ 263,351,035	\$ 254,406,723
Plan fiduciary net position	<u>(255,898,655)</u>	<u>(232,187,691)</u>
Plan’s net pension liability	<u>\$ 7,452,380</u>	<u>\$ 22,219,032</u>

Plan fiduciary net position as a percentage of the total pension liability	97.17%	91.27%
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Changes in Net Pension Liability (Asset) are as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2022	\$ 254,406,723	\$ 232,187,691	\$ 22,219,032
Changes for the year:			
Service cost	8,221,181	-	8,221,181
Interest	17,868,490	-	17,868,490
Changes of Benefits	-	-	-
Differences between Expected and Actual Experience	2,092,475	-	2,092,475
Changes of Assumptions	-	-	-
Contributions - employer	-	1,866,261	(1,866,261)
Contributions - rollovers	-	3,225	(3,225)
Contributions - member	-	5,749,384	(5,749,384)
Net investment income	-	35,932,006	(35,932,006)
Benefit payments	(19,237,834)	(19,237,834)	-
Administrative expense	-	(602,078)	602,078
Net changes	<u>8,944,312</u>	<u>23,710,964</u>	<u>(14,766,652)</u>
Balances at December 31, 2023	<u>\$ 263,351,035</u>	<u>\$ 255,898,655</u>	<u>\$ 7,452,380</u>

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Actuarial Assumptions

The total pension liability was determined by an actuarial valuation, using the following actuarial assumptions applied to all periods included in the measurement:

Valuation dates	January 1, 2023, rolled forward to December 31, 2023; January 1, 2022, rolled forward to December 31, 2022
Discount rate	7.00% as of December 31, 2023 and 2022
Salary increases	From 2.50% to 5.65%, based on years of service as of December 31, 2023, and 2022
Mortality	115% and 110% of the PubG-2010 table for males and females, respectively, using the Public Sector General Employee Table for ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of December 31, 2023 and 2022
Inflation	2.5% as of December 31, 2023 and 2022

The actuarial assumptions used in the January 1, 2023, and 2022, valuations were based on an actuarial experience study covering the period January 1, 2014, through December 31, 2018.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2023, and 2022, are summarized in the following table. The real rate of return reported for fixed income is for aggregate fixed income. The Plan has both aggregate and long duration fixed income.

Asset Class	Long Term Expected Real Rate of Return	
	2023	2022
Domestic equity	5.6%	5.0%
Non-U.S. equity	6.5%	6.1%
Real estate equity	5.8%	5.4%
Debt securities	1.9%	0.5%
Cash and deposits	0.7%	(0.1%)

Discount rate

The discount rate used to measure the total pension liability was 7.00 percent as of December 31, 2023, and December 31, 2022. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the net pension liability of the Plan as of December 31, 2023, calculated using the discount rate of 7.00 percent, as well as what the Plan's net pension liability would be if it

Knoxville Utilities Board Water Division
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were calculated using a discount rate that is one percent lower (6.00 percent) or one percent higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Plan's net pension liability	\$ 31,223,728	\$ 7,452,380	\$ (13,022,725)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2024, KUB recognized pension expense of \$6,394,757, and the Water Division's share was \$911,853.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2022, this average was four years. During the measurement year, there was a liability experience loss of \$2,092,475, with \$523,119 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$1,569,356. Unrecognized liability experience losses from prior periods were \$1,951,216, of which \$940,357 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,010,859. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$2,580,215 (Division's share \$458,470). Unrecognized liability gains from prior periods were \$210,825, of which \$210,825 was recognized as a decrease in Pension Expense in the current year and resulted in a deferred inflow of \$0.

During the measurement year, there were no benefit changes or assumption changes. Net unrecognized assumption change losses from prior periods were \$5,646,136, of which \$3,011,800 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$2,634,336 (Division's share \$468,087).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$20,099,370, of which \$4,019,874 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were \$39,628,509, of which \$1,043,676 was recognized as an increase in Pension Expense in the current year. The combination of unrecognized investment gains this year, along with net unrecognized investment losses from prior periods, results in a deferred outflow of \$22,505,337 (Division's share \$3,998,906).

The impact of the change in proportionate share for the Water Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is four years. This change resulted in a deferred inflow of \$74,845, with \$18,712 of that recognized in the current year and the remaining amount recognized over the next three years, resulting in a deferred inflow of resources of \$56,133. Net proportionate share changes from prior periods were \$476,174, of which \$205,702 was recognized in the current year, resulting in a deferred inflow of resources of \$270,472. In addition, KUB's Water Division recorded a deferred outflow of resources of \$98,451 for employer contributions made between December 31, 2023, and June 30, 2024.

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The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Water Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 458,470	\$ -
Changes in assumptions	468,087	-
Net difference between projected and actual earnings on pension plan investments	3,998,906	-
Change in proportionate share	-	326,605
Contributions subsequent to measurement date	98,451	-
Total	<u>\$ 5,023,914</u>	<u>\$ 326,605</u>

\$98,451 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2025. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2025	\$ 980,715
2026	1,940,614
2027	2,391,808
2028	(714,279)
Thereafter	-

For the year ended June 30, 2023, KUB recognized pension expense of \$8,973,269, and the Water Division's share was \$1,361,647.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2021, this average was four years. During the measurement year, there was a liability experience loss of \$282,014, with \$70,504 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$211,510. Unrecognized liability experience losses from prior periods were \$2,609,559, of which \$869,853 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,739,706. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$1,951,216 (Division's share \$340,816). Unrecognized liability gains from prior periods were \$542,777, of which \$331,952 was recognized as a decrease in Pension Expense in the current year and resulted in a deferred inflow of \$210,825 (Division's share \$36,825).

During the measurement year, there was an assumption change loss of \$5,268,672, with \$1,317,168 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$3,951,504. Net unrecognized assumption change losses from prior periods were \$3,389,264, of which \$1,694,632 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$1,694,632. The total deferred outflow is \$5,646,136 (Division's share \$986,203).

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The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment loss of \$85,314,262, of which \$17,062,852 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment gains from prior periods were \$38,969,257, of which \$10,346,356 was recognized as a decrease in Pension Expense in the current year. The combination of unrecognized investment losses this year, along with unrecognized investment gains from prior periods, results in a deferred outflow of \$39,628,509 (Division's share \$6,921,858).

The impact of the change in proportionate share for the Water Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is four years. This change resulted in a deferred inflow of \$259,083, with \$64,771 of that recognized in the current year and the remaining amount recognized over the next three years, resulting in a deferred inflow of resources of \$194,312. Net proportionate share changes from prior periods were \$422,793, of which \$140,931 was recognized in the current year, resulting in a deferred inflow of resources of \$281,862. In addition, KUB's Water Division recorded a deferred outflow of resources of \$229,198 for employer contributions made between December 31, 2022, and June 30, 2023.

The table below summarizes the current balances of deferred outflows and deferred inflows of resources of the Water Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 340,816	\$ 36,825
Changes in assumptions	986,203	-
Net difference between projected and actual earnings on pension plan investments	6,921,858	-
Change in proportionate share	-	476,174
Contributions subsequent to measurement date	229,198	-
Total	<u>\$ 8,478,075</u>	<u>\$ 512,999</u>

13. Qualified Excess Benefit Arrangement

Description

In fiscal year 2017, KUB implemented a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). The QEBA is a single employer defined benefit pension plan administered by KUB. The number of participants in any given year for the QEBA is determined by the number of KUB Pension Plan participants who exceed the current year's section 415(b) limitations, as calculated by the KUB Pension Plan actuary. The amount of QEBA benefit will be the amount specified by the terms of the KUB Pension Plan without regard to Section 415(b) limitations minus the amount payable from the KUB Pension Plan as limited by Section 415(b). QEBA benefits are subject to cost-of-living adjustments.

As of June 30, 2024, there are 372 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the KUB Pension

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Plan. The KUB Pension Plan was amended to include the provision of QEBA benefits; therefore, amendments to the QEBA require the same authority as amendments to the KUB Pension Plan. As required by federal tax law, the QEBA is unfunded within the meaning of the federal tax laws. KUB may not pre-fund the QEBA to cover future liabilities beyond the current year. KUB has established procedures to pay for these benefits on a pay-as-you-go basis. There are no assets accumulated in a trust that meets the GASB's criteria. Due to the increase in the section 415(d) annual benefit limitation from 2021 to 2022, the pension benefit for the sole participant in the Excess Benefit Arrangement is now fully payable under the KUB Pension Plan and, as such, there is no benefit payable under the Excess Benefit Arrangement as of June 30, 2024, and 2023.

Total Pension Liability of the QEBA

The below summarizes the disclosures of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"). GASB 73 extends a similar approach of financial reporting to plans meeting specific criteria that are not administered through trusts that GASB 68 established for pension plans. GASB 73 requires measurement of the total pension liability of the QEBA. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2024, and 2023, are based on a December 31, 2023, and 2022, measurement date, respectively. There is no Total Pension Liability as of June 30, 2024, and 2023. GASB 73 requires certain disclosures related to the total pension liability of the QEBA, as disclosed below:

	2023	2022
Total pension liability	\$0	\$0
Deferred outflows	(2,051)	(6,779)
Deferred inflows	1,704	3,408
Net impact on Statement of Net Position	<u>(\$347)</u>	<u>(\$3,371)</u>
Covered payroll	\$35,604,464	\$37,412,132
Total pension liability as a % of covered payroll	0.00%	0.00%

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2024, KUB recognized pension expense of \$3,024 (Division's share \$393) for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$-), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [(\$347) – (\$3,371) + \$-].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2020, this average was four years. There was a deferred inflow at the end of the measurement year of \$1,717 (Division's share \$222) from experience gains in prior years and a deferred outflow of \$2,033 (Division's share \$264) from experience losses in prior years.

There was a deferred outflow of \$18 (Division's share \$3) from assumption changes in prior years.

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The following table summarizes the current balances of deferred outflows and deferred inflows of resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,033	\$ 1,717
Changes in assumptions	18	-
Total	<u>\$ 2,051</u>	<u>\$ 1,717</u>
 Division's share	 <u>\$ 267</u>	 <u>\$ 222</u>

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2025	\$ 334
2026	-
2027	-
2028	-
2029	-
Thereafter	-

For the year ended June 30, 2023, KUB recognized pension expense of (\$8,793) (Division's share (\$1,143)) for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$-), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [(\$3,371) - \$5,422 + \$-].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2020, this average was four years. There was a deferred inflow at the end of the measurement year of \$3,408 (Division's share \$443) from experience gains in prior years and a deferred outflow of \$4,073 (Division's share \$529) from experience losses in prior years.

There was a deferred outflow of \$2,706 (Division's share \$352) from assumption changes in prior years.

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The following table summarizes the current balances of deferred outflows and deferred inflows of resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,073	\$ 3,408
Changes in assumptions	2,706	-
Total	\$ 6,779	\$ 3,408
Division's share	\$ 881	\$ 443

14. Defined Contribution Plan

The KUB Asset Accumulation 401(k) Plan (the "401(k) Plan") is a defined contribution 401(k) employee retirement savings plan covering eligible KUB employees established by the KUB Board of Commissioners in accordance with the Charter of the City of Knoxville, Tennessee. The 401(k) plan's assets are held in trust under an agreement between KUB and Fidelity Management Trust Company. Employees hired prior to January 1, 2011, may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of three percent. Employees hired on or after January 1, 2011, have an enhanced 401(k) due to the closure of the Defined Benefit Pension Plan. They may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of three percent. They also receive a non-elective KUB contribution of three percent to six percent, depending on years of service, whether they contribute or not.

KUB funded 401(k) matching contributions and non-elective contributions of \$3,909,598 (Division's share \$508,248) and \$3,794,561 (Division's share \$493,293), respectively, for the years ended June 30, 2024, and 2023.

Vesting

Participants are immediately vested in their own contributions to the Plan, plus actual earnings on these contributions. Participants become 100% vested and entitled to the full value of their account, less any loans outstanding, upon death or disability or upon retirement after attaining their normal retirement age (first of the month coinciding with or following attainment of age 62).

Otherwise, vesting in the KUB matching contribution and non-elective contribution (as applicable) portion of their account plus related earnings are based on years of service and date of hire, as follows:

Participants hired prior to January 1, 2011 are 100% vested in the KUB matching contribution portion of their account.

Participants hired by KUB after December 31, 2010 are vested in the KUB matching and non-elective contribution portion of their account as follows:

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<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 2 years	0%
2	20%
3	40%
4	60%
5	80%
6 or more	100%

Forfeitures

Forfeitures are created when participants terminate employment before becoming entitled to their full benefits under the Plan. Upon forfeiture, the match and non-elective funds become available to offset Plan expenses. The Plan experienced forfeitures of \$306,016 during calendar year 2023 and \$188,609 during calendar year 2022. Forfeitures of \$295,955 and \$167,891 were used to reduce employer contributions in 2023 and 2022, respectively. The ending balance of forfeited assets in the Plan, including contributions and dividends, totaled \$37,985 and \$26,999 as of December 31, 2023 and 2022, respectively.

15. Other Post-Employment Benefits (OPEB)

Description of Trust

The Knoxville Utilities Board Other Post-Employment Benefits Trust (the Trust) is a single employer trust established by the KUB Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. The Trust, along with the KUB Health Plan, make up a Voluntary Employee Beneficiary Association ("VEBA") and are intended to be tax-exempt pursuant to Code §501(c)(9). The purpose of the Trust is to fund KUB's post-employment health care plan (the "Plan"), which provides certain medical benefits for qualifying KUB retirees and beneficiaries. The applicable documentation was submitted to the State Funding Board and, in December 2007, the State Funding Board approved the Trust. The Trust was also approved by the Internal Revenue Service in June 2008. KUB administers the Trust through a Board of Trustees consisting of seven KUB employees that are appointed by KUB's President and CEO. Any amendments to the Trust involving costs not approved in the operating budget must be approved by KUB's Board of Commissioners, upon recommendation by KUB's President and CEO. All other amendments to the Trust may be approved by KUB's President and CEO upon 60 days notification to the Board's Audit and Finance Committee. The investment of all deposits to the Trust is governed by an Investment Policy, which was adopted by the KUB Board and approved by the State Funding Board. The Trust issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017. For purposes of this disclosure, presentation is on a consolidated basis unless division's share is specified.

Effective January 1, 2022, the Plan was expanded to two benefit offerings. Employees with a benefit service date prior to July 1, 1999, will continue to be eligible for the Retiree Medical Benefit, while those with a later benefit service date will participate in a new Retiree Health Reimbursement Arrangement (HRA), given that each eligible employee meets the "Rule of 80", the sum of age and at least 20 years of qualified service equal to or exceeding 80, at retirement.

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Participants in the Plan consisted of the following as of June 30:

	HRA		Retiree Medical Benefit	
	2024	2023	2024	2023
Retirees	8	6	538	542
Dependents of retirees	6	2	585	596
Eligible active employees	46	25	129	140
Total	60	33	1,252	1,278

Benefits

Benefits for pre-July 1, 1999, eligible participants may include, but shall not be limited to, medical, prescription drugs, dental, vision, hearing, Medicare Part B or Part D premiums, life insurance, long-term care, and long-term disability. Post-July 1, 1999, eligible participants are eligible for HRA benefits which include up to \$50,000 to be used exclusively for reimbursement of qualified medical expenses of the retiree and his or her spouse and dependents. Any unused HRA amounts will remain assets of the OPEB Trust.

Contributions and Funding

The primary goal of the Funding Policy for the Trust is to document the method KUB has adopted to provide assurance that future KUB and retiree contributions and current Trust assets will be sufficient to fund all benefits expected to be paid to Trust beneficiaries. Per the Funding Policy, KUB's current practice is to fully fund its annual Actuarially Determined Contribution, which is determined by actuarial valuation.

Contributions are authorized by the terms of the Trust as established by KUB Resolution No. 1168, as amended, as approved by the Tennessee State Funding Board. KUB shall have the right at any time to amend, in whole or in part, the provisions of this Trust; however, no such amendment shall authorize or permit the assets of the Trust to be used for or diverted to purposes other than those expressed in the Declaration of Trust.

It shall be the sole and exclusive responsibility of KUB to determine the level of contributions KUB will make to the Trust for the purpose of financing other post-employment benefits accrued by its respective participants. Neither the Trust, nor the Trust's Board, shall be responsible for collecting or otherwise determining the level of contributions needed by KUB to finance any other post-employment benefits offered by KUB. The assets of the Trust shall be expended solely to make payments for other post-employment benefits pursuant to, and in accordance with, the terms of the Trust and to pay the cost of administration.

Based on the date of retirement, certain retired members are required to contribute specified amounts monthly to maintain health insurance. Those who retired prior to July 1983 have no required monthly premiums for themselves or dependents. The retirees, or their surviving dependents, who retired between August 1983 and January 1998 are required to pay \$275 per month for pre-Medicare family health insurance. For individuals who retired after January 1998, the required monthly premium for pre-Medicare health insurance is \$275 for single coverage and \$550 for family coverage. There is currently no premium for Medicare eligible retirees or dependents. KUB is responsible for determining the level of retired plan member contributions on an annual basis as part of its review of healthcare cost sharing.

Participants in the Health Reimbursement Arrangement are not eligible for health insurance and are not required to make contributions.

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Investments

The Trust holds investments in a balanced fund, which invests in passively managed common trust index funds, managed and sponsored by State Street Global Advisors (SSgA), with an asset allocation mirroring the asset allocation of the Trust and rebalanced monthly. The Trust's Investment Policy was established and may only be amended by the KUB Board of Commissioners. The Trust's Investment Policy is to invest in a manner that will provide sufficient investment return to meet current and future retiree health benefits, while conforming to all governing State and Federal statutes. It allows investment of Trust assets in any type of security instrument allowed for in T.C.A 8-50-1203.

The following was the Trust's adopted investment target allocations as set forth in the Trust's Investment Policy as of June 30, 2024:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity:	
Large Cap	30%
Small Cap	8%
International Equity:	
Developed	16%
Emerging	8%
Real Estate Equity	8%
Debt Securities	30%
Total	<u>100%</u>

Actuarially determined contributions for the Water Division of \$205,029 and \$232,079 were made to the OPEB Trust in fiscal years ended June 30, 2024 and 2023, respectively. These were based on the OPEB actuarial valuations as of January 1, 2022, and 2021.

Net OPEB Liability

The below summarizes the disclosures of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"), which requires measurement of the net OPEB liability as total OPEB liability less the amount of the Trust's fiduciary net position. The amounts reported as of June 30 are based on the reporting date for the KUB Other Post-Employment Benefits Plan which is June 30. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2024, and 2023, and the Total OPEB Liability as of the valuation date, January 1, 2023, updated to June 30, 2024, and January 1, 2022, updated to June 30, 2023, respectively. The Division's share of the total net OPEB liability was \$1,617,952 as of June 30, 2024, and \$2,123,214 as of June 30, 2023.

The components of the net OPEB liability (asset) of the Trust are as follows as of June 30:

	2024	2023
Total OPEB liability	\$ 61,042,928	\$ 61,637,102
Plan fiduciary net position	51,669,855	48,706,447
Net OPEB liability	<u>\$ 9,373,073</u>	<u>\$ 12,930,655</u>
Plan fiduciary net position as a percentage of the total OPEB liability	84.65%	79.02%

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Changes in Net OPEB Liability are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2023	\$ 61,637,102	\$ 48,706,447	\$ 12,930,655
Changes for the year:			
Service cost	615,753	-	615,753
Interest	4,256,122	-	4,256,122
Changes of Benefits	(164,746)	-	(164,746)
Differences between Expected and Actual Experience	587,252	-	587,252
Changes of Assumptions	(2,102,184)	-	(2,102,184)
Contributions - employer	-	1,187,768	(1,187,768)
Contributions - member	-	-	-
Net investment income	-	5,656,390	(5,656,390)
Benefit payments	(3,786,371)	(3,786,371)	-
Administrative expense	-	(94,379)	94,379
Net changes	(594,174)	2,963,408	(3,557,582)
Balances at June 30, 2024	\$ 61,042,928	\$ 51,669,855	\$ 9,373,073

Actuarial assumptions

The total OPEB liability was determined by actuarial valuations, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation dates:	January 1, 2023, rolled forward to June 30, 2024; January 1, 2022, rolled forward to June 30, 2023
Discount rate:	7.00% as of June 30, 2024 and June 30, 2023
Healthcare cost trend rates:	Pre-Medicare: 5.75% grading down to 3.935% over 20 years as of June 30, 2024 and June 30, 2023 Medicare: 11.30% grading down to 3.935% over 20 years as of June 30, 2024 and June 30, 2023 Administrative expenses: 3.0% per year
Salary increases:	From 2.50% to 5.65
Mortality:	115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010) for males and females, respectively, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Healthy Annuitant Mortality Table, both projected using scale MP2018 fully generational
Inflation:	2.50%

The actuarial assumptions used in the January 1, 2023, and January 1, 2022, valuations were based on the results of actuarial experience studies for the periods January 1, 2014, through December 31, 2018.

The long-term expected rate of return on Trust investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net

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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	
	2024	2023
Domestic equity	5.4%	5.1%
International equity	6.1%	6.1%
Emerging Market equity	7.8%	8.4%
Real estate equity	5.5%	5.3%
Debt securities	2.3%	1.8%
Cash and deposits	0.9%	0.7%

Discount rate

The discount rate used to measure the total OPEB liability was 7.00 percent as of June 30, 2024 and June 30, 2023. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate.

The following presents the net OPEB liability of the Trust as of June 30, 2024, calculated using the discount rate of 7.00 percent, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is one percent lower (6.00 percent) or one percent higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB liability	\$15,834,714	\$9,373,073	\$3,950,645

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.

The following presents the net OPEB liability of the Trust as of June 30, 2024, as well as what the Trust's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percent lower or one percent higher than the current rate:

Knoxville Utilities Board Water Division
Notes to Financial Statements
June 30, 2024 and 2023

	<u>1% Decrease</u>	<u>Baseline Trends</u>	<u>1% Increase</u>
Net OPEB liability	\$3,895,008	\$9,373,073	\$15,785,165

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2024, KUB's Water Division recognized OPEB expense of \$358,007.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience loss of \$587,252, with \$83,893 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$503,359. Unrecognized experience losses from prior periods were \$100,858, of which \$16,810 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of resources of \$84,048. The combination of unrecognized experience gains or losses results in a deferred outflow of resources of \$587,407 (Division's share \$101,397).

During the measurement year, there was a benefit change gain of \$164,746. The entire amount was recognized as a decrease in OPEB expense in the current year.

During the measurement year, there was an assumption change gain of \$2,102,184, with \$300,312 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$1,801,872 (Division's share \$311,034). Unrecognized assumption losses from prior periods were \$2,166,706, of which \$361,118 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of \$1,805,588 (Division's share \$311,675).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$2,339,599, of which \$467,920 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$1,871,679. Net unrecognized investment losses from prior periods were \$3,211,114, of which \$843,284 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$2,367,829. The combination of unrecognized gains and losses from the current year and prior periods results in a deferred outflow of resources of \$496,150 (Division's share \$85,644).

The impact of the change in proportionate share for the Water Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is seven years. This change resulted in a deferred outflow of \$62,723, with \$8,960 of that recognized in the current year and the remaining amount recognized over the next six years, resulting in a deferred outflow of resources of \$53,763. Net proportionate share changes from prior periods were \$513, with \$86 of that recognized in the current year resulting in a deferred outflow of resources of \$427. The table below summarizes the current balances of deferred outflows and deferred inflows of resources for the Water Division.

Knoxville Utilities Board Water Division
Notes to Financial Statements
June 30, 2024 and 2023

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 101,397	\$ -
Changes in assumptions	311,675	311,034
Net difference between projected and actual earnings on OPEB plan investments	85,644	-
Change in proportionate share	54,190	-
Total	<u>\$ 552,906</u>	<u>\$ 311,034</u>

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ended June 30:	
2025	\$ 12,680
2026	343,131
2027	(78,621)
2028	(43,846)
2029	36,922
Thereafter	(28,394)

For the year ended June 30, 2023, KUB's Water Division recognized OPEB expense of \$505,951.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience loss of \$117,668, with \$16,810 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$100,858 (Division's share \$16,561). Unrecognized experience losses from prior periods were \$30,475, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there were no benefit changes.

During the measurement year, there was an assumption change loss of \$2,527,824, with \$361,118 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$2,166,706 (Division's share \$355,773).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$1,007,293, of which \$201,459 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$805,834. Net unrecognized investment losses from prior periods were \$5,179,219, of which \$1,162,271 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$4,016,948. The combination of unrecognized gains this year, along with the net unrecognized investment losses from prior periods, results in a deferred outflow of resources of \$3,211,114 (Division's share \$527,265).

The impact of the change in proportionate share for the Water Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is seven years. This change resulted in a deferred outflow of \$599, with \$86 of that recognized in the current year and the remaining amount recognized over the next six years,

Knoxville Utilities Board Water Division
Notes to Financial Statements
June 30, 2024 and 2023

resulting in a deferred outflow of resources of \$513. Net proportionate share changes from prior periods were \$34,191, of which the entire amount was recognized in the current year. The table below summarizes the current balances of deferred outflows and deferred inflows of resources for the Water Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 16,561	\$ -
Changes in assumptions	355,773	-
Net difference between projected and actual earnings on OPEB plan investments	527,265	-
Change in proportionate share	513	-
Total	<u>\$ 900,112</u>	<u>\$ -</u>

16. Related Party Transactions

The Division, in the normal course of operations, is involved in transactions with the City of Knoxville and with other divisions of KUB. Such transactions for the years ended June 30, 2024, and 2023, are summarized as follows:

	2024	2023
City of Knoxville		
Amounts billed by the Division for utilities and related services	\$ 5,743,179	\$ 5,505,744
Payments by the Division in lieu of property tax	3,629,904	3,646,197
Payments by the Division for services provided	360,977	700,792
Grant expenditures incurred	7,581,000	2,937,000
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	605,627	448,271
Interdivisional rental expense	490,554	503,864
Interdivisional rental income	214,872	219,838
Amounts billed to the Division by other divisions for utilities services provided	3,738,234	3,781,183

With respect to these transactions, accounts receivable from the City of Knoxville included in the balance sheet at year end were as follows:

	2024	2023
Accounts receivable	\$ 476,778	\$ 407,357
Amounts eligible for reimbursement from grants	5,518,000	2,937,000

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Knoxville Utilities Board Water Division
Notes to Financial Statements
June 30, 2024 and 2023

17. 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 Water Division

Required Supplementary Information – Schedule of Changes in Net Pension Liability and Related Ratios

June 30, 2024

	Year ended December 31									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability										
Service cost	\$ 8,221,181	\$ 6,349,402	\$ 6,647,220	\$ 5,227,657	\$ 6,142,213	\$ 5,095,488	\$ 4,607,486	\$ 4,226,985	\$ 4,157,062	\$ 4,092,808
Interest	17,868,490	17,430,465	16,982,226	16,393,202	16,030,626	15,344,193	15,015,282	14,966,559	14,812,784	14,698,657
Changes of benefit terms	-	-	-	-	163,199	-	-	-	-	-
Differences between expected and actual experience	2,092,475	282,014	1,935,276	1,930,170	(1,054,117)	(605,649)	(1,087,161)	(2,233,762)	(1,890,334)	-
Changes of assumptions	-	5,268,672	-	-	8,473,160	-	(357,633)	(2,932,883)	-	-
Benefit payments, including refunds of member contributions	(19,237,834)	(17,125,610)	(17,725,963)	(16,006,565)	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)	(15,533,167)
Net change in total pension liability	8,944,312	12,204,943	7,838,759	7,544,464	14,660,606	4,559,218	3,207,995	(111,612)	1,728,586	3,258,298
Total pension liability - beginning	254,406,723	242,201,780	234,363,021	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)	\$ 263,351,035	\$ 254,406,723	\$ 242,201,780	\$ 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	\$ 1,866,261	\$ 3,144,770	\$ 3,416,428	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541
Contributions - participants	5,752,609	3,812,595	3,939,687	2,284,727	3,170,825	2,081,125	1,488,632	555,075	487,546	475,854
Net investment income	35,927,438	(63,493,985)	37,575,566	44,814,914	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)	22,292,369
Other additions	4,568	9,415	112,484	7,740	13,579	62,616	82,239	45,848	30,879	29,733
Benefit payments, including refunds of member contributions	(19,193,834)	(17,065,610)	(17,653,963)	(15,962,565)	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)	(15,405,167)
Administrative expense	(602,078)	(498,988)	(441,017)	(455,191)	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)	(378,085)
Death benefits	(44,000)	(60,000)	(72,000)	(44,000)	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)	(128,000)
Net change in plan fiduciary net position**	23,710,964	(74,151,803)	26,877,185	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**	232,187,691	306,339,494	279,462,309	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)**	\$ 255,898,655	\$ 232,187,691	\$ 306,339,494	\$ 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)	\$ 7,452,380	\$ 22,219,032	\$ (64,137,714)	\$ (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	97.17%	91.27%	126.48%	119.24%	108.43%	96.87%	109.53%	100.06%	97.54%	102.97%
Covered payroll	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743	\$ 44,076,351
Plan's net pension liability as a percentage of covered payroll	20.93%	59.39%	(168.45%)	(108.61%)	(47.48%)	15.78%	(45.67%)	(0.28%)	11.34%	(13.66%)

Notes to Schedule:

** Excludes amounts related to 401(k) matching contributions.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division

Required Supplementary Information – Schedule of Employer Pension Contributions

June 30, 2024

	Year ended December 31									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 1,866,261	\$ 3,144,770	\$ 3,416,428	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541
Contribution in relation to the actuarially determined contribution	1,866,261	3,144,770	3,416,428	2,876,752	2,871,241	3,456,475	4,286,597	5,243,146	5,991,887	5,908,541
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743	\$ 44,076,351
Contributions as a percentage of covered payroll	5.24%	8.41%	8.97%	6.93%	7.13%	8.20%	9.90%	11.80%	13.48%	13.41%

Notes to Schedule:

Timing: Actuarially determined contributions for a Plan year are based upon 50% of the amounts determined at the actuarial valuations for each of the two prior Plan years.

Valuation Dates: January 1, 2022 and January 1, 2021

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Individual entry age
 Asset valuation method: 5-year smoothed market, adjusted to remain within 20% of the market value
 Amortization method: As of January 1, 2022: Level dollar, 30-year closed period with 19 years remaining, or a level dollar, 30-year open period for a negative unfunded liability
 As of January 1, 2021: Level dollar, 30-year closed period with 20 years remaining, or a level dollar, 30-year open period for a negative unfunded liability
 As of January 1, 2022 and 2021, the unfunded liability was negative.
 Discount rate: 7.25%
 Salary increases: 2.50% to 5.65%, based on years of service; As of January 1, 2021, a one-time reduction was applied to reduce the 2020 compensation by 3.7% to account for an additional 2020 pay period
 Mortality: 115% and 110% of the benefits-weighted Public Sector General Healthy Annuitant Mortality Table (PubG-2010), respectively, for males and females, using the Public Sector General Employee Table while in active employment and for annuitant ages prior to the start of the Healthy Annuitant Mortality Table, both projected from the 2010 base rates using scale MP2018 fully generational
 Inflation: 2.5%

Please refer to prior year's audited financial statements for prior methods and assumptions.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division

Required Supplementary Information – Schedule of Changes in Net OPEB Liability and Related Ratios

June 30, 2024

	*Year ended June 30						
	2024	2023	2022	2021	2020	2019	2018
Total OPEB liability							
Service cost	\$ 615,753	\$ 595,392	\$ 416,277	\$ 283,786	\$ 256,270	\$ 270,515	\$ 202,603
Interest	4,256,122	4,133,008	3,858,276	3,861,304	3,672,291	3,624,737	3,295,240
Change of benefit terms	(164,746)	-	6,594,293	-	(202,408)	-	-
Differences between expected and actual experience	587,252	117,668	60,951	42,802	43,902	999,098	1,324,769
Changes of assumptions	(2,102,184)	2,527,824	-	(4,105,835)	3,604,843	3,231,601	(397,180)
Benefit payments	<u>(3,786,371)</u>	<u>(4,273,070)</u>	<u>(3,908,635)</u>	<u>(3,111,179)</u>	<u>(3,028,596)</u>	<u>(3,532,444)</u>	<u>(3,298,739)</u>
Net change in total OPEB liability	(594,174)	3,100,822	7,021,162	(3,029,122)	4,346,302	4,593,507	1,126,693
Total OPEB liability - beginning	<u>61,637,102</u>	<u>58,536,280</u>	<u>51,515,118</u>	<u>54,544,240</u>	<u>50,197,938</u>	<u>45,604,431</u>	<u>44,477,738</u>
Total OPEB liability - ending (a)	<u>\$ 61,042,928</u>	<u>\$ 61,637,102</u>	<u>\$ 58,536,280</u>	<u>\$ 51,515,118</u>	<u>\$ 54,544,240</u>	<u>\$ 50,197,938</u>	<u>\$ 45,604,431</u>
Plan fiduciary net position							
Contributions - employer	\$ 1,187,768	\$ 1,413,392	\$ 1,989,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Net investment income	5,656,390	4,333,538	(8,122,417)	12,890,602	975,155	2,981,928	3,705,473
Benefit payments	(3,786,371)	(4,273,070)	(3,908,635)	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	<u>(94,379)</u>	<u>(101,186)</u>	<u>(71,187)</u>	<u>(44,496)</u>	<u>(53,286)</u>	<u>(54,787)</u>	<u>(51,668)</u>
Net change in plan fiduciary net position	2,963,408	1,372,674	(10,113,173)	10,492,153	(1,795,403)	(605,303)	355,066
Plan fiduciary net position - beginning	<u>48,706,447</u>	<u>47,333,773</u>	<u>57,446,946</u>	<u>46,954,793</u>	<u>48,750,196</u>	<u>49,355,499</u>	<u>49,000,433</u>
Plan fiduciary net position - ending (b)	<u>\$ 51,669,855</u>	<u>\$ 48,706,447</u>	<u>\$ 47,333,773</u>	<u>\$ 57,446,946</u>	<u>\$ 46,954,793</u>	<u>\$ 48,750,196</u>	<u>\$ 49,355,499</u>
Net OPEB liability (asset) - ending (a) - (b)	<u>\$ 9,373,073</u>	<u>\$ 12,930,655</u>	<u>\$ 11,202,507</u>	<u>\$ (5,931,828)</u>	<u>\$ 7,589,447</u>	<u>\$ 1,447,742</u>	<u>\$ (3,751,068)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	84.65%	79.02%	80.86%	111.51%	86.09%	97.12%	108.23%
Covered employee payroll**	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	11.21%	18.44%	15.15%	(27.49%)	32.48%	5.95%	(15.84%)

Notes to Schedule:

* Information not reflected prior to 2018 due to changes in actuary methodologies required under GASB 75, which was implemented in 2018.

** The covered-employee payroll increased in FY 2022 due to the inclusion of plan participants eligible for the HRA benefits.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division

Required Supplementary Information – Schedule of Employer OPEB Contributions

June 30, 2024

	2024	2023	2022	*Year ended June 30 2021	2020	2019	2018
Actuarially determined contribution	\$ 1,187,768	\$ 1,413,392	\$ 489,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Contribution in relation to the annual required contribution	<u>1,187,768</u>	<u>1,413,392</u>	<u>1,989,066</u>	<u>757,226</u>	<u>311,324</u>	<u>-</u>	<u>-</u>
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,500,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll*	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Contributions as a percentage of covered employee payroll	1.42%	2.02%	2.69%	3.51%	1.33%	0.00%	0.00%

* The covered-employee payroll increased in FY 2022 due to the inclusion of plan participants eligible for the HRA benefits.

KUB elected to make a \$1,500,000 voluntary contribution to the Trust to initially fund the HRA benefit which was effective January 1, 2022. This contribution was not required.

Notes to Schedule:

Valuation Date: January 1, 2022 and January 1, 2021
Timing: Actuarially determined contribution rates are calculated based on the actuarial valuation completed 18 months before the beginning of the fiscal year.

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age normal
Asset valuation method: 5-year smoothed market
Amortization method: 15-year layered amortization bases for annual changes in the unfunded liabilities as of January 1, 2021 and 2022; 30-year rolling amortization for a funding surplus; As of January 1, 2021 and 2022, there was an unfunded liability
Discount rate: 7.25%
Healthcare cost trend rate: Pre-Medicare: 6.50% grading down to 4.04% over 18 years as of January 1, 2022;
6.75% grading down to 4.04% over 19 years as of January 1, 2021
Medicare: 6.20% grading down to 4.04% over 18 years as of January 1, 2022;
6.30% grading down to 4.04% over 19 years as of January 1, 2021
Administrative expenses: 3.0% per year
Salary increases: From 2.50% to 5.65%, based on years of service
Mortality: 115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational
Inflation: 2.5%
Investment rate of return: 7.25%
Retirement age: 2% at ages 50-57, grading up to 100% at age 70

* Schedule of Employer Contribution information is not reflected prior to 2018 due to changes in actuary methodologies required under GASB 75, which was implemented in 2018. Please refer to prior year's audited financial statement for prior methods and assumptions.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement
Schedule of Changes in Total Pension Liability and Related Ratios
June 30, 2024

	*Year ended December 31							
	2023	2022	2021	2020	2019	2018	2017	2016
Total pension liability								
Service cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 941	\$ 584	\$ -
Interest (includes interest on service cost)	-	-	268	388	9,181	9,676	7,535	-
Changes of benefit terms	-	-	-	-	(218,272)	-	-	185,077
Differences between expected and actual experience	-	-	(6,816)	10,165	34	(36,125)	13,684	-
Changes of assumptions	-	-	-	91	13,342	(22,950)	73,461	-
Benefit payments, including refunds of member contributions	-	-	(12,166)	(12,166)	(15,932)	-	-	-
Net change in total pension liability	<u>-</u>	<u>-</u>	<u>(18,714)</u>	<u>(1,522)</u>	<u>(211,647)</u>	<u>(48,458)</u>	<u>95,264</u>	<u>185,077</u>
Total pension liability - beginning	<u>-</u>	<u>-</u>	<u>18,714</u>	<u>20,236</u>	<u>231,883</u>	<u>280,341</u>	<u>185,077</u>	<u>-</u>
Total pension liability - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,714</u>	<u>\$ 20,236</u>	<u>\$ 231,883</u>	<u>\$ 280,341</u>	<u>\$ 185,077</u>
Covered payroll	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747
Total pension liability as a percentage of covered payroll	0.00%	0.00%	0.00%	0.05%	0.05%	0.55%	0.65%	0.42%

Notes to Schedule:

* There are no assets accumulated in a trust that meet the criteria in paragraph 4 of GASB 73 to pay related benefits.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2024

Continued on Next Page

FY	BB-2015		CC-2015		DD-2016		EE-2016		FF-2017		GG-2017		HH-2018	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
24-25	1,170,000	503,000	525,000	27,563	675,000	624,750	1,435,000	307,294	575,000	78,350	505,000	558,806	465,000	628,063
25-26	1,210,000	467,900	550,000	14,438	700,000	604,500	1,460,000	278,594	605,000	49,600	530,000	533,556	485,000	604,813
26-27	1,245,000	428,575			725,000	583,500	1,515,000	249,394	635,000	25,400	555,000	512,356	510,000	580,562
27-28	1,260,000	385,000			750,000	561,750	1,560,000	219,094			575,000	490,156	535,000	555,063
28-29	1,275,000	340,900			775,000	539,250	1,605,000	187,894			590,000	477,938	555,000	539,013
29-30	1,315,000	296,275			800,000	516,000	1,645,000	155,794			600,000	464,662	570,000	522,362
30-31	2,740,000	256,825			825,000	492,000	1,710,000	120,838			625,000	440,663	590,000	504,550
31-32	2,800,000	174,625			825,000	467,250	1,750,000	82,362			650,000	415,662	605,000	485,375
32-33	2,900,000	90,625			850,000	442,500	1,810,000	42,988			675,000	389,662	625,000	464,956
33-34					900,000	417,000					695,000	369,413	645,000	444,644
34-35					925,000	390,000					715,000	348,563	670,000	423,681
35-36					950,000	362,250					740,000	327,112	690,000	401,906
36-37					975,000	333,750					760,000	304,913	710,000	379,481
37-38					1,000,000	304,500					785,000	282,112	735,000	356,406
38-39					1,025,000	274,500					805,000	258,562	760,000	331,600
39-40					1,050,000	243,750					830,000	234,413	785,000	305,950
40-41					1,100,000	212,250					855,000	208,475	815,000	274,550
41-42					1,125,000	179,250					885,000	181,756	850,000	241,950
42-43					1,150,000	145,500					910,000	154,100	885,000	207,950
43-44					1,200,000	111,000					940,000	125,662	920,000	172,550
44-45					1,225,000	75,000					970,000	96,288	950,000	140,350
45-46					1,275,000	38,250					1,000,000	65,976	985,000	107,100
46-47											1,030,000	33,476	1,020,000	72,625
47-48													1,055,000	36,925
48-49														
49-50														
50-51														
51-52														
52-53														
	<u>\$ 15,915,000</u>	<u>\$ 2,943,725</u>	<u>\$ 1,075,000</u>	<u>\$ 42,001</u>	<u>\$ 20,825,000</u>	<u>\$ 7,918,500</u>	<u>\$ 14,490,000</u>	<u>\$ 1,644,252</u>	<u>\$ 1,815,000</u>	<u>\$ 153,350</u>	<u>\$ 17,225,000</u>	<u>\$ 7,274,282</u>	<u>\$ 17,415,000</u>	<u>\$ 8,782,425</u>

See accompanying Independent Auditor's Report

**Knoxville Utilities Board Water Division
 Supplemental Information - Schedule of Debt Maturities by Fiscal Year
 June 30, 2024**

Continued from Previous Page

FY	II-2019		JJ-2020		KK-2020		LL-2021		MM-2022		NN-2023		TOTAL		Grand Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
24-25	440,000	606,800	450,000	580,850	195,000	270,550	1,350,000	1,309,150	-	562,744	335,000	877,025	8,120,000	6,934,945	15,054,945
25-26	465,000	584,800	460,000	558,350	205,000	260,800	1,400,000	1,241,650	-	562,744	350,000	860,275	8,420,000	6,622,020	15,042,020
26-27	485,000	561,550	465,000	535,350	215,000	250,550	1,450,000	1,171,650	505,000	562,744	370,000	842,775	8,675,000	6,304,406	14,979,406
27-28	510,000	537,300	465,000	512,100	230,000	239,800	2,210,000	1,099,150	540,000	537,494	390,000	824,275	9,025,000	5,961,182	14,986,182
28-29	535,000	511,800	470,000	488,850	240,000	228,300	2,340,000	988,650	575,000	510,494	405,000	804,775	9,365,000	5,617,864	14,982,864
29-30	565,000	485,050	475,000	465,350	250,000	216,300	2,450,000	871,650	610,000	481,744	430,000	784,525	9,710,000	5,259,712	14,969,712
30-31	590,000	456,800	480,000	441,600	260,000	208,800	1,105,000	749,150	645,000	451,244	450,000	763,025	10,020,000	4,885,495	14,905,495
31-32	615,000	433,200	475,000	427,200	265,000	201,000	1,070,000	693,900	680,000	418,994	470,000	740,525	10,205,000	4,540,093	14,745,093
32-33	635,000	414,750	470,000	412,950	275,000	193,050	1,000,000	640,400	720,000	384,994	495,000	717,025	10,455,000	4,193,900	14,648,900
33-34	655,000	395,700	1,965,000	398,850	285,000	184,800	1,175,000	600,400	740,000	363,394	520,000	692,275	7,580,000	3,866,476	11,446,476
34-35	675,000	376,050	1,945,000	339,900	290,000	176,250	1,215,000	553,400	755,000	341,194	545,000	666,275	7,735,000	3,615,313	11,350,313
35-36	695,000	355,800	1,925,000	281,550	300,000	167,550	1,255,000	504,800	775,000	317,600	575,000	639,025	7,905,000	3,357,593	11,262,593
36-37	715,000	334,950	1,900,000	223,800	310,000	158,550	1,285,000	454,600	795,000	292,412	600,000	610,275	8,050,000	3,092,731	11,142,731
37-38	735,000	313,500	1,880,000	166,800	320,000	149,250	1,335,000	403,200	820,000	265,582	625,000	586,275	8,235,000	2,827,625	11,062,625
38-39	760,000	291,450	1,855,000	110,400	330,000	139,650	1,370,000	349,800	870,000	237,904	650,000	561,275	8,425,000	2,555,141	10,980,141
39-40	780,000	268,650	1,825,000	54,750	335,000	129,750	1,405,000	295,000	890,000	207,456	675,000	535,275	8,575,000	2,274,994	10,849,994
40-41	805,000	245,250			350,000	119,700	1,460,000	238,800	910,000	176,306	705,000	508,275	7,000,000	1,983,606	8,983,606
41-42	830,000	221,100			360,000	109,200	1,470,000	180,400	955,000	144,456	730,000	480,075	7,205,000	1,738,187	8,943,187
42-43	855,000	196,200			370,000	98,400	1,520,000	121,600	975,000	109,838	760,000	449,963	7,425,000	1,483,551	8,908,551
43-44	880,000	170,550			380,000	87,300	1,520,000	60,800	1,020,000	74,494	795,000	418,612	7,655,000	1,220,968	8,875,968
44-45	905,000	144,150			390,000	75,900			1,035,000	37,518	825,000	384,825	6,300,000	954,031	7,254,031
45-46	930,000	117,000			405,000	64,200					865,000	349,762	5,460,000	742,288	6,202,288
46-47	960,000	89,100			415,000	52,050					900,000	313,000	4,325,000	560,251	4,885,251
47-48	990,000	60,300			425,000	39,600					940,000	274,750	3,410,000	411,575	3,821,575
48-49	1,020,000	30,600			440,000	26,850					980,000	233,625	2,440,000	291,075	2,731,075
49-50					455,000	13,650					1,020,000	190,750	1,475,000	204,400	1,679,400
50-51											1,065,000	146,125	1,065,000	146,125	1,211,125
51-52											1,115,000	99,532	1,115,000	99,532	1,214,532
52-53											1,160,000	50,750	1,160,000	50,750	1,210,750
	<u>\$ 18,030,000</u>	<u>\$ 8,202,400</u>	<u>\$ 17,505,000</u>	<u>\$ 5,998,650</u>	<u>\$ 8,295,000</u>	<u>\$ 3,861,800</u>	<u>\$ 29,385,000</u>	<u>\$ 12,528,150</u>	<u>\$ 14,815,000</u>	<u>\$ 7,041,350</u>	<u>\$ 19,745,000</u>	<u>\$ 15,404,944</u>	<u>\$ 196,535,000</u>	<u>\$ 81,795,829</u>	<u>\$ 278,330,829</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Changes in Long-term Debt by Individual Issue
June 30, 2024

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding Balance 7/1/2023	Issued During Period	Paid/Matured During Period	Refunded During Period	Outstanding Balance 6/30/2024
Business-Type Activities									
BONDS PAYABLE									
<u>Payable through Water Fund</u>									
Revenue Bond Refunding, Series BB-2015	23,005,000	2.0-5.0	05/01/15	03/01/33	\$ 17,025,000	\$	\$ 1,110,000	\$	\$ 15,915,000
Revenue Bond, Series CC-2015	20,000,000	2.0-4.0	05/20/15	03/01/26	1,575,000		500,000		1,075,000
Revenue Bond, Series DD-2016	25,000,000	3.0-5.0	08/05/16	03/01/46	21,475,000		650,000		20,825,000
Revenue Bond Refunding, Series EE-2016	20,875,000	2.0-5.0	08/05/16	03/01/33	15,870,000		1,380,000		14,490,000
Revenue Bond Refunding, Series FF-2017	5,310,000	3.0-5.0	04/07/17	03/01/27	2,365,000		550,000		1,815,000
Revenue Bond, Series GG-2017	20,000,000	2.125-5.0	09/15/17	03/01/47	17,710,000		485,000		17,225,000
Revenue Bond, Series HH-2018	19,995,000	3.0-5.0	09/14/18	03/01/48	17,855,000		440,000		17,415,000
Revenue Bond, Series II-2019	19,995,000	3.0-5.0	08/20/19	03/01/49	18,450,000		420,000		18,030,000
Revenue Bond Refunding, Series JJ-2020	19,520,000	3.0-5.0	05/22/20	03/01/40	17,950,000		445,000		17,505,000
Revenue Bond, Series KK-2020	9,045,000	3.0-5.0	10/30/20	03/01/50	8,485,000		190,000		8,295,000
Revenue Bond Refunding, Series LL-2021	33,180,000	4.0-5.0	04/19/21	03/01/44	30,690,000		1,305,000		29,385,000
Revenue Bond Refunding, Series MM-2022	14,915,000	3.0-5.0	05/13/22	03/01/45	14,815,000		-		14,815,000
Revenue Bond, Series NN-2023	19,995,000	4.0-5.0	12/08/23	03/01/53	-	19,995,000	250,000		19,745,000
					<u>\$ 184,265,000</u>	<u>\$ 19,995,000</u>	<u>\$ 7,725,000</u>	<u>\$ -</u>	<u>\$ 196,535,000</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Changes in Lease Liabilities
June 30, 2024

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Maturity Date	Outstanding 6/30/2023	Issued During Period	Paid and/or Matured During Period	Remeasure- ments	Outstanding 6/30/2024
<u>Lease Liabilities</u>									
<u>Payable through Water Fund</u>									
Centriworks	\$ 5,845	3.88%	11/1/2020	10/31/2023	\$ 867	\$ -	\$ (867)	\$ -	\$ -
Crown Castle	17,875	3.90%	3/1/2023	2/1/2043	17,733	-	(442)	-	17,291
Manki 1 Investments	42,315	3.88%	7/1/2020	5/31/2027	33,829	-	(8,156)	-	25,673
Ricoh Americas	4,850	3.88%	7/1/2020	7/31/2025	3,559	-	(1,605)	-	1,954
RJ Young Company	6,595	3.88%	7/1/2020	6/30/2026	3,426	-	(1,680)	-	1,746
Total Lease Liabilities					\$ 59,414	\$ -	\$ (12,750)	\$ -	\$ 46,664

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Statistical Information - Schedule of Insurance in Force
June 30, 2024
(Unaudited)

Insurance coverage is for KUB as a consolidated entity.

Crime

Covers losses resulting from employee dishonesty, robbery, burglary, and computer fraud. Limits of coverage - \$5,000,000; \$250,000 retention.

Directors' and Officers' Liability Insurance

Covers KUB personnel appropriately authorized to make decisions on behalf of KUB (including but not limited to Commissioners, President and CEO, Senior Vice Presidents, Vice Presidents, and Directors) for wrongful acts. Limits of coverage - \$20,000,000; \$500,000 corporate deductible, \$0 individual deductible.

Employment Practices Liability

Coverage for costs related to actual or alleged employment practices violations for amounts exceeding specified amount (\$500,000). Limits of coverage - \$10,000,000.

Fiduciary

Covers losses resulting from wrongful acts related to KUB's Pension, 401(k), OPEB Trust funds, and Medical Plan. Limits of coverage - \$10,000,000; \$150,000 deductible.

Environmental and Pollution Legal Liability

Environmental and Pollution coverage for covered losses resulting from a pollution or environmental event. Limits of coverage - \$15,000,000.

Property Insurance

This coverage provides protection of KUB's property for fire, extended coverage, vandalism and malicious mischief, and coverage on boilers and machinery. Also included are flood and earthquake damage and mechanical failure. Limits of coverage - \$250,000,000 per occurrence (subject to certain sub limits); \$3,500,000 deductible per occurrence.

Travel Accident

Covers losses related to employees' business travel. Limits of coverage - \$1,000,000 aggregate.

Excess Insurance for General Liability

As a governmental entity, KUB's liability is limited under the Tennessee Governmental Tort Liability Act (TCA §29-20-403). Limits of coverage - \$5,000,000; \$700,000 retention.

Excess Insurance for Workers' Compensation

Covers all losses exceeding specified amount per occurrence (\$1,000,000). Limits of coverage - Statutory; stop loss coverage applies for aggregate losses over \$5,000,000.

Employee Health Plan Stop Loss Coverage

KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses for more than \$700,000 per individual participant.

Cyber Security Liability

Liability coverage resulting from losses related to a covered event such as data breaches, ransomware, regulatory fines, cyber extortion, business interruption and other cyber-related events. Limits of coverage - \$5,000,000; \$500,000 deductible.

Drone

Liability coverage resulting from losses related to bodily injury or damaged property arising out of the ownership, maintenance, or use of a drone aircraft. Limits of coverage - \$2,000,000.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2024
(Unaudited)

Rate Class	Base Charge	Number of Customers
Residential Inside City rate	For water furnished to premises entirely within the corporate limits of the City of Knoxville:	57,631
Commodity Charge		
	First	2 CCF Per Month at \$1.65 Per CCF
	Over	2 CCF Per Month at \$3.40 Per CCF
Additional Monthly Customer Charge		
	For	5/8" meter \$ 18.00
Residential Outside City rate	For water furnished to premises upon which any water faucet or other outlet is outside the corporate limits of the City of Knoxville:	14,919
Commodity Charge		
	First	2 CCF Per Month at \$1.85 Per CCF
	Over	2 CCF Per Month at \$4.05 Per CCF
Additional Monthly Customer Charge		
	For	5/8" meter \$ 19.40

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2024
(Unaudited)

Rate Class	Base Charge	Number of Customers
Non-Residential Inside City rate/ Industrial Park rate	For water furnished to premises entirely within the corporate limits of the City of Knoxville or within the boundaries of an area recognized as an industrial park by the Tennessee Department of Economic and Community Development:	10,371

Commodity Charge

First	2	CCF Per Month at \$3.00 Per CCF
Next	8	CCF Per Month at \$5.15 Per CCF
Next	90	CCF Per Month at \$5.85 Per CCF
Next	300	CCF Per Month at \$4.95 Per CCF
Next	4,600	CCF Per Month at \$2.95 Per CCF
Next	5,000	CCF Per Month at \$1.35 Per CCF

Additional Monthly Customer Charge

For	5/8" meter	\$ 20.75
For	1" meter	\$ 34.00
For	1 1/2" meter	\$ 71.00
For	2" meter	\$ 99.00
For	3" meter	\$ 209.00
For	4" meter	\$ 321.00
For	6" meter	\$ 618.00
For	8" meter	\$ 1,026.00
For	10" meter	\$ 1,563.00
For	12" meter	\$ 2,400.00

Non-Residential Outside City rate	For water furnished to premises upon which any water faucet or other outlet is outside the corporate limits of the City of Knoxville, excluding premises within the boundaries of an area recognized as an industrial park by the Tennessee Department of Economic and Community Development:	766
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Commodity Charge

First	2	CCF Per Month at \$3.40 Per CCF
Next	8	CCF Per Month at \$5.90 Per CCF
Next	90	CCF Per Month at \$6.90 Per CCF
Next	300	CCF Per Month at \$5.65 Per CCF
Next	4,600	CCF Per Month at \$3.50 Per CCF
Next	5,000	CCF Per Month at \$1.60 Per CCF

Additional Monthly Customer Charge

For	5/8" meter	\$ 22.85
For	1" meter	\$ 38.25
For	1 1/2" meter	\$ 79.00
For	2" meter	\$ 110.00
For	3" meter	\$ 237.00
For	4" meter	\$ 361.00
For	6" meter	\$ 715.00
For	8" meter	\$ 1,260.00
For	10" meter	\$ 1,920.00
For	12" meter	\$ 2,840.00

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
Water Division of the Knoxville Utilities Board
Knoxville, Tennessee

We have audited, 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 (*Government Auditing Standards*), the financial statements of the Water Division (the Division) of the Knoxville Utilities Board, a component unit of the City of Knoxville, Tennessee, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements, and have issued our report thereon dated October 23, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Division'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 the Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division'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 the Division's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Board of Commissioners
Water Division of the Knoxville Utilities Board
Knoxville, Tennessee

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Division'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 the Division's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Coulter & Justus, P.C.

Knoxville, Tennessee
October 23, 2024



Wastewater Division

Financial Statements and Supplemental Information
June 30, 2024 and 2023

KUB Board of Commissioners

Adrienne Simpson-Brown, Chair **Claudia Caballero** **Kathy Hamilton** **Dr. Craig Pickett, Jr.**
Ron Feinbaum, Vice Chair **Cynthia Gibson** **Celeste Herbert**

Management

Gabriel Bolas II

President and Chief Executive Officer

Mark Walker

Senior Vice President and Chief Financial Officer

Jamie Davis

Senior Vice President Fiber and Chief Technology Officer

Susan Edwards

Senior Vice President and Chief Administrative Officer

Tiffany Martin

Senior Vice President and Chief Customer Officer

John Williams

Senior Vice President and Chief Infrastructure and Compliance Officer

John Gresham

Senior Vice President and Chief Engineering and Operations Officer

Knoxville Utilities Board Wastewater Division
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June 30, 2024 and 2023

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Independent Auditor's Report

Board of Commissioners
Wastewater Division of the Knoxville Utilities Board
Knoxville, Tennessee

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Wastewater Division (the Division) of the Knoxville Utilities Board, a component unit of the City of Knoxville, Tennessee, as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the index.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Division as of June 30, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Division and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Division's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Board of Commissioners
Wastewater Division of the Knoxville Utilities Board
Knoxville, Tennessee

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Division's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 26 and the required supplementary information on pages 65 through 69 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Commissioners
Wastewater Division of the Knoxville Utilities Board
Knoxville, Tennessee

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Division's basic financial statements. The supplemental information, 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 supplemental information 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information. The other information comprises the statistical information but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Wastewater Division and do not purport to, and do not, present fairly the financial position of the Knoxville Utilities Board, as of June 30, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2024, on our consideration of the Division'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 the Division's internal control over financial reporting and compliance.

Coulter & Justus, P.C.

Knoxville, Tennessee
October 23, 2024

Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2024 and 2023

Knoxville Utilities Board (KUB), comprised of the Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. The Wastewater Division (Division) provides services to certain customers in Knox County and in two surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners (NARUC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Wastewater Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board as of June 30, 2024, and 2023, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Division's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Division's financial activity, (c) identify major changes in the Division's financial position, and (d) identify any financial concerns.

The Division's Management Discussion and Analysis (MD&A) focuses on the fiscal year ended June 30, 2024, activities, resulting changes, and current known facts, and should be read in conjunction with the Division's financial statements.

Wastewater Division Highlights

System Highlights

The wastewater service area covers 249 square miles and includes 74,952 wastewater customers. KUB maintains 1,345 miles of services mains, 79 pump stations, and 4 treatment plants to treat 13.5 billion gallons of wastewater on an annual basis. The average daily flow is 37 million gallons.

KUB has added 2,122 wastewater system customers over the past three years, representing annual growth of less than one percent. In fiscal year 2024, 911 customers were added.

The typical residential wastewater customer's average monthly wastewater bill was \$70.80 as of June 30, 2024. The average monthly bill increased \$2.70 compared to the prior fiscal year, the result of the July 2023 rate increase.

KUB's treatment plants continue to meet high standards of operation. KUB was awarded the National Association of Clean Water Agencies (NACWA) Peak Performance recognition for all Wastewater Treatment Plants in calendar year 2023. Fourth Creek, Kuwahee, and Loves Creek Wastewater Treatment Plants won gold awards, while Eastbridge won silver.

KUB was named a National Association of Clean Water Agencies' (NACWA) National Environmental Achievement Awards 2024 honoree. These awards recognize individuals and NACWA member agencies that have made outstanding contributions to environmental protection and the clean water community. In 2024, KUB received two awards. The first award recognizes KUB's Biologically Enhanced High-Rate Clarifier in the Operations & Environmental Performance category. The second award recognizes KUB's Utility Apprentice Program in the Workforce Development category.

Knoxville Utilities Board Wastewater Division Management’s Discussion and Analysis June 30, 2024 and 2023

In 2023, KUB obtained Diamond Certification with the National Biosolids Partnership. Diamond certification is a new, advanced level of the program. Biosolids are nutrient-rich organic matter produced by wastewater treatment and is a registered fertilizer with the Tennessee Department of Agriculture.

Century II Infrastructure Program

Century II is KUB’s proactive long-range program to improve and maintain the electric, natural gas, water, and wastewater systems for its customers. It includes maintenance and asset replacement strategies for each system and establishes sustainable replacement cycles. Century II moves KUB into its second century of service by improving each system through sound planning, resource allocation, and continued investment.

In June 2022, the Board approved three wastewater rate increases to support the Century II program. The first two of three approved 4 percent wastewater rate increases went into effect July 2022 and July 2023, generating \$3.9 million and \$4 million of additional annual Wastewater Division revenue, respectively. The remaining rate increases is effective July 2024 and is expected to provide an additional \$4.2 million in annual Wastewater Division revenue.

In June 2024, as part of KUB’s Inflation Response Plan, the Board approved the next phase of wastewater rate increases to support the Century II program. The three approved wastewater rate increases are effective July 2025, July 2026, and July 2027 and are expected to provide an additional \$2.3 million, \$2.4 million, and \$2.4 million in additional annual Wastewater Division revenue, respectively.

In fiscal year 2024, KUB rehabilitated or replaced 13 miles of wastewater system mains, while staying on track with Century II goals and within the Wastewater Division’s total capital budget.

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Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2024 and 2023

Financial Highlights

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's net position during the year increased \$25.4 million compared to a \$20.7 million increase last fiscal year.

Operating revenue increased \$6.3 million or 5.8 percent for the fiscal year ended June 30, 2024. Billed sales increased \$6 million, due to an increase in billable customer flows of 2.2 percent along with additional revenue from a 4 percent rate increase effective in July 2023.

Operating expenses increased \$2.2 million. Operating and maintenance (O&M) expenditures increased \$1.7 million. Depreciation and amortization expense increased \$0.2 million. Taxes and tax equivalents increased \$0.3 million or 4.9 percent.

Interest income was \$0.6 million higher than the prior fiscal year due to higher interest rates throughout the year. Interest expense was \$0.4 million lower than the prior fiscal year. Other income (net) was \$0.9 million higher.

Capital contributions decreased \$1.4 million, the result of a lower level of donated utility assets from developers compared to the previous fiscal year.

Total plant assets (net) increased \$23.8 million or 2.8 percent since the end of last fiscal year.

Long-term debt represented 51.3 percent of the Division's capital structure as of June 30, 2024, as compared to 53.6 percent last year. Capital structure equals long-term debt (which includes the current and long-term portion of revenue bonds) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Debt coverage for the current fiscal year was 2.10. Maximum debt service coverage for future fiscal years is 2.03.

Fiscal Year 2023 Compared to Fiscal Year 2022

The Division's net position during the year increased \$20.7 million compared to a \$19.6 million increase last fiscal year.

Operating revenue increased \$5.4 million or 5.3 percent for the fiscal year ended June 30, 2023. Billed sales increased \$5.8 million, due to an increase in billable customer flows of 2.3 percent along with additional revenue from a 4 percent rate increase effective in July 2022.

Operating expenses increased \$10.1 million. Operating and maintenance (O&M) expenditures increased \$7.4 million. Depreciation and amortization expense increased \$2.5 million or 11.2 percent. Taxes and tax equivalents increased \$0.3 million or 4.1 percent.

Interest income was \$1.7 million higher than the prior fiscal year due to rising interest rates throughout the year. Interest expense was consistent with the prior fiscal year. Other income (net) was \$1.4 million higher.

Capital contributions increased \$2.6 million, the result of an increase in donated utility assets from developers compared to the previous fiscal year.

Total plant assets (net) increased \$12.7 million or 1.5 percent since the end of last fiscal year.

Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2024 and 2023

During fiscal year 2023, KUB sold \$10 million in wastewater system revenue bonds for the purpose of funding wastewater system capital improvements.

Long-term debt represented 53.6 percent of the Division's capital structure as of June 30, 2023, as compared to 55.2 percent last year. Capital structure equals long-term debt (which includes the current and long-term portion of revenue bonds) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Debt coverage for the current fiscal year was 1.92. Maximum debt service coverage for future fiscal years is 1.88.

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Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2024 and 2023

Knoxville Utilities Board Wastewater Division - Financial Statements

The Division's financial performance is reported under three basic 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

The Division 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, wastewater plant in service, intangible, 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 the Division has done with its accumulated earnings, not just the balance.

Net investment in capital assets reflects the book value of all capital assets and intangible assets, less lease and subscription liabilities and the outstanding balances of debt used to acquire, construct, or improve those assets.

Restricted net position are assets that have been limited to specific uses by the Division'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 is either invested in capital or restricted is reported there.

Statement of Revenues, Expenses and Changes in Net Position

The Division 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

The Division reports cash flows from operating activities, capital and related financing activities, non-capital and related financing activities, and investing activities on the Statement of Cash Flows. This statement tells the user the Division's sources and uses of cash during the reporting period.

The statement indicates the Division's 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 Wastewater Division
Management's Discussion and Analysis
June 30, 2024 and 2023**

Condensed Financial Statements

Statement of Net Position

The following table reflects the condensed Statement of Net Position for the Wastewater Division compared to the prior two fiscal years.

**Statements of Net Position
As of June 30**

<i>(in thousands of dollars)</i>	2024	2023	2022 as restated
Current, restricted, intangible, and other assets	\$ 73,985	\$ 86,025	\$ 90,093
Capital assets, net	868,124	844,254	831,607
Deferred outflows of resources	<u>16,361</u>	<u>21,402</u>	<u>15,166</u>
Total assets and deferred outflows of resources	<u>958,470</u>	<u>951,681</u>	<u>936,866</u>
Current and other liabilities	32,333	34,894	27,182
Long-term debt outstanding	494,494	511,847	518,518
Deferred inflows of resources	<u>2,244</u>	<u>901</u>	<u>7,850</u>
Total liabilities and deferred inflows of resources	<u>529,071</u>	<u>547,642</u>	<u>553,550</u>
Net position			
Net investment in capital assets	372,931	333,082	314,337
Restricted	3,714	3,632	3,660
Unrestricted	<u>52,754</u>	<u>67,325</u>	<u>65,319</u>
Total net position	<u>\$ 429,399</u>	<u>\$ 404,039</u>	<u>\$ 383,316</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 Change in Net Position): impacts (increase/decrease) current and other assets and/or capital and intangible assets, and unrestricted net position.
- Issuing debt for capital: increases deferred outflows of resources and long-term debt.
- Spending debt proceeds on new capital: reduces current assets and increases capital assets.
- Spending of non-debt related current assets on new capital: (a) reduces current assets and increases capital assets, and (b) reduces unrestricted net position and increases net investment in capital assets.
- Principal payment on debt: (a) reduces current and other assets and reduces long-term debt, and (b) reduces unrestricted net position and increases net investment in capital assets.
- Reduction of capital assets through depreciation: reduces capital assets and net investment in capital assets.

Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2024 and 2023

Impacts and Analysis

Current, Restricted, Intangible, and Other Assets

Fiscal Year 2024 Compared to Fiscal Year 2023

Current, restricted, intangible, and other assets decreased \$12 million or 14 percent, primarily due to a \$14.1 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) offset by a \$1.1 million increase in lease receivable and a \$0.8 million increase in accounts receivable.

Fiscal Year 2023 Compared to Fiscal Year 2022

Current, restricted, intangible, and other assets decreased \$4.1 million or 4.5 percent, primarily due to an \$11.2 million decrease in the actuarially determined net pension asset offset by a \$7 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments).

Capital Assets

Fiscal Year 2024 Compared to Fiscal Year 2023

Capital assets increased \$23.8 million or 2.8 percent, the result of capital expenditures, net of depreciation. Major capital expenditures during the year included \$21 million for major system improvements related to Century II. Wastewater system assets of \$6.4 million were retired during the fiscal year.

Fiscal Year 2023 Compared to Fiscal Year 2022

Capital assets increased \$12.7 million or 1.5 percent, the result of capital expenditures, net of depreciation. Major capital expenditures during the year included \$20.4 million for major system improvements related to Century II. Wastewater system assets of \$4.8 million were retired during the fiscal year.

Deferred Outflows of Resources

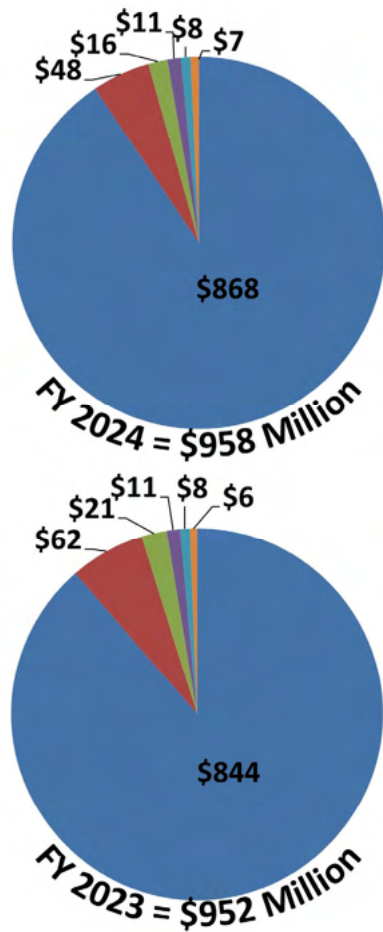
Fiscal Year 2024 Compared to Fiscal Year 2023

Deferred outflows decreased \$5 million compared to the prior year, due to a \$3.8 million decrease in pension outflow, a \$0.7 million decrease in unamortized bond refunding costs, and a \$0.5 million decrease in OPEB outflow.

Fiscal Year 2023 Compared to Fiscal Year 2022

Deferred outflows increased \$6.2 million compared to the prior year, due to a \$6.9 million increase in pension outflow offset by a \$0.7 million decrease in unamortized bond refunding costs.

**Knoxville Utilities Board Wastewater Division
Management’s Discussion and Analysis
June 30, 2024 and 2023**



Wastewater Division Total Assets and Deferred Outflows of Resources (in Millions)

	<u>FY24</u>	<u>FY23</u>
Plant	91%	89%
General and Contingency Funds	4%	6%
Deferred Outflows of Resources	2%	2%
Accounts Receivable	1%	1%
Restricted Assets	1%	1%
Other Assets	1%	1%

Current and Other Liabilities

Fiscal Year 2024 Compared to Fiscal Year 2023

Current and other liabilities were \$2.6 million lower than the prior fiscal year, due primarily to a decrease of \$2.7 million in the actuarially determined net pension liability.

Fiscal Year 2023 Compared to Fiscal Year 2022

Current and other liabilities were \$7.7 million higher than the prior fiscal year, due to an increase of \$3.9 million in the actuarially determined net pension liability and an increase of \$3.6 million in accounts payable.

Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2024 and 2023

Long-Term Debt

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's outstanding long-term debt decreased \$17.4 million or 3.4 percent. This decrease is due to the scheduled repayment of debt.

Fiscal Year 2023 Compared to Fiscal Year 2022

The Division's outstanding long-term debt decreased \$6.7 million or 1.3 percent. This decrease is due to the net impact of the scheduled repayment of debt and \$10 million in wastewater system revenue bonds sold in November 2022.

Deferred Inflows of Resources

Fiscal Year 2024 Compared to Fiscal Year 2023

Deferred inflows of resources were \$1.3 million higher than the prior fiscal year, due to a \$1 million increase in lease inflow and a \$0.4 million increase in OPEB inflow.

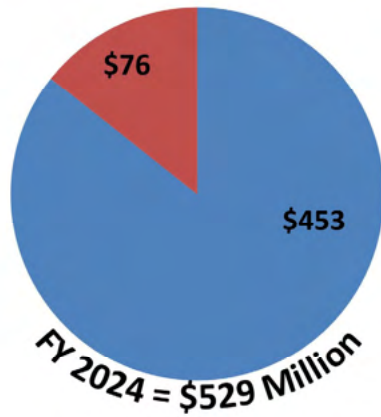
Fiscal Year 2023 Compared to Fiscal Year 2022

Deferred inflows of resources were \$6.9 million lower than the prior fiscal year, primarily due to a \$6.8 million decrease in pension inflow.

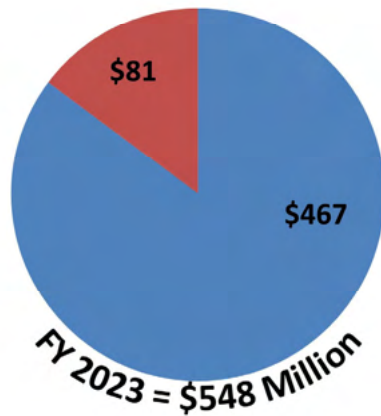
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**Knoxville Utilities Board Wastewater Division
Management’s Discussion and Analysis
June 30, 2024 and 2023**

**Wastewater Division Total Liabilities
and Deferred Inflows of Resources
(in Millions)**



	<u>FY24</u>	<u>FY23</u>
■ Bond Debt	86%	85%
■ All Other	14%	15%



Net Position

Fiscal Year 2024 Compared to Fiscal Year 2023

Net position increased \$25.4 million in fiscal year 2024. Net investment in capital assets increased \$39.8 million, the result of \$23.8 million in net plant additions and a decrease in current and long-term portions of revenue bonds of \$14.5 million. Restricted net position increased \$0.1 million. Unrestricted net position decreased \$14.6 million, primarily due to a \$14.1 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments).

Fiscal Year 2023 Compared to Fiscal Year 2022

Net position increased \$20.7 million in fiscal year 2023. Net investment in capital assets increased \$18.7 million, the result of \$12.6 million in net plant additions and a decrease in current and long-term portions of revenue bonds of \$4.8 million. Restricted net position was consistent with the previous fiscal year. Unrestricted net position increased \$2 million, primarily due to a \$7 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) and a \$6.9 million increase in pension outflow offset by an \$11.2 million decrease in the actuarially determined net pension asset.

**Knoxville Utilities Board Wastewater Division
Management's Discussion and Analysis
June 30, 2024 and 2023**

Statement of Revenues, Expenses and Changes in Net Position

The following table reflects the condensed Statement of Revenues, Expenses and Changes in Net Position for the Wastewater Division compared to the prior two fiscal years.

**Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30**

<i>(in thousands of dollars)</i>	2024	2023	2022 as restated
Operating revenues	\$ 114,621	\$ 108,370	\$ 102,937
Operating expenses			
Treatment	16,027	15,346	14,515
Collection	8,173	9,757	8,541
Customer service	3,051	3,829	3,966
Administrative and general	19,249	15,843	10,398
Depreciation and amortization	24,450	24,284	21,830
Taxes and tax equivalents	6,748	6,433	6,178
Total operating expenses	<u>77,698</u>	<u>75,492</u>	<u>65,428</u>
Operating income	<u>36,923</u>	<u>32,878</u>	<u>37,509</u>
Interest income	2,635	2,033	297
Interest expense	(18,486)	(18,927)	(18,889)
Other income/(expense)	2,530	1,603	177
Change in net position before capital contributions	<u>23,602</u>	<u>17,587</u>	<u>19,094</u>
Capital contributions	1,758	3,136	508
Change in net position	<u>\$ 25,360</u>	<u>\$ 20,723</u>	<u>\$ 19,602</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 primarily determined by the amount of water usage billed during the fiscal year. KUB has certain commercial and industrial customers whose wastewater usage is metered separately from their water usage. Any change (increase/decrease) in wastewater rates would also cause a change in operating revenue.
- Operating expenses (treatment, collection system expense, 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 health insurance costs, chemicals, and wastewater system maintenance.
- Depreciation and amortization expense is impacted by intangible assets, plant additions, and retirements during the fiscal year.
- Taxes and tax equivalents are impacted by plant additions/retirements and changes in property tax rates.

Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2024 and 2023

- Interest income is impacted by the level of interest rates and investments.
- Interest expense is impacted by the level of outstanding debt and interest rates on the outstanding debt.
- Other income/(expense) is impacted by miscellaneous non-operating revenues and expenses.
- Capital contributions are impacted by a donation of facilities/infrastructure to KUB by developers and governmental agencies. The contributions are recognized as revenue and recorded as plant in service based on the fair market value of the asset(s).

Impacts and Analysis

Change in Net Position

Fiscal Year 2024 Compared to Fiscal Year 2023

The Division's Change in Net Position increased \$25.4 million in fiscal year 2024. Comparatively, net position increased by \$20.7 million in fiscal year 2023.

Fiscal Year 2023 Compared to Fiscal Year 2022

The Division's Change in Net Position increased \$20.7 million in fiscal year 2023. Comparatively, net position increased by \$19.6 million in fiscal year 2022.

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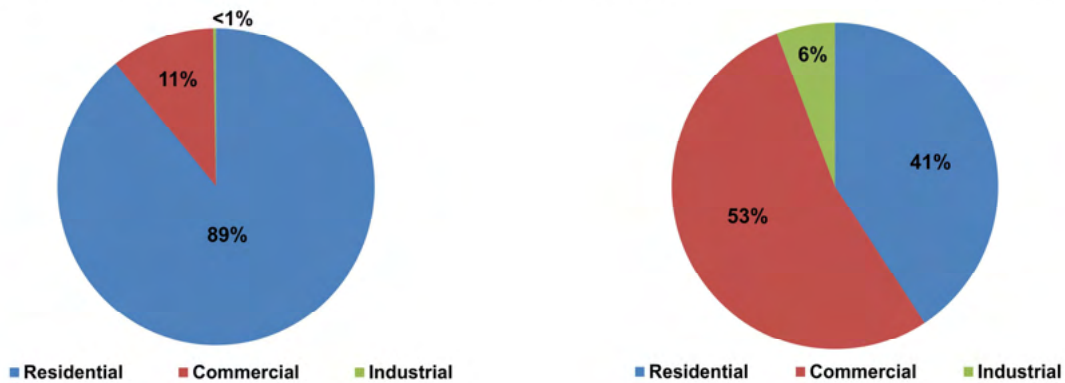
Knoxville Utilities Board Wastewater Division Management’s Discussion and Analysis June 30, 2024 and 2023

Margin from Sales

Fiscal Year 2024 Compared to Fiscal Year 2023

Operating revenue increased \$6.3 million or 5.8 percent for the fiscal year ended June 30, 2024. Billed sales increased \$6 million, the combined result of an increase in billable customer flows of 2.2 percent and additional revenue from a 4 percent rate increase effective in July 2023. Rebates on bond interest payments from the federal government for federally taxable Build America Bonds (BABs) are reported as revenue in accordance with GASB. KUB recognized \$0.4 million in revenue for BABs rebates in fiscal year 2024.

FY 2024 Total Wastewater Customers = 74,952 FY 2024 Wastewater Sales = 6.7 Billion Gallons



Residential customers accounted for 89 percent of wastewater customers and 41 percent of total billed sales volumes for the year. Commercial customers accounted for the largest portion of total sales volumes for the year with 53 percent.

KUB’s ten largest wastewater customers accounted for 19 percent of KUB’s billed wastewater volumes. Those ten customers represent five industrial and five commercial customers, including four governmental customers.

KUB has added 2,122 wastewater customers over the past three years, representing annual growth of less than one percent.

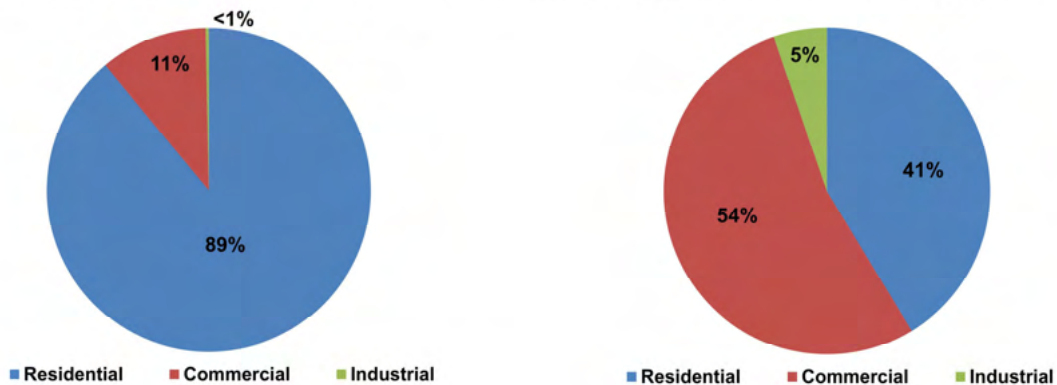
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Knoxville Utilities Board Wastewater Division Management’s Discussion and Analysis June 30, 2024 and 2023

Fiscal Year 2023 Compared to Fiscal Year 2022

Operating revenue increased \$5.4 million or 5.3 percent for the fiscal year ended June 30, 2023. Billed sales increased \$5.8 million, the combined result of an increase in billable customer flows of 2.3 percent and additional revenue from a 4 percent rate increase effective in July 2022. Rebates on bond interest payments from the federal government for federally taxable Build America Bonds (BABs) are reported as revenue in accordance with GASB. KUB recognized \$0.4 million in revenue for BABs rebates in fiscal year 2023.

FY 2023 Total Wastewater Customers = 74,041 FY 2023 Wastewater Sales = 6.6 Billion Gallons



Residential customers accounted for 89 percent of wastewater customers and 41 percent of total billed sales volumes for the year. Commercial customers accounted for the largest portion of total sales volumes for the year with 54 percent.

KUB’s ten largest wastewater customers accounted for 19 percent of KUB’s billed wastewater volumes. Those ten customers represent five industrial and five commercial customers, including four governmental customers.

KUB has added 1,795 wastewater customers over the past three years, representing annual growth of less than one percent.

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Knoxville Utilities Board Wastewater Division Management’s Discussion and Analysis June 30, 2024 and 2023

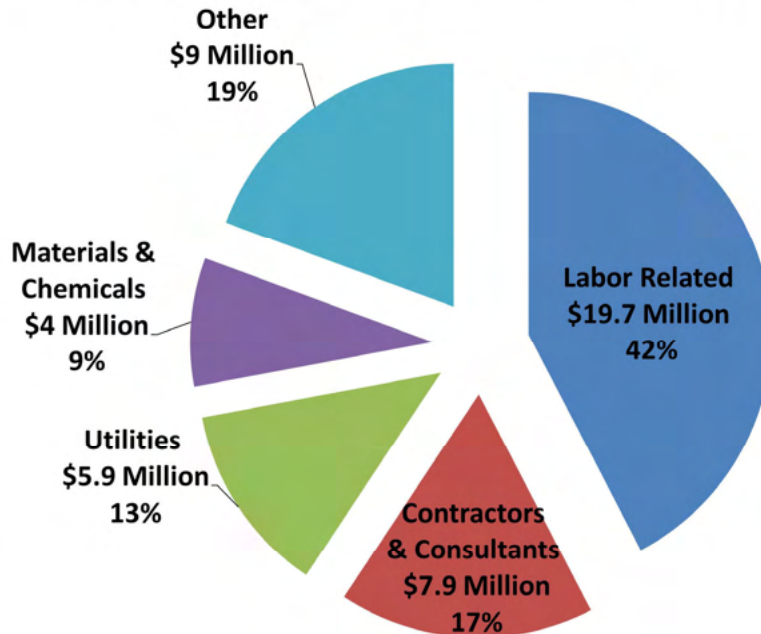
Operating Expenses

Fiscal Year 2024 Compared to Fiscal Year 2023

Operating expenses increased \$2.2 million compared to fiscal year 2023. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as treatment, collection, customer service, and administrative and general.

- Treatment expenses increased \$0.7 million, primarily due to an increase in chemicals and labor-related expenses.
- Collection system expenses decreased \$1.6 million, primarily due to a decrease in outside contractor expenses.
- Customer service expenses decreased \$0.8 million, primarily due to a change in methodology for technology-related costs that resulted in an offsetting increase in administration and general expenses.
- Administrative and general expenses increased \$3.4 million, primarily due to an increase in other expenses, labor-related expenses, and a change in methodology for technology-related costs that resulted in an offsetting decrease in customer service expenses.

FY 2024 Wastewater O&M Expense = \$46.5 Million



- Depreciation and amortization expense increased \$0.2 million or 0.7 percent. KUB added \$62.1 million in assets during fiscal year 2024. A partial year of depreciation expense was recorded for these capital investments and a full year of depreciation expense was incurred on \$22.5 million of wastewater system assets placed in service during fiscal year 2023. Wastewater system assets of \$6.4 million were retired during the fiscal year.

Knoxville Utilities Board Wastewater Division Management’s Discussion and Analysis June 30, 2024 and 2023

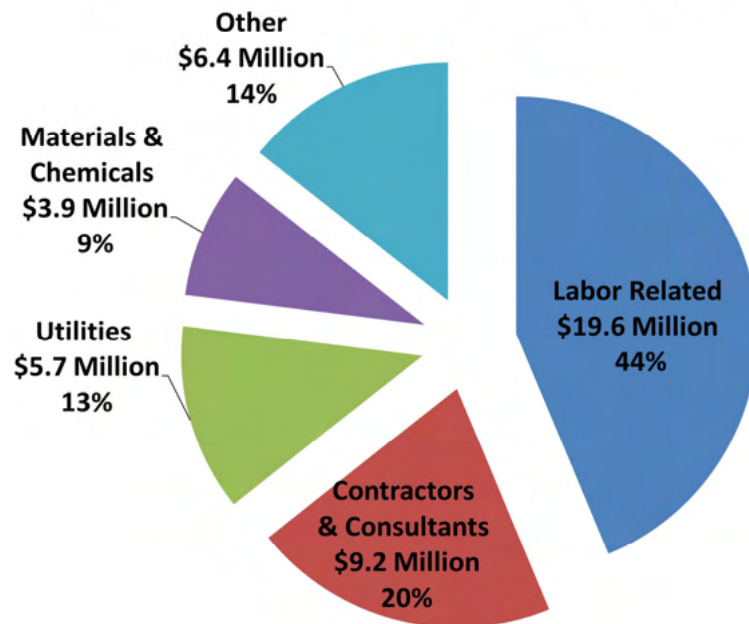
- Taxes and tax equivalents increased \$0.3 million compared to the prior fiscal year, due to increased plant in service levels.

Fiscal Year 2023 Compared to Fiscal Year 2022

Operating expenses increased \$10.1 million compared to fiscal year 2022. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as treatment, collection, customer service, and administrative and general.

- Treatment expenses increased \$0.8 million, primarily due to an increase in chemicals, utility expenses, and labor-related expenses.
- Collection system expenses increased \$1.2 million, primarily due to an increase in outside contractor expenses.
- Customer service expenses decreased \$0.1 million.
- Administrative and general expenses increased \$5.4 million, primarily due to an increase in labor-related expenses, driven by higher pension expenses resulting from investment losses, and outside consultant expenses.

FY 2023 Wastewater O&M Expense = \$44.8 Million

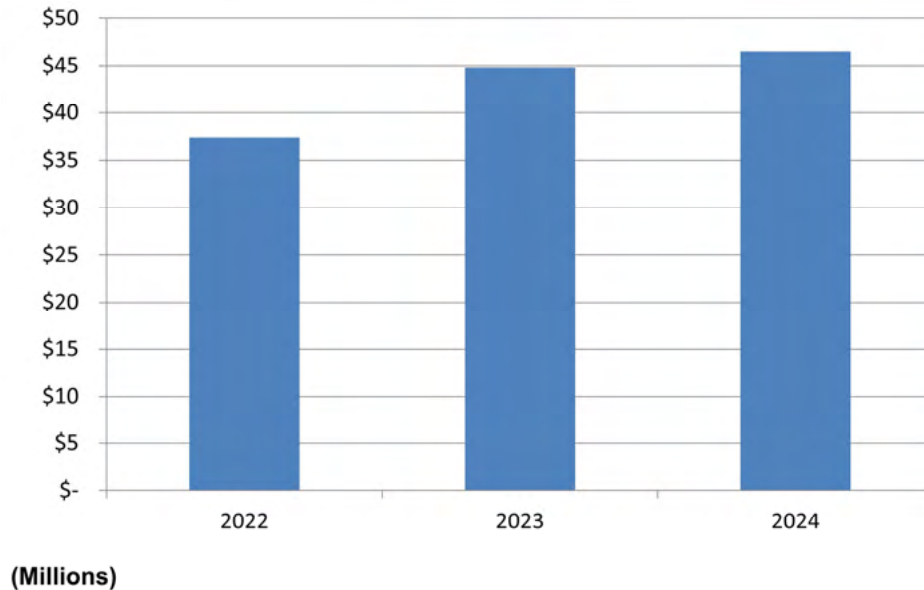


- Depreciation and amortization expense increased \$2.5 million or 11.2 percent. KUB added \$22.5 million in assets during fiscal year 2023. A partial year of depreciation expense was recorded for these capital investments and a full year of depreciation expense was incurred on \$69 million of wastewater system assets placed in service during fiscal year 2022. Wastewater system assets of \$4.8 million were retired during the fiscal year.

**Knoxville Utilities Board Wastewater Division
Management’s Discussion and Analysis
June 30, 2024 and 2023**

- Taxes and tax equivalents increased \$0.3 million compared to the prior fiscal year, due to increased plant in service levels.

Wastewater Division Operation & Maintenance Expense



Other Income and Expense

Fiscal Year 2024 Compared to Fiscal Year 2023

Interest income increased \$0.6 million due to higher interest rates throughout the year.

Interest expense decreased \$0.4 million compared to the prior fiscal year.

Other income (net) was \$0.9 million higher than the prior fiscal year, primarily due to mark-to-market adjustments on investments.

Capital contributions decreased \$1.4 million compared to the prior fiscal year, the result of a decrease in assets received from developers.

Fiscal Year 2023 Compared to Fiscal Year 2022

Interest income increased \$1.7 million due to rising interest rates throughout the year.

Interest expense was consistent with the prior fiscal year.

Other income (net) was \$1.4 million higher than the prior fiscal year, primarily due to mark-to-market adjustments on investments.

Capital contributions increased \$2.6 million compared to last fiscal year as a result of an increase in assets received from developers.

**Knoxville Utilities Board Wastewater Division
Management's Discussion and Analysis
June 30, 2024 and 2023**

Capital Assets

	Capital Assets As of June 30 (Net of Depreciation)		
<i>(in thousands of dollars)</i>	2024	2023	2022
Pumping & Treatment Plant	\$ 217,696	\$ 202,039	\$ 204,307
Collection Plant			
Mains and Metering	532,111	510,111	506,844
Other Accounts	57,953	59,483	61,013
Total Collection Plant	<u>590,064</u>	<u>569,594</u>	<u>567,857</u>
Total General Plant	14,804	13,560	15,252
Total Wastewater Plant	\$ <u>822,564</u>	\$ <u>785,193</u>	\$ <u>787,416</u>
Work In Progress	45,560	59,061	44,191
Total Net Plant	<u>\$ 868,124</u>	<u>\$ 844,254</u>	<u>\$ 831,607</u>

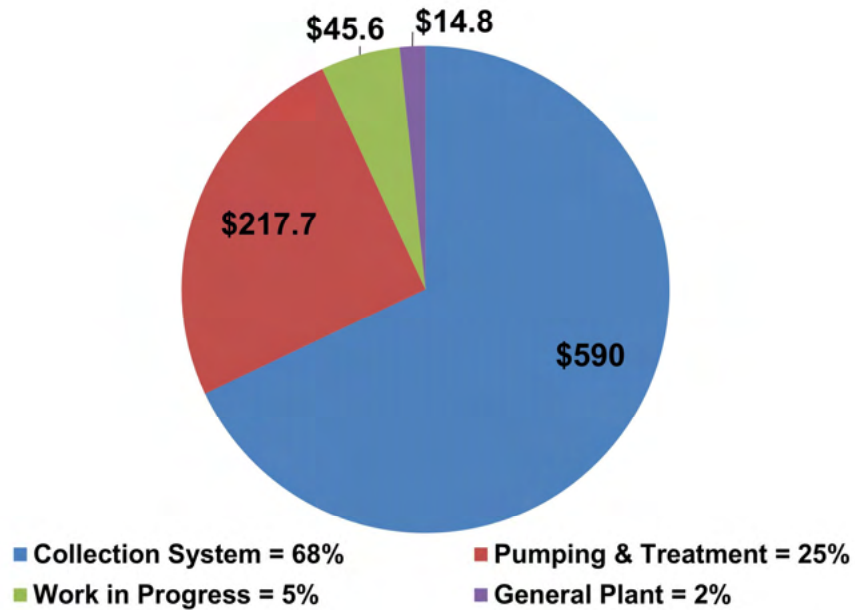
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Knoxville Utilities Board Wastewater Division Management’s Discussion and Analysis June 30, 2024 and 2023

Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, the Division had \$868.1 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of \$23.8 million or 2.8 percent over the end of the last fiscal year.

FY 2024 Wastewater Division Capital Assets = \$868.1 Million
(in Millions)



Major capital asset expenditures during the year were as follows:

- \$21 million related to Century II projects
 - \$7.2 million for sewer mini-basin rehabilitation and replacement
 - \$4.4 million for short line projects
 - \$4.4 million for pump station construction and improvements
 - \$4.2 million for wastewater treatment plant upgrades
 - \$0.8 million for trunkline improvements

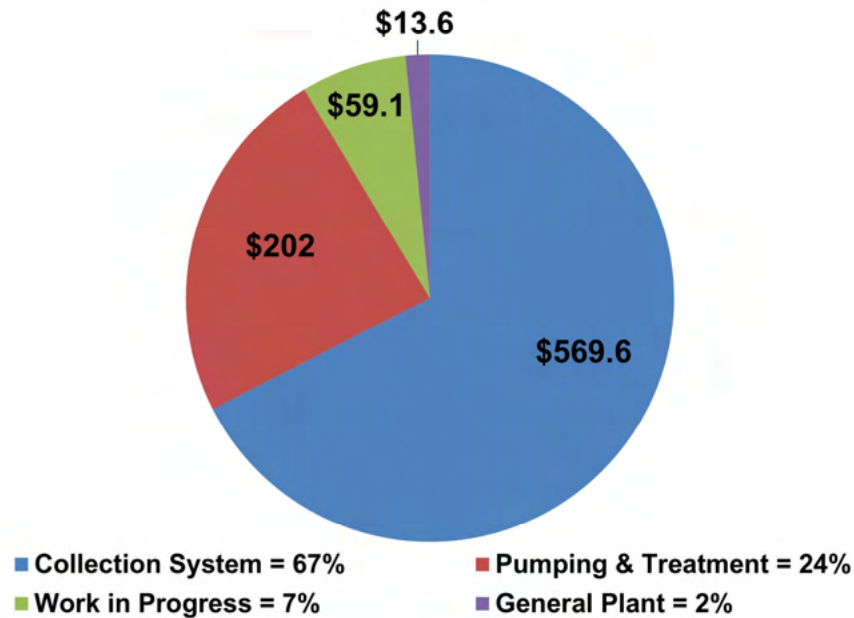
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Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2024 and 2023

Fiscal Year 2023 Compared to Fiscal Year 2022

As of June 30, 2023, the Division had \$844.3 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of \$12.7 million or 1.5 percent over the end of the last fiscal year.

FY 2023 Wastewater Division Capital Assets = \$844.3 Million
(in Millions)



Major capital asset expenditures during the year were as follows:

- \$20.4 million related to Century II projects
 - \$8.2 million for pump station construction and improvements
 - \$5.9 million for sewer mini-basin rehabilitation and replacement
 - \$5.1 million for wastewater treatment plant upgrades
 - \$1.2 million for short line projects

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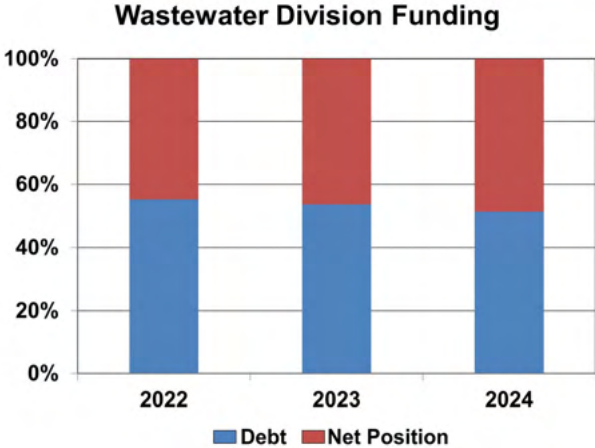
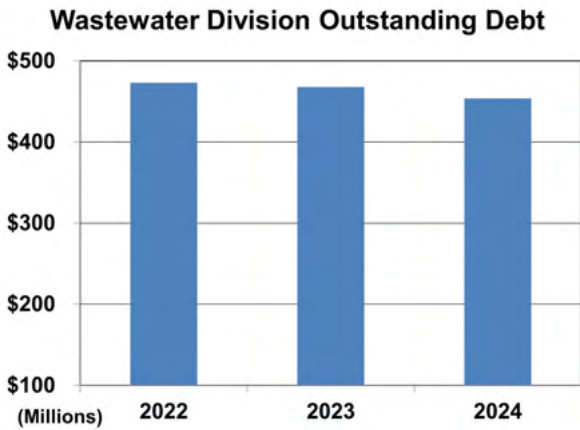
**Knoxville Utilities Board Wastewater Division
Management’s Discussion and Analysis
June 30, 2024 and 2023**

Debt Administration

As of June 30, 2024, the Wastewater Division had \$452.8 million in outstanding wastewater system bonds. The bonds are secured solely by revenues of the Wastewater Division. Debt as a percentage of the Division’s capital structure was 51.3 percent in 2024, 53.6 percent in 2023, and 55.2 percent in 2022. KUB’s Debt Management Policy limits the Division’s debt ratio to 60 percent or less.

**Outstanding Debt
As of June 30**

<i>(in thousands of dollars)</i>	2024	2023	2022
Revenue bonds	\$ 452,820	\$ 467,345	\$ 472,110
Total outstanding debt	<u>\$ 452,820</u>	<u>\$ 467,345</u>	<u>\$ 472,110</u>



The Division will pay \$172.4 million in principal payments over the next ten years, representing 38.1 percent of the outstanding bonds. KUB’s Debt Management Policy requires a minimum of 30 percent of wastewater debt principal be repaid over the next ten years.

Fiscal Year 2024 Compared to Fiscal Year 2023

As of June 30, 2024, the Division had \$452.8 million in outstanding debt (including the current portion of revenue bonds), representing a decrease of \$14.5 million. As of June 30, 2024, the Division’s weighted average cost of debt was 3.98 percent (3.89 percent including the impact of Build America Bonds rebates).

The Division’s outstanding debt is rated by S&P Global Ratings and Moody’s Investors Service. As of June 30, 2024, the Division’s revenue bonds were rated AA+ by S&P Global Ratings and Aa2 by Moody’s Investors Service.

Fiscal Year 2023 Compared to Fiscal Year 2022

As of June 30, 2023, the Division had \$467.3 million in outstanding debt (including the current portion of revenue bonds), representing a decrease of \$4.8 million. As of June 30, 2023, the Division’s weighted average cost of debt was 3.98 percent (3.89 percent including the impact of Build America Bonds rebates).

Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2024 and 2023

KUB sold \$10 million in wastewater system revenue bonds in November 2022 for the purpose of funding wastewater system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 4.08 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2052.

The Division's outstanding debt is rated by S&P Global Ratings and Moody's Investors Service. As of June 30, 2023, the Division's revenue bonds were rated AA+ by S&P Global Ratings and Aa2 by Moody's Investors Service.

Impacts on Future Financial Position

KUB anticipates adding 500 wastewater customers in fiscal year 2025.

KUB long-term debt includes \$20.3 million of Wastewater Division 2010 Build America Bonds (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.

In July 2024, S&P Global Ratings upgraded KUB's wastewater system's rating from AA+ to AAA, the highest credit rating available.

The Pension Plan actuarial valuation resulted in an actuarially determined contribution of \$2,210,234 for the fiscal year ending June 30, 2025, based on the Plan's current funding policy. The Wastewater Division's portion of this contribution will be determined as part of the actuarial analysis for the December 31, 2024, measurement date. Subsequent to June 30, 2024, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$2,793,313 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. The Wastewater Division's portion of this contribution will be determined as part of the actuarial analysis for the December 31, 2025, measurement date. For the Plan year beginning January 1, 2024, the Plan's actuarial funded ratio is 105.19 percent, and the market value funded ratio is 96.77 percent.

The OPEB Plan actuarial valuation resulted in an actuarially determined contribution of \$1,279,985 for the fiscal year ending June 30, 2025, based on the Plan's current funding policy. The Wastewater Division's portion of this contribution will be determined as part of the actuarial analysis for the June 30, 2025, measurement date. Subsequent to June 30, 2024, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$1,217,234 for the fiscal year ending June 30, 2026, based on the Plan's current funding policy. The Wastewater Division's portion of this contribution will be determined as part of the actuarial analysis for the June 30, 2026, measurement date. The Plan's actuarial funded ratio is 84.19 percent, and the market value funded ratio is 87.91 percent.

GASB Statement No. 101, *Compensated Absences*, is effective for fiscal years beginning after December 15, 2023. GASB Statement No. 102, *Certain Risk Disclosures*, is effective for fiscal years beginning after June 15, 2024. GASB Statement No. 103, *Financial Reporting Model Improvements*, is effective for fiscal years beginning after June 15, 2025. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on the Division's financial position or results of operations during fiscal year 2024.

**Knoxville Utilities Board Wastewater Division
Management's Discussion and Analysis
June 30, 2024 and 2023**

Financial Contact

The Division's financial statements are designed to present users (citizens, customers, investors, and creditors) with a general overview of the Division's financial position and results of operations for the fiscal years ended June 30, 2024, and 2023. If you have questions about the statements or need additional financial information, contact KUB's Chief Financial Officer at 445 South Gay Street, Knoxville, Tennessee 37902.

Knoxville Utilities Board Wastewater Division
Statements of Net Position
June 30, 2024 and 2023

	2024	2023
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	\$ 13,388,680	\$ 28,476,696
Short-term contingency fund investments	22,378,305	21,164,426
Other current assets	3,612	3,425
Accrued interest receivable	38,675	37,873
Accounts receivable, less allowance of uncollectible accounts of \$98,091 in 2024 and \$94,941 in 2023	11,312,857	10,488,971
Current portion of lease receivable	168,395	109,142
Inventories	574,851	463,830
Prepaid expenses	116,281	90,629
Total current assets	<u>47,981,656</u>	<u>60,834,992</u>
Restricted assets:		
Wastewater bond fund	8,224,234	8,280,059
Other funds	320	319
Total restricted assets	<u>8,224,554</u>	<u>8,280,378</u>
Wastewater plant in service	1,110,679,440	1,054,989,747
Less accumulated depreciation	<u>(288,115,652)</u>	<u>(269,797,310)</u>
	822,563,788	785,192,437
Retirement in progress	68,157	62,393
Construction in progress	45,491,836	58,998,788
Net plant in service	<u>868,123,781</u>	<u>844,253,618</u>
Intangible assets:		
Intangible right of use asset	101,233	110,675
Intangible subscription asset	502,929	63,455
Less accumulated amortization	<u>(272,606)</u>	<u>(63,572)</u>
Net intangible assets	<u>331,556</u>	<u>110,558</u>
Other assets:		
Long-term contingency fund investments	11,705,004	11,906,581
Long-term lease receivable	1,763,556	768,063
Other	3,978,390	4,124,763
Total other assets	<u>17,446,950</u>	<u>16,799,407</u>
Total assets	<u>942,108,497</u>	<u>930,278,953</u>
Deferred outflows of resources:		
Pension outflow	5,033,476	8,846,851
OPEB outflow	486,613	983,423
Unamortized bond refunding costs	10,840,956	11,571,363
Total deferred outflows of resources	<u>16,361,045</u>	<u>21,401,637</u>
Total assets and deferred outflows of resources	<u>\$ 958,469,542</u>	<u>\$ 951,680,590</u>

The accompanying notes are an integral part of these financial statements.

Knoxville Utilities Board Wastewater Division
Statements of Net Position
June 30, 2024 and 2023

	2024	2023
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	\$ 14,855,000	\$ 14,525,000
Current portion of accrued compensated absences	1,239,918	1,254,720
Current portion of lease liability	19,268	19,925
Current portion of subscription liability	66,418	19,084
Accounts payable	5,365,645	5,224,583
Accrued expenses	901,736	765,153
Customer deposits plus accrued interest	1,107,614	1,052,473
Accrued interest on revenue bonds	4,510,384	4,648,709
Total current liabilities	<u>28,065,983</u>	<u>27,509,647</u>
Other liabilities:		
Accrued compensated absences	638,746	646,371
Customer advances for construction	553,758	447,191
Lease liability	42,771	62,039
Subscription liability	210,007	6,077
Net pension liability	1,234,032	3,886,193
Net OPEB liability	1,578,688	2,321,053
Other	8,219	14,852
Total other liabilities	<u>4,266,221</u>	<u>7,383,776</u>
Long-term debt:		
Wastewater revenue bonds	437,965,000	452,820,000
Unamortized premiums/discounts	56,529,052	59,027,339
Total long-term debt	<u>494,494,052</u>	<u>511,847,339</u>
Total liabilities	<u>526,826,256</u>	<u>546,740,762</u>
Deferred inflows of resources:		
Pension inflow	9,882	51,885
OPEB inflow	381,912	9,246
Lease inflow	1,851,981	839,534
Total deferred inflows of resources	<u>2,243,775</u>	<u>900,665</u>
Total liabilities and deferred inflows of resources	<u>529,070,031</u>	<u>547,641,427</u>
Net position		
Net investment in capital assets	372,931,337	333,081,961
Restricted for:		
Debt service	3,713,850	3,631,350
Other	320	319
Unrestricted	52,754,004	67,325,533
Total net position	<u>429,399,511</u>	<u>404,039,163</u>
Total liabilities, deferred inflows, and net position	<u>\$ 958,469,542</u>	<u>\$ 951,680,590</u>

The accompanying notes are an integral part of these financial statements.

Knoxville Utilities Board Wastewater Division
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2024 and 2023

	2024	2023
Operating revenues	\$ 114,620,879	\$ 108,369,907
Operating expenses		
Treatment	16,026,705	15,346,345
Collection	8,173,494	9,757,379
Customer service	3,051,083	3,828,662
Administrative and general	19,248,454	15,842,419
Depreciation and amortization	24,450,486	24,284,005
Taxes and tax equivalents	6,747,633	6,432,852
Total operating expenses	<u>77,697,855</u>	<u>75,491,662</u>
Operating income	<u>36,923,024</u>	<u>32,878,245</u>
Non-operating revenues (expenses)		
Contributions in aid of construction	893,969	839,280
Interest income	2,635,498	2,032,743
Interest expense	(18,485,795)	(18,927,383)
Amortization of debt costs	1,571,122	1,549,688
Write-down of plant for costs recovered through contributions	(893,969)	(839,280)
Other	958,186	53,619
Total non-operating revenues (expenses)	<u>(13,320,989)</u>	<u>(15,291,333)</u>
Change in net position before capital contributions	23,602,035	17,586,912
Capital contributions	1,758,313	3,136,370
Change in net position	25,360,348	20,723,282
Net position, beginning of year	404,039,163	383,315,881
Net position, end of year	<u>\$ 429,399,511</u>	<u>\$ 404,039,163</u>

The accompanying notes are an integral part of these financial statements.

Knoxville Utilities Board Wastewater Division
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Cash receipts from customers	\$ 112,685,736	\$ 107,223,521
Cash payments for other operations	(3,429,983)	(352,175)
Cash payments to suppliers of goods or services	(27,521,744)	(25,523,945)
Cash payments to employees for services	(13,780,745)	(13,450,087)
Payment in lieu of taxes	(5,652,868)	(5,383,684)
Net cash provided by operating activities	<u>62,300,396</u>	<u>62,513,630</u>
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	-	10,159,529
Principal paid on revenue bonds	(14,525,000)	(14,760,000)
Interest paid on revenue bonds	(18,594,838)	(18,831,342)
Acquisition and construction of wastewater plant	(47,842,014)	(34,963,633)
Changes in wastewater bond fund, restricted	55,825	(62,686)
Customer advances for construction	106,567	60,225
Principal paid on lease liabilities	(19,925)	(45,504)
Principal paid on subscription liabilities	(77,952)	(18,250)
Interest paid on lease and subscription liabilities	(14,833)	(4,946)
Cash received from developers and individuals for capital purposes	893,969	839,280
Net cash used in capital and related financing activities	<u>(80,018,201)</u>	<u>(57,627,327)</u>
Cash flows from investing activities:		
Purchase of investment securities	(21,736,056)	(4,803,792)
Maturities of investment securities	21,800,000	4,800,000
Interest received	2,568,099	1,971,486
Other property and investments	(2,254)	52,067
Net cash provided by investing activities	<u>2,629,789</u>	<u>2,019,761</u>
Net (decrease) increase in cash and cash equivalents	(15,088,016)	6,906,064
Cash and cash equivalents, beginning of year	<u>28,476,696</u>	<u>21,570,632</u>
Cash and cash equivalents, end of year	<u>\$ 13,388,680</u>	<u>\$ 28,476,696</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 36,923,024	\$ 32,878,245
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	24,884,723	24,642,688
Changes in operating assets and liabilities:		
Accounts receivable	(823,886)	(170,809)
Lease receivable	(1,054,747)	60,037
Inventories	(111,021)	(2,800)
Prepaid expenses	(25,652)	6,588
Other assets	(50,574)	27,237
Accounts payable and other accrued expenses	2,522,240	5,077,837
Customer deposits plus accrued interest	42,921	46,528
Other liabilities	(6,632)	(51,921)
Net cash provided by operating activities	<u>\$ 62,300,396</u>	<u>\$ 62,513,630</u>
Noncash capital activities:		
Acquisition of plant assets through developer contributions	\$ 1,758,313	\$ 3,136,370
Record intangible right of use asset and lease liability	\$ -	\$ 24,084
Record intangible subscription asset and subscription liability	\$ 329,217	\$ 13,534

The accompanying notes are an integral part of these financial statements.

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2024 and 2023

1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric Division, Fiber Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, broadband, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions, including setting rates. The Wastewater Division (Division) provides services to certain customers in Knox County and in two surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners (NARUC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Wastewater Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board as of June 30, 2024, and 2023, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 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 to the Division is determined by measurement focus. The transactions of the Division 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 April 2022, the GASB issued GASB Statement No. 99 (Statement No. 99), *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements and accounting and financial reporting for financial guarantees. Paragraphs 26-32 were effective immediately. Paragraphs 11-25 were effective for fiscal years beginning after June 15, 2022. Paragraphs 4-10

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are effective for fiscal years beginning after June 15, 2023. Adoption of this Statement did not have a significant impact on KUB's financial statements.

In June 2022, the GASB issued GASB Statement No. 100 (Statement No. 100), *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. Statement No. 100 is effective for fiscal years beginning after June 15, 2023. Adoption of this Statement did not have a significant impact on KUB's financial statements.

Wastewater Plant

Wastewater plant and other property are stated on the basis of original cost. The cost of current repairs and minor replacements is charged to operating expense. The cost of renewals and improvements is 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 wastewater plant in service is based on the estimated useful lives of the assets, which range from three to fifty years, and is computed using the straight-line method. Pursuant to NARUC, the caption "Depreciation and amortization" in the Statements of Revenue, Expenses and Change in Net Position does not include depreciation for transportation equipment. Depreciation for transportation equipment of \$434,237 in fiscal year 2024 and \$358,683 in fiscal year 2023 is included in operation and maintenance expense.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of the KUB Wastewater Division. 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 \$266,332 in fiscal year 2024 and \$266,428 in fiscal year 2023.

Non-operating Revenue

Non-operating revenue consists of revenues that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

Expense

When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is KUB's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net 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 and intangible assets, including restricted capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of any bonds, mortgages, notes, lease and subscription liabilities, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of

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those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Net position-restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- Net position-unrestricted – This component of net position consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Contributions in Aid of Construction and Capital Contributions

Contributions in aid of construction are cash collections from customers, grantors, or others for a particular purpose, generally the construction of new facilities to serve new customers in excess of the investment KUB is willing to make for a particular incremental revenue source. KUB reduces the plant account balances to which contributions relate by the actual amount of the contribution and recognizes the contributions as non-operating revenue in accordance with Statement No. 62.

Capital contributions represent contributions of utility plant infrastructure constructed by developers and others in industrial parks and other developments and transferred to KUB upon completion of construction and the initiation of utility service. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, such contributions are recognized as revenues and capital assets upon receipt.

Inventories

Inventories, consisting of plant materials and operating supplies, are valued at the lower of average cost or replacement value.

OPEB Trust

KUB's OPEB Trust was established by KUB's Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. The purpose of the Trust is to fund KUB's post-employment health care plan (the "Plan"), which provides certain medical benefits for qualifying KUB retirees and beneficiaries. Effective January 1, 2022, the Plan was expanded to include two benefit offerings. Employees with a benefit service date prior to July 1, 1999, will continue to be eligible for the Retiree Medical Benefit, while those with a later benefit service date will participate in a new Retiree Health Reimbursement Arrangement, given that each eligible employee meets the "Rule of 80", the sum of age and at least 20 years of qualified service equal to or exceeding 80, at retirement.

KUB's policy is to fully fund the annual actuarially determined contributions, which are determined by actuarial valuation. As required by GASB Statement No. 75, KUB measures net OPEB liability as total OPEB liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2024, and 2023, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2024, and 2023, are based on a June 30, 2024, and 2023, measurement date, respectively. The net OPEB liability is \$9,373,073 (Division's share \$1,578,688) as of June 30, 2024, and \$12,930,655 (Division's share \$2,321,053) as of June 30, 2023.

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Pension Plan and Qualified Excess Benefit Arrangement

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 12). KUB's policy is to fully fund the annual actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2024, and 2023, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2024, and 2023, are based on a December 31, 2023, and 2022, measurement date, respectively. The net pension liability is \$7,452,380 (Division's share \$1,234,032) as of June 30, 2024, and \$22,219,032 (Division's share \$3,886,193) as of June 30, 2023.

KUB implemented a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). The QEBA is a single employer defined benefit pension plan administered by KUB (Note 13). As required by GASB Statement No. 73, KUB measures the total pension liability of the QEBA. The amounts reported as of June 30, 2024, and 2023, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2024, and 2023, are based on a December 31, 2023, and 2022, measurement date, respectively. Due to the increase in the section 415(d) annual benefit limitation from 2021 to 2022, the pension benefit for the sole participant in the Excess Benefit Arrangement is now fully payable under the KUB Pension Plan and, as such, there is no benefit payable under the Excess Benefit Arrangement as of June 30, 2024, and 2023.

Investments

Investments are carried at fair value as determined by quoted market prices at the reporting date.

Self-Insurance

KUB has established self-insurance programs covering portions of workers' compensation, employee health, environmental liability, general liability, property and casualty liability, and automobile liability claims. A liability is accrued for claims as they are incurred. When applicable, claims in excess of the self-insured risk are covered by KUB's insurance carrier. Additionally, KUB provides certain lifetime health benefits to eligible retired employees under a self-insurance plan administered by a third party.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on historical experience and various other assumptions that KUB believes are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require adjustment. Estimates are used for, but not limited to, inventory valuation, allowance for uncollectible accounts, depreciable lives of plant assets, unbilled revenue volumes, lease liabilities, subscription liabilities, developer contributions, pension trust valuations, OPEB trust valuations, insurance liability reserves, and potential losses from contingencies and litigation. Actual results could differ from those estimates.

Restricted and Designated Assets

Certain assets are restricted by bond resolutions for utility plant construction and debt repayment. Certain additional assets are designated by management for contingency purposes and economic development.

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Cash Equivalents

For purposes of the Statements of Cash Flows, KUB considers all unrestricted and undesignated highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Leases

KUB determines if an arrangement is or contains a lease at contract inception and recognizes an intangible right of use asset and a lease liability at the lease commencement date. Subsequently, the intangible right of use asset is amortized on a straight-line basis over its useful life. KUB also enters into agreements, as lessor, to lease office space or property, recognizing a lease receivable and a deferred inflow of resources. The lease term includes the non-cancelable period of the lease plus an additional period covered by either an option to extend or not to terminate the lease that the lessee is reasonably certain to exercise, or an option to extend or not to terminate the lease controlled by the lessor. KUB uses its estimated incremental borrowing rate as the discount rate for leases.

KUB monitors for events or changes in circumstances that require a reassessment of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the intangible right of use asset.

Subscription-Based Information Technology Arrangements

KUB determines if an arrangement is or contains a subscription-based information technology arrangement (subscription) at contract inception and recognizes an intangible subscription asset and a subscription liability at the commencement date. Subsequently, the subscription asset is amortized on a straight-line basis over its useful life. The subscription term includes the non-cancelable period of the subscription plus an additional period covered by either an option to extend or not to terminate the subscription that KUB is reasonably certain to exercise, or an option to extend or not to terminate the subscription controlled by the vendor. KUB uses its estimated incremental borrowing rate as the discount rate for subscriptions.

KUB monitors for events or changes in circumstances that require a reassessment of its subscriptions. When a reassessment results in the remeasurement of a subscription liability, a corresponding adjustment is made to the carrying amount of the subscription asset.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are items related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. Deferred inflows of resources are items related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. KUB records costs associated with the gain or loss on refunding of debt as either a deferred outflow or inflow based on the parameters of Statement No. 65. Deferred outflows of resources also include employer pension contributions made subsequent to the measurement date of the net pension liability and before the end of the employer's reporting period in accordance with Statement No. 71. Deferred inflows and deferred outflows also include the net difference between projected and actual earnings on pension plan investments and OPEB plan investments, differences between expected and actual experience, and changes in assumptions in accordance with Statements No. 68, 73, and 75. Deferred inflows are also recorded at the commencement of the lease term and recognized as revenue over the course of the lease in accordance with Statement No. 87.

Debt Premium/Discount

KUB records unamortized premium and discount on debt as a separate line item in the Long-Term Debt section of the Financial Statements. Amortization of these amounts is recorded over the life of the applicable debt as amortization expense.

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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. 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.

Reclassification

Certain 2023 amounts have been reclassified to conform to the 2024 presentation.

Subsequent Events

KUB has evaluated events and transactions through October 23, 2024, the date these financial statements were available to be issued, for items that should potentially be recognized or disclosed.

Recently Issued Accounting Pronouncements

In June 2022, the GASB issued GASB Statement No. 101 (Statement No. 101), *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. Statement No. 101 is effective for fiscal years beginning after December 15, 2023.

In December 2023, the GASB issued GASB Statement No. 102 (Statement No. 102), *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. Statement No. 102 is effective for fiscal years beginning after June 15, 2024.

In April 2024, the GASB issued GASB Statement No. 103 (Statement No. 103), *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. Statement No. 103 is effective for fiscal years beginning after June 15, 2025.

KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

3. Deposits and Investments

KUB follows the provisions of Statement No. 40 of the Governmental Accounting Standards Board, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*. This Statement establishes and modifies disclosure requirements for state and local governments related to deposit and investment risks. KUB classifies its fair value measurements within the fair value hierarchy established by Statement No. 72 of the Governmental Accounting Standards Board, *Fair Value Measurement and Application*.

KUB's investment policy provides the framework for the administration and investment of cash deposits. The investment policy follows Tennessee State law and defines the parameters under

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which KUB funds should be invested. State law authorizes KUB to invest in obligations of the United States Treasury, its agencies and instrumentalities; certificates of deposit; repurchase agreements; money market funds; and the State Treasurer's Investment Pool.

Interest Rate Risk. KUB's primary investment objectives are to place investments in a manner to ensure the preservation of capital, remain sufficiently liquid to meet all operating requirements, and maximize yield of return. KUB minimizes its exposure to interest rate risk by adhering to Tennessee State law requirements for the investment of public funds. This includes limiting investments to those types described above and limiting maturity horizons. The maximum maturity is four years from the date of investment. KUB also limits its exposure by holding investments to maturity unless cash flow requirements dictate otherwise.

Credit Risk. KUB's investment policy, as required by state law, is to apply the prudent-person rule: Investments are made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable income to be derived, as well as the probable safety of their capital.

Custodial Credit Risk. KUB's investment policy limits exposure to custodial credit risk by restricting investments to a standard set forth by state law. All deposits in excess of federal depository insurance limits are collateralized with government securities held in KUB's name by a third-party custodian bank(s) acting as KUB's agent(s), or through the State of Tennessee's collateral pool. Financial institutions that participate in the collateral pool are subject to special assessment; therefore, the deposits are considered insured. A portion of KUB's investments is generally held in the State of Tennessee Local Government Investment Pool (LGIP). The LGIP is a part of the State Pooled Investment Fund and is sponsored by the State of Tennessee Treasury Department. Tennessee Code Annotated ¶9-4-701 *et seq.* authorizes local governments to invest in the LGIP. None of KUB's investments are exposed to custodial credit risk.

Classification of deposits and investments per Statement of Net Position:

	2024	2023
Current assets		
Cash and cash equivalents	\$ 13,388,680	\$ 28,476,696
Short-term contingency fund investments	22,201,091	21,164,359
Other assets		
Long-term contingency fund investments	11,705,004	11,799,978
Restricted assets		
Wastewater bond fund	8,224,234	8,280,059
Other funds	320	319
	<u>\$ 55,519,329</u>	<u>\$ 69,721,411</u>

The above amounts do not include accrued interest of \$177,214 in fiscal year 2024 and \$106,670 in fiscal year 2023. Interest income is recorded on an accrual basis.

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Investments and maturities of KUB's deposits and investments as held by financial institutions as of June 30, 2024:

	Deposit and Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	\$ 14,263,111	\$ 14,263,111	\$ -
State Treasurer's Investment Pool	12,740,207	12,740,207	-
Agency Bonds	29,390,022	17,685,018	11,705,004
	<u>\$ 56,393,340</u>	<u>\$ 44,688,336</u>	<u>\$ 11,705,004</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.

The Division has the following recurring fair value measurements as of June 30, 2024:

- U.S. Agency bonds of \$11,705,004, 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.

4. Accounts Receivable

Accounts receivable consists of the following:

	2024	2023
Wholesale and retail customers		
Billed services	\$ 6,711,680	\$ 5,808,453
Unbilled services	4,387,281	4,329,083
Other	311,987	446,376
Allowance for uncollectible accounts	(98,091)	(94,941)
	<u>\$ 11,312,857</u>	<u>\$ 10,488,971</u>

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5. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

	2024	2023
Trade accounts	\$ 5,365,645	\$ 5,224,583
Current portion of accrued compensated absences	1,239,918	1,254,720
Salaries and wages	327,018	221,578
Self-insurance liabilities	574,718	543,575
	<u>\$ 7,507,299</u>	<u>\$ 7,244,456</u>

6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2023	Additions	Payments	Defeased	Balance June 30, 2024	Amounts Due Within One Year
Wastewater						
2010C - 1.18 - 6.1%	\$ 20,250,000	\$ -	\$ -	\$ -	\$ 20,250,000	\$ -
2015A - 3.0 - 5.0%	98,945,000	-	3,720,000	-	95,225,000	3,785,000
2015B - 3.0 - 5.0%	1,225,000	-	600,000	-	625,000	625,000
2016 - 2.0 - 5.0%	16,775,000	-	550,000	-	16,225,000	575,000
2017A - 3.0 - 5.0%	2,510,000	-	595,000	-	1,915,000	615,000
2017B - 2.0 - 5.0%	22,035,000	-	630,000	-	21,405,000	660,000
2018 - 3.0 - 5.0%	10,715,000	-	280,000	-	10,435,000	290,000
2019 - 3.0 - 5.0%	14,805,000	-	345,000	-	14,460,000	360,000
2020A - 3.0 - 5.0%	26,050,000	-	750,000	-	25,300,000	785,000
2020B - 3.0 - 4.0%	25,775,000	-	600,000	-	25,175,000	625,000
2021A - 4.0 - 5.0%	184,265,000	-	6,085,000	-	178,180,000	6,150,000
2022A - 4.0 - 5.0%	10,900,000	-	200,000	-	10,700,000	210,000
2022B - 4.0 - 5.0%	23,100,000	-	-	-	23,100,000	-
2022C - 4.0 - 5.0%	9,995,000	-	170,000	-	9,825,000	175,000
Total bonds	<u>\$ 467,345,000</u>	<u>\$ -</u>	<u>\$ 14,525,000</u>	<u>\$ -</u>	<u>\$ 452,820,000</u>	<u>\$ 14,855,000</u>
Unamortized Premium	59,027,339	-	2,498,287	-	56,529,052	-
Total long term debt	<u>\$ 526,372,339</u>	<u>\$ -</u>	<u>\$ 17,023,287</u>	<u>\$ -</u>	<u>\$ 509,349,052</u>	<u>\$ 14,855,000</u>

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	Balance June 30, 2022	Additions	Payments	Defeased	Balance June 30, 2023	Amounts Due Within One Year
Wastewater						
2010C - 1.18 - 6.1%	\$ 20,250,000	\$ -	\$ -	\$ -	\$ 20,250,000	\$ -
2015A - 3.0 - 5.0%	104,950,000	-	6,005,000	-	98,945,000	3,720,000
2015B - 3.0 - 5.0%	1,800,000	-	575,000	-	1,225,000	600,000
2016 - 2.0 - 5.0%	17,300,000	-	525,000	-	16,775,000	550,000
2017A - 3.0 - 5.0%	4,285,000	-	1,775,000	-	2,510,000	595,000
2017B - 2.0 - 5.0%	22,635,000	-	600,000	-	22,035,000	630,000
2018 - 3.0 - 5.0%	10,985,000	-	270,000	-	10,715,000	280,000
2019 - 3.0 - 5.0%	15,135,000	-	330,000	-	14,805,000	345,000
2020A - 3.0 - 5.0%	26,765,000	-	715,000	-	26,050,000	750,000
2020B - 3.0 - 4.0%	26,355,000	-	580,000	-	25,775,000	600,000
2021A - 4.0 - 5.0%	187,325,000	-	3,060,000	-	184,265,000	6,085,000
2022A - 4.0 - 5.0%	11,125,000	-	225,000	-	10,900,000	200,000
2022B - 4.0 - 5.0%	23,200,000	-	100,000	-	23,100,000	-
2022C - 4.0 - 5.0%	-	9,995,000	-	-	9,995,000	170,000
Total bonds	\$ 472,110,000	\$ 9,995,000	\$ 14,760,000	\$ -	\$ 467,345,000	\$ 14,525,000
Unamortized Premium	61,168,494	351,129	2,492,284	-	59,027,339	-
Total long term debt	\$ 533,278,494	\$ 10,346,129	\$ 17,252,284	\$ -	\$ 526,372,339	\$ 14,525,000

Debt service over remaining term of the debt is as follows:

Fiscal Year	Principal	Total Interest	Grand Total
2025	\$ 14,855,000	\$ 18,041,536	\$ 32,896,536
2026	14,800,000	17,487,189	32,287,189
2027	15,255,000	16,902,724	32,157,724
2028	15,910,000	16,221,426	32,131,426
2029	16,640,000	15,499,395	32,139,395
2030-2034	94,970,000	65,762,953	160,732,953
2035-2039	121,025,000	44,999,745	166,024,745
2040-2044	105,255,000	19,911,484	125,166,484
2045-2049	48,295,000	5,758,457	54,053,457
2050-2052	5,815,000	322,225	6,137,225
Total	\$ 452,820,000	\$ 220,907,134	\$ 673,727,134

The Division has pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet bond principal and interest payments when due. The bond covenants relating to the Wastewater Revenue Bonds require the establishment of a Wastewater Bond Fund for the payment of principal and interest requirements. As of June 30, 2024, those bond covenants had been satisfied.

The Division's outstanding bonds payable contain provisions that in an event of default, outstanding amounts are to become immediately due if the Division is unable to make payment.

During fiscal year 2011, KUB's Wastewater Division issued Series 2010C bonds to fund wastewater system capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. These bonds are subject to a reduction in rebate payment amounts which is subject to change based on Congressional action. As of October 1, 2021, the effective reduction in rebate is 5.7 percent.

During fiscal year 2023, KUB's Wastewater Division issued Series 2022C bonds to fund wastewater system capital improvements.

Knoxville Utilities Board Wastewater Division
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Other liabilities consist of the following:

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Accrued compensated absences	\$ 646,371	\$ 1,347,137	\$ (1,354,762)	\$ 638,746
Customer advances for construction	447,191	154,816	(48,249)	553,758
Other	14,852	-	(6,633)	8,219
	<u>\$ 1,108,414</u>	<u>\$ 1,501,953</u>	<u>\$ (1,409,644)</u>	<u>\$ 1,200,723</u>

	Balance June 30, 2022	Increase	Decrease	Balance June 30, 2023
Accrued compensated absences	\$ 1,980,907	\$ 4,034,415	\$ (5,368,951)	\$ 646,371
Customer advances for construction	391,566	110,225	(54,600)	447,191
Other	66,773	11,294	(63,215)	14,852
	<u>\$ 2,439,246</u>	<u>\$ 4,155,934</u>	<u>\$ (5,486,766)</u>	<u>\$ 1,108,414</u>

7. Lease Receivables

KUB, as lessor, leases office space under non-cancelable lease arrangements. Terms of the leases range from one to fourteen years and contain fixed payment terms. Certain leases contain an option to renew that has been considered in the lease receivable when the lessee is reasonably certain to exercise the renewal option. KUB recognized lease revenue, which is included in other operating revenues, of \$198,328 in 2024 and \$124,651 in 2023. KUB also recognized interest income from leases, which is included in non-operating revenues, totaling \$64,802 in 2024 and \$30,409 in 2023. Total lease receivables were \$1,931,951 (\$168,395 current) and \$877,205 (\$109,142 current) as of June 30, 2024, and 2023, respectively, and are included in other assets on the Statement of Net Position.

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8. Lease Liabilities

Changes in lease liabilities are summarized as follows:

	Balance June 30, 2023		Increase		Decrease		Balance June 30, 2024
Total lease liabilities	\$ 81,964	\$	<u> -</u>	\$	<u> (19,925)</u>	\$	62,039
Less current portion	<u> (19,925)</u>						<u> (19,268)</u>
Long-term portion	<u> \$ 62,039</u>					\$	<u> \$ 42,771</u>

	Balance June 30, 2022		Increase		Decrease		Balance June 30, 2023
Total lease liabilities	\$ 104,846	\$	<u> 24,084</u>	\$	<u> (46,966)</u>	\$	81,964
Less current portion	<u> (38,549)</u>						<u> (19,925)</u>
Long-term portion	<u> \$ 66,297</u>					\$	<u> \$ 62,039</u>

KUB leases certain office space, equipment, and other assets under non-cancelable lease arrangements. Terms of the leases range from one to nineteen years and contain fixed payment terms. Certain office space leases contain the option for renewal, which has been considered in the lease liability when KUB is reasonably certain to exercise the renewal option.

Maturities and future interest requirements related to the balances of lease liabilities outstanding as of June 30, 2024, are summarized as follows:

	Lease Maturities		Interest Requirements
2025	\$ 19,268	\$	2,083
2026	14,768		1,426
2027	13,667		876
2028	528		618
2029	566		615
2030-2034	3,490		2,964
2035-2039	4,916		2,566
2040-2044	4,836		1,393
	<u> \$ 62,039</u>	\$	<u> \$ 12,541</u>

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Knoxville Utilities Board Wastewater Division
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9. Subscription-Based Information Technology Agreement Liabilities

Changes in SBITA liabilities are summarized as follows:

	Balance		Increase		Decrease		Balance
	June 30, 2023						June 30, 2024
Total SBITA liabilities	\$ 25,161	\$	<u>329,217</u>	\$	<u>(77,953)</u>	\$	276,425
Less current portion	<u>(19,084)</u>						<u>(66,418)</u>
Long-term portion	<u>\$ 6,077</u>	\$				\$	<u>210,007</u>

	Balance		Increase		Decrease		Balance
	June 30, 2022						June 30, 2023
Total SBITA liabilities	\$ 29,877	\$	<u>13,534</u>	\$	<u>(18,250)</u>	\$	25,161
Less current portion	<u>(18,250)</u>						<u>(19,084)</u>
Long-term portion	<u>\$ 11,627</u>	\$				\$	<u>6,077</u>

KUB has subscription-based information technology agreements (SBITAs) which grant non-cancelable rights to use underlying information technology software. Terms of agreement range from five to eighteen years and contain fixed and variable payment terms. Certain SBITAs contain the option for renewal, which has been considered in the SBITA liability when KUB is reasonably certain to exercise the renewal option.

Maturities and future interest requirements related to the balances of SBITA liabilities outstanding as of June 30, 2024, are summarized as follows:

	Subscription Maturities		Interest Requirements	
2025	\$	66,418	\$	9,417
2026		67,557		6,839
2027		69,328		4,199
2028		<u>73,122</u>		<u>1,434</u>
	<u>\$</u>	<u>276,425</u>	<u>\$</u>	<u>21,889</u>

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Knoxville Utilities Board Wastewater Division
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10. Capital and Intangible Assets

Capital and intangible asset activity was as follows:

	Balance June 30, 2023	Increase	Decrease	Balance June 30, 2024
Pumping & Treatment Plant	\$ 309,310,148	\$ 24,276,077	\$ (577,637)	\$ 333,008,588
Collection Plant				
Mains and Metering	621,002,125	34,558,687	(1,838,158)	653,722,654
Mains and Metering - Meters	1,180,398	(3,632)	-	1,176,766
Other Accounts	79,805,163	-	-	79,805,163
Total Collection Plant	<u>\$ 701,987,686</u>	<u>\$ 34,555,055</u>	<u>\$ (1,838,158)</u>	<u>\$ 734,704,583</u>
Total General Plant	<u>43,691,913</u>	<u>3,288,107</u>	<u>(4,013,751)</u>	<u>42,966,269</u>
Total Wastewater Plant	<u>\$ 1,054,989,747</u>	<u>\$ 62,119,239</u>	<u>\$ (6,429,546)</u>	<u>\$ 1,110,679,440</u>
Less accumulated depreciation	<u>(269,797,310)</u>	<u>(24,785,681)</u>	<u>6,467,339</u>	<u>(288,115,652)</u>
Net Plant Assets	<u>\$ 785,192,437</u>	<u>\$ 37,333,558</u>	<u>\$ 37,793</u>	<u>\$ 822,563,788</u>
Work In Progress	59,061,181	46,964,185	(60,465,373)	45,559,993
Total Net Plant	<u>\$ 844,253,618</u>	<u>\$ 84,297,743</u>	<u>\$ (60,427,580)</u>	<u>\$ 868,123,781</u>
Intangible Right of Use Assets				
Office space	\$ 66,494	\$ -	\$ -	\$ 66,494
Equipment	27,931	-	(9,442)	18,489
Other	16,250	-	-	16,250
Total Intangible Right of Use Assets	<u>\$ 110,675</u>	<u>\$ -</u>	<u>\$ (9,442)</u>	<u>\$ 101,233</u>
Less Accumulated Amortization	<u>(30,275)</u>	<u>(20,735)</u>	<u>9,442</u>	<u>(41,568)</u>
Net Intangible Right of Use Assets	<u>\$ 80,400</u>	<u>\$ (20,735)</u>	<u>\$ -</u>	<u>\$ 59,665</u>
Intangible Subscription Assets				
Intangible Subscription Assets	\$ 63,455	\$ 439,474	\$ -	\$ 502,929
Less Accumulated Amortization	<u>(33,297)</u>	<u>(197,741)</u>	<u>-</u>	<u>(231,038)</u>
Net Intangible Subscription Assets	<u>\$ 30,158</u>	<u>\$ 241,733</u>	<u>\$ -</u>	<u>\$ 271,891</u>

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Knoxville Utilities Board Wastewater Division
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	Balance June 30, 2022	Increase	Decrease	Balance June 30, 2023
Pumping & Treatment Plant	\$ 304,858,946	\$ 6,094,078	\$ (1,642,876)	\$ 309,310,148
Collection Plant				
Mains and Metering	608,223,328	15,468,295	(2,689,498)	621,002,125
Mains and Metering - Meters	1,180,398	-	-	1,180,398
Other Accounts	79,805,163	-	-	79,805,163
Total Collection Plant	<u>\$ 689,208,889</u>	<u>\$ 15,468,295</u>	<u>\$ (2,689,498)</u>	<u>\$ 701,987,686</u>
Total General Plant	<u>43,187,421</u>	<u>941,483</u>	<u>(436,991)</u>	<u>43,691,913</u>
Total Wastewater Plant	<u>\$ 1,037,255,256</u>	<u>\$ 22,503,856</u>	<u>\$ (4,769,365)</u>	<u>\$ 1,054,989,747</u>
Less accumulated depreciation	<u>(249,838,970)</u>	<u>(24,665,020)</u>	<u>4,706,680</u>	<u>(269,797,310)</u>
Net Plant Assets	<u>\$ 787,416,286</u>	<u>\$ (2,161,164)</u>	<u>\$ (62,685)</u>	<u>\$ 785,192,437</u>
Work In Progress	44,190,406	34,622,498	(19,751,723)	59,061,181
Total Net Plant	<u>\$ 831,606,692</u>	<u>\$ 32,461,334</u>	<u>\$ (19,814,408)</u>	<u>\$ 844,253,618</u>
Intangible Right of Use Assets				
Office space	\$ 106,608	\$ -	\$ (40,114)	\$ 66,494
Equipment	12,098	19,279	(3,446)	27,931
Other	31,633	16,250	(31,633)	16,250
Total Intangible Right of Use Assets	<u>\$ 150,339</u>	<u>\$ 35,529</u>	<u>\$ (75,193)</u>	<u>\$ 110,675</u>
Less Accumulated Amortization	<u>(45,879)</u>	<u>(22,117)</u>	<u>37,721</u>	<u>(30,275)</u>
Net Intangible Right of Use Assets	<u>\$ 104,460</u>	<u>\$ 13,412</u>	<u>\$ (37,472)</u>	<u>\$ 80,400</u>
Intangible Subscription Assets				
Intangible Subscription Assets	\$ 44,149	\$ 19,306	\$ -	\$ 63,455
Less Accumulated Amortization	<u>(14,272)</u>	<u>(19,025)</u>	<u>-</u>	<u>(33,297)</u>
Net Intangible Subscription Assets	<u>\$ 29,877</u>	<u>\$ 281</u>	<u>\$ -</u>	<u>\$ 30,158</u>

11. Risk Management

KUB is exposed to various risks of loss related to active and retiree medical claims; injuries to workers; theft of, damage to, and destruction of assets; environmental damages; and natural disasters. Claims expenditures and liabilities are reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. As of June 30, 2024, and June 30, 2023, the amount of these liabilities was \$574,718 and \$543,575 respectively, resulting from the following changes:

	2024	2023
Balance, beginning of year	\$ 543,575	\$ 495,488
Current year claims and changes in estimates	4,265,238	4,480,100
Claims payments	<u>(4,234,095)</u>	<u>(4,432,013)</u>
Balance, end of year	<u>\$ 574,718</u>	<u>\$ 543,575</u>

Knoxville Utilities Board Wastewater Division
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12. Pension Plan

Description of Plan

The Knoxville Utilities Board Pension Plan (the Plan) is a governmental plan as defined by the Employee Retirement Income Security Act of 1974 (ERISA or the Act), is not subject to any of the provisions of the Act, and was revised January 1, 2020, to include all prior approved amendments. The Plan is a single employer contributory, defined benefit pension plan established by Knoxville Utilities Board Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville §1107(J). KUB Board Resolution No. 979, effective July 1, 1999, as amended by Resolution No. 1037, establishing the KUB Retirement System, was amended effective June 18, 2020, to amend the term “Trustee” to include both custodians and/or trustees, in order to provide flexibility should KUB choose to change from its current Pension trustee. The Plan is designed to provide retirement, disability, and death benefits to KUB employees. KUB administers the Plan through an Administrative Committee consisting of seven KUB employees that are appointed by KUB’s President and CEO. Any amendments to the Plan involving costs not approved in the operating budget must be adopted by KUB’s Board of Commissioners, upon recommendation by KUB’s President and CEO. All other amendments to the Plan may be approved by KUB’s President and CEO upon 60 days notification to the Board’s Audit and Finance Committee. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017. For purposes of this disclosure, presentation is on a consolidated basis unless division’s share is specified.

Effective January 1, 2011, KUB closed the Plan such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and to accrue benefits under the Plan.

Participants in the Plan consisted of the following as of December 31:

	2023	2022
Inactive plan members:		
Terminated vested participants	9	14
Retirees and beneficiaries	602	603
Active plan members	<u>389</u>	<u>431</u>
Total	<u>1,000</u>	<u>1,048</u>

Retirement Benefits

The Plan provides three benefit arrangements for KUB participants, retirees, and beneficiaries.

The Plan provides pension benefits through the Career Equity Program (“CEP”) for eligible employees hired on or after January 1, 1999, and for eligible former “City System Plan A” participants who elected CEP coverage as of July 1, 1999. The guaranteed pension benefit payable to a participant who has completed five or more years of service (or reached the normal retirement date, if earlier) upon termination of KUB employment shall be a lump sum equal to the participant’s average compensation times their benefit percentage, as defined in the Plan document, or an annuity may be chosen by the participant.

In addition, the Plan provided retirement benefits through “Plan A” for former City System Plan A participants who elected not to participate in the CEP. Plan A is a closed plan and is not available to KUB employees hired after July 1, 1999. Plan A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or later. Benefits provided to Plan A participants include several different forms of monthly annuity payments.

Knoxville Utilities Board Wastewater Division

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The Plan also provides retirement benefits through “Plan B” for former “City System Plan B” participants. Plan B is a closed plan providing benefits to participants not covered by Social Security. Benefits provided to Plan B participants include several different forms of monthly annuity payments available to participants.

Effective January 1, 2012, KUB began to provide for additional monthly supplements, which are not subject to cost-of-living adjustments, to certain former employees and surviving dependents of former employees who are eligible for and have elected coverage under the KUB retiree medical plan and are eligible for Medicare. This was done to compensate for the elimination of drug coverage under the KUB retiree medical plan and to assist such individuals in obtaining prescription drug coverage under Medicare Part D.

Contributions

Participation in Plan A requires employee contributions of three percent of the first \$4,800 of annual earnings and five percent of annual earnings in excess of \$4,800. KUB contributions are determined by the enrolled actuary of the Plan and equal the amount necessary to provide the benefits under the Plan determined by the application of accepted actuarial methods and assumptions. The method of funding shall be consistent with Plan objectives.

Plan Funding

KUB maintains a Funding Policy for the Plan in accordance with Tennessee State Law. The primary goal of the Policy is to document the method KUB has adopted to provide assurance that future KUB and employee contributions and current Plan assets will be sufficient to fund all benefits expected to be paid to current active, inactive and retired Plan participants and their beneficiaries. Per the Funding Policy, KUB fully funds its annual Actuarially Determined Contribution.

Investments

The Plan’s investments are held by State Street Bank and Trust Company (the “Trustee”). The Plan’s policy in regard to the allocation of invested assets is established by the Retirement System Investment Committee and approved by the KUB Board of Commissioners and may only be amended by the KUB Board of Commissioners. It is the policy of the Retirement System Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Plan’s adopted asset allocation policy as of December 31, 2023:

Asset Class	Target Allocation
Domestic equity – large cap	20% - 50%
Domestic equity – small/mid cap	0% - 30%
Multi-asset credit	0% - 20%
Non-U.S. equity	0% - 20%
U.S. core real estate	0% - 10%
Fixed income	20% - 40%
Cash and deposits	0% - 5%

Contributions of \$1,108,147 and \$2,624,373 for 2022 and 2021, respectively, were made during the Plan sponsor’s fiscal years ended June 30, 2024, and 2023, respectively. Of these amounts, \$183,497 and \$459,012 are attributable to the Wastewater Division. The fiscal year 2024 contribution was determined as part of the January 1, 2022, valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant’s benefits under the Plan as payments which are level as a percentage of salary, starting on the original

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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, 2024, and 2023, will be based on the December 31, 2023, and 2022, measurement dates, respectively. The net pension liability is \$7,452,380 (Division’s share \$1,234,032) as of June 30, 2024, and \$22,219,032 (Division’s share \$3,886,193) as of June 30, 2023.

GASB 68 requires certain disclosures related to the net pension liability (asset) of the Plan as disclosed below:

	2023	2022
Total pension liability	\$ 263,351,035	\$ 254,406,723
Plan fiduciary net position	<u>(255,898,655)</u>	<u>(232,187,691)</u>
Plan’s net pension liability	<u>\$ 7,452,380</u>	<u>\$ 22,219,032</u>

Plan fiduciary net position as a percentage of the total pension liability	97.17%	91.27%
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Changes in Net Pension Liability (Asset) are as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2022	\$ 254,406,723	\$ 232,187,691	\$ 22,219,032
Changes for the year:			
Service cost	8,221,181	-	8,221,181
Interest	17,868,490	-	17,868,490
Changes of Benefits	-	-	-
Differences between Expected and Actual Experience	2,092,475	-	2,092,475
Changes of Assumptions	-	-	-
Contributions - employer	-	1,866,261	(1,866,261)
Contributions - rollovers	-	3,225	(3,225)
Contributions - member	-	5,749,384	(5,749,384)
Net investment income	-	35,932,006	(35,932,006)
Benefit payments	(19,237,834)	(19,237,834)	-
Administrative expense	-	(602,078)	602,078
Net changes	<u>8,944,312</u>	<u>23,710,964</u>	<u>(14,766,652)</u>
Balances at December 31, 2023	<u>\$ 263,351,035</u>	<u>\$ 255,898,655</u>	<u>\$ 7,452,380</u>

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Actuarial Assumptions

The total pension liability was determined by an actuarial valuation, using the following actuarial assumptions applied to all periods included in the measurement:

Valuation dates	January 1, 2023, rolled forward to December 31, 2023; January 1, 2022, rolled forward to December 31, 2022
Discount rate	7.00% as of December 31, 2023 and 2022
Salary increases	From 2.50% to 5.65%, based on years of service as of December 31, 2023, and 2022
Mortality	115% and 110% of the PubG-2010 table for males and females, respectively, using the Public Sector General Employee Table for ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of December 31, 2023 and 2022
Inflation	2.5% as of December 31, 2023 and 2022

The actuarial assumptions used in the January 1, 2023, and 2022, valuations were based on an actuarial experience study covering the period January 1, 2014, through December 31, 2018.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2023, and 2022, are summarized in the following table. The real rate of return reported for fixed income is for aggregate fixed income. The Plan has both aggregate and long duration fixed income.

Asset Class	Long Term Expected Real Rate of Return	
	2023	2022
Domestic equity	5.6%	5.0%
Non-U.S. equity	6.5%	6.1%
Real estate equity	5.8%	5.4%
Debt securities	1.9%	0.5%
Cash and deposits	0.7%	(0.1%)

Discount rate

The discount rate used to measure the total pension liability was 7.00 percent as of December 31, 2023, and December 31, 2022. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Knoxville Utilities Board Wastewater Division

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Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the net pension liability of the Plan as of December 31, 2023, calculated using the discount rate of 7.00 percent, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one percent lower (6.00 percent) or one percent higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Plan's net pension liability	\$ 31,223,728	\$ 7,452,380	\$ (13,022,725)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2024, KUB recognized pension expense of \$6,394,757, and the Wastewater Division's share was \$1,289,829.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2022, this average was four years. During the measurement year, there was a liability experience loss of \$2,092,475, with \$523,119 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$1,569,356. Unrecognized liability experience losses from prior periods were \$1,951,216, of which \$940,357 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,010,859. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$2,580,215 (Division's share \$427,256). Unrecognized liability gains from prior periods were \$210,825, of which \$210,825 was recognized as a decrease in Pension Expense in the current year and resulted in a deferred inflow of \$0.

During the measurement year, there were no benefit changes or assumption changes. Net unrecognized assumption change losses from prior periods were \$5,646,136, of which \$3,011,800 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$2,634,336 (Division's share \$436,217).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$20,099,370, of which \$4,019,874 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were \$39,628,509, of which \$1,043,676 was recognized as an increase in Pension Expense in the current year. The combination of unrecognized investment gains this year, along with net unrecognized investment losses from prior periods, results in a deferred outflow of \$22,505,337 (Division's share \$3,726,636).

The impact of the change in proportionate share for the Wastewater Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is four years. This change resulted in a deferred outflow of \$230,969, with \$57,742 of that recognized in the current year and the remaining amount recognized over the next three years, resulting in a deferred outflow of resources of \$173,227. Net proportionate share changes from prior periods were \$355,880, of which \$177,940 was recognized in the current year, resulting in a deferred outflow of resources of \$177,940. Unrecognized proportionate share changes from prior periods of \$14,261, of which \$4,754 was recognized in the current year, resulted in a deferred inflow of \$9,507. In addition, KUB's Wastewater Division recorded a deferred outflow

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of resources of \$91,749 for employer contributions made between December 31, 2023, and June 30, 2024.

The table below summarizes the current balances of deferred outflows and deferred inflows of resources of the Wastewater Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 427,256	\$ -
Changes in assumptions	436,217	-
Net difference between projected and actual earnings on pension plan investments	3,726,636	-
Change in proportionate share	351,167	9,507
Contributions subsequent to measurement date	91,749	-
Total	<u>\$ 5,033,025</u>	<u>\$ 9,507</u>

\$91,749 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2025. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2025	\$ 1,354,004
2026	1,939,272
2027	2,304,140
2028	(665,647)
Thereafter	-

For the year ended June 30, 2023, KUB recognized pension expense of \$8,973,269, and the Wastewater Division's share was \$1,742,645.

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2021, this average was four years. During the measurement year, there was a liability experience loss of \$282,014, with \$70,504 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$211,510. Unrecognized liability experience losses from prior periods were \$2,609,559, of which \$869,853 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,739,706. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$1,951,216 (Division's share \$341,275). Unrecognized liability gains from prior periods were \$542,777, of which \$331,952 was recognized as a decrease in Pension Expense in the current year and resulted in a deferred inflow of \$210,825 (Division's share \$36,874).

During the measurement year, there was an assumption change loss of \$5,268,672 with \$1,317,168 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$3,951,504. Net unrecognized assumption change losses from prior periods

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were \$3,389,264, of which \$1,694,632 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$1,694,632. The total deferred outflow is \$5,646,136 (Division's share \$987,530).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment loss of \$85,314,262, of which \$17,062,852 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment gains from prior periods were \$38,969,257, of which \$10,346,356 was recognized as a decrease in Pension Expense in the current year. The combination of unrecognized investment losses this year, along with unrecognized investment gains from prior periods, results in a deferred outflow of \$39,628,509 (Division's share \$6,931,176).

The impact of the change in proportionate share for the Wastewater Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is four years. This change resulted in a deferred inflow of \$19,015, with \$4,754 of that recognized in the current year and the remaining amount recognized over the next three years, resulting in a deferred inflow of resources of \$14,261. Net proportionate share changes from prior periods were \$533,820, of which \$177,940 was recognized in the current year, resulting in a deferred outflow of resources of \$355,880. In addition, KUB's Wastewater Division recorded a deferred outflow of resources of \$229,507 for employer contributions made between December 31, 2022, and June 30, 2023.

The following table summarizes the current balances of deferred outflows and deferred inflows of resources of the Wastewater Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 341,275	\$ 36,874
Changes in assumptions	987,530	-
Net difference between projected and actual earnings on pension plan investments	6,931,176	-
Change in proportionate share	355,880	14,261
Contributions subsequent to measurement date	229,507	-
Total	\$ 8,845,368	\$ 51,135

13. Qualified Excess Benefit Arrangement

Description

In fiscal year 2017, KUB implemented a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). The QEBA is a single employer defined benefit pension plan administered by KUB. The number of participants in any given year for the QEBA is determined by the number of KUB Pension Plan participants who exceed the current year's section 415(b) limitations, as calculated by the KUB Pension Plan actuary. The amount of QEBA benefit will be the amount specified by the terms of the KUB Pension Plan without regard to Section 415(b) limitations minus the amount payable from the KUB Pension Plan as limited by Section 415(b). QEBA benefits are subject to cost-of-living adjustments.

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As of June 30, 2024, there are 372 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the KUB Pension Plan. The KUB Pension Plan was amended to include the provision of QEBA benefits; therefore, amendments to the QEBA require the same authority as amendments to the KUB Pension Plan. As required by federal tax law, the QEBA is unfunded within the meaning of the federal tax laws. KUB may not pre-fund the QEBA to cover future liabilities beyond the current year. KUB has established procedures to pay for these benefits on a pay-as-you-go basis. There are no assets accumulated in a trust that meets the GASB's criteria. Due to the increase in the section 415(d) annual benefit limitation from 2021 to 2022, the pension benefit for the sole participant in the Excess Benefit Arrangement is now fully payable under the KUB Pension Plan and, as such, there is no benefit payable under the Excess Benefit Arrangement as of June 30, 2024, and 2023.

Total Pension Liability of the QEBA

The below summarizes the disclosures of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"). GASB 73 extends a similar approach of financial reporting to plans meeting specific criteria that are not administered through trusts that GASB 68 established for pension plans. GASB 73 requires measurement of the total pension liability of the QEBA. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2024, and 2023, are based on a December 31, 2023, and 2022, measurement date, respectively. There is no Total Pension Liability as of June 30, 2024, and 2023.

GASB 73 requires certain disclosures related to the total pension liability of the QEBA, as disclosed below:

	2023	2022
Total pension liability	\$0	\$0
Deferred outflows	(2,051)	(6,779)
Deferred inflows	1,704	3,408
Net impact on Statement of Net Position	<u>(\$347)</u>	<u>(\$3,371)</u>
Covered payroll	\$35,604,464	\$37,412,132
Total pension liability as a % of covered payroll	0.00%	0.00%

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2024, KUB recognized pension expense of \$3,024 (Division's share \$665) for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$-), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [(\$347) – (\$3,371) + \$-].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2020, this average was four years. There was a deferred inflow at the end of the measurement year of \$1,717 (Division's share \$375) from experience gains in prior years and a deferred outflow of \$2,033 (Division's share \$447) from experience losses in prior years.

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There was a deferred outflow of \$18 (Division's share \$4) from assumption changes in prior years.

The following table summarizes the current balances of deferred outflows and deferred inflows of resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,033	\$ 1,717
Changes in assumptions	18	-
Total	<u>\$ 2,051</u>	<u>\$ 1,717</u>
Division's share	<u>\$ 451</u>	<u>\$ 375</u>

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2025	\$ 334
2026	-
2027	-
2028	-
2029	-
Thereafter	-

For the year ended June 30, 2023, KUB recognized pension expense of (\$8,793) (Division's share (\$1,934)) for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$-), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [(\$3,371) - \$5,422 + \$-].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2020, this average was four years. There was a deferred inflow at the end of the measurement year of \$3,408 (Division's share \$750) from experience gains in prior years and a deferred outflow of \$4,073 (Division's share \$897) from experience losses in prior years.

There was a deferred outflow of \$2,706 (Division's share \$586) from assumption changes in prior years.

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Knoxville Utilities Board Wastewater Division
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The following table summarizes the current balances of deferred outflows and deferred inflows of resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,073	\$ 3,408
Changes in assumptions	2,706	-
Total	\$ 6,779	\$ 3,408
Division's share	\$ 1,483	\$ 750

14. Defined Contribution Plan

The KUB Asset Accumulation 401(k) Plan (the "401(k) Plan") is a defined contribution 401(k) employee retirement savings plan covering eligible KUB employees established by the KUB Board of Commissioners in accordance with the Charter of the City of Knoxville, Tennessee. The 401(k) Plan's assets are held in trust under an agreement between KUB and Fidelity Management Trust Company. Employees hired prior to January 1, 2011, may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of three percent. Employees hired on or after January 1, 2011, have an enhanced 401(k) due to the closure of the Defined Benefit Pension Plan. They may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of three percent. They also receive a non-elective KUB contribution of three percent to six percent, depending on years of service, whether they contribute or not.

KUB funded 401(k) matching contributions and non-elective contributions of \$3,909,598 (Division's share \$821,015) and \$3,794,561 (Division's share \$796,858), respectively, for the years ended June 30, 2024, and 2023.

Vesting

Participants are immediately vested in their own contributions to the Plan, plus actual earnings on these contributions. Participants become 100% vested and entitled to the full value of their account, less any loans outstanding, upon death or disability or upon retirement after attaining their normal retirement age (first of the month coinciding with or following attainment of age 62).

Otherwise, vesting in the KUB matching contribution and non-elective contribution (as applicable) portion of their account plus related earnings are based on years of service and date of hire, as follows:

Participants hired prior to January 1, 2011 are 100% vested in the KUB matching contribution portion of their account.

Participants hired by KUB after December 31, 2010 are vested in the KUB matching and non-elective contribution portion of their account as follows:

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<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 2 years	0%
2	20%
3	40%
4	60%
5	80%
6 or more	100%

Forfeitures

Forfeitures are created when participants terminate employment before becoming entitled to their full benefits under the Plan. Upon forfeiture, the match and non-elective funds become available to offset Plan expenses. The Plan experienced forfeitures of \$306,016 during calendar year 2023 and \$188,609 during calendar year 2022. Forfeitures of \$295,955 and \$167,891 were used to reduce employer contributions in 2023 and 2022, respectively. The ending balance of forfeited assets in the Plan, including contributions and dividends, totaled \$37,985 and \$26,999 as of December 31, 2023 and 2022, respectively.

15. Other Post-Employment Benefits (OPEB)

Description of Trust

The Knoxville Utilities Board Other Post-Employment Benefits Trust (the Trust) is a single employer trust established by the KUB Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. The Trust, along with the KUB Health Plan, make up a Voluntary Employee Beneficiary Association (“VEBA”) and are intended to be tax-exempt pursuant to Code §501(c)(9). The purpose of the Trust is to fund KUB’s post-employment health care plan (the “Plan”), which provides certain medical benefits for qualifying KUB retirees and beneficiaries. The applicable documentation was submitted to the State Funding Board and, in December 2007, the State Funding Board approved the Trust. The Trust was also approved by the Internal Revenue Service in June 2008. KUB administers the Trust through a Board of Trustees consisting of seven KUB employees that are appointed by KUB’s President and CEO. Any amendments to the Trust involving costs not approved in the operating budget must be approved by KUB’s Board of Commissioners, upon recommendation by KUB’s President and CEO. All other amendments to the Trust may be approved by KUB’s President and CEO upon 60 days notification to the Board’s Audit and Finance Committee. The investment of all deposits to the Trust is governed by an Investment Policy, which was adopted by the KUB Board and approved by the State Funding Board. The Trust issues a financial report which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017. For purposes of this disclosure, presentation is on a consolidated basis unless division’s share is specified.

Effective January 1, 2022, the Plan was expanded to two benefit offerings. Employees with a benefit service date prior to July 1, 1999, will continue to be eligible for the Retiree Medical Benefit, while those with a later benefit service date will participate in a new Retiree Health Reimbursement Arrangement (HRA), given that each eligible employee meets the “Rule of 80”, the sum of age and at least 20 years of qualified service equal to or exceeding 80, at retirement.

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Participants in the Plan consisted of the following as of June 30:

	HRA		Retiree Medical Benefit	
	2024	2023	2024	2023
Retirees	8	6	538	542
Dependents of retirees	6	2	585	596
Eligible active employees	46	25	129	140
Total	60	33	1,252	1,278

Benefits

Benefits for pre-July 1, 1999, eligible participants may include, but shall not be limited to, medical, prescription drugs, dental, vision, hearing, Medicare Part B or Part D premiums, life insurance, long-term care, and long-term disability. Post-July 1, 1999, eligible participants are eligible for HRA benefits which include up to \$50,000 to be used exclusively for reimbursement of qualified medical expenses of the retiree and his or her spouse and dependents. Any unused HRA amounts will remain assets of the OPEB Trust.

Contributions and Funding

The primary goal of the Funding Policy for the Trust is to document the method KUB has adopted to provide assurance that future KUB and retiree contributions and current Trust assets will be sufficient to fund all benefits expected to be paid to Trust beneficiaries. Per the Funding Policy, KUB's current practice is to fully fund its annual Actuarially Determined Contribution, which is determined by actuarial valuation.

Contributions are authorized by the terms of the Trust as established by KUB Resolution No. 1168, as amended, as approved by the Tennessee State Funding Board. KUB shall have the right at any time to amend, in whole or in part, the provisions of this Trust; however, no such amendment shall authorize or permit the assets of the Trust to be used for or diverted to purposes other than those expressed in the Declaration of Trust.

It shall be the sole and exclusive responsibility of KUB to determine the level of contributions KUB will make to the Trust for the purpose of financing other post-employment benefits accrued by its respective participants. Neither the Trust, nor the Trust's Board, shall be responsible for collecting or otherwise determining the level of contributions needed by KUB to finance any other post-employment benefits offered by KUB. The assets of the Trust shall be expended solely to make payments for other post-employment benefits pursuant to, and in accordance with, the terms of the Trust and to pay the cost of administration.

Based on the date of retirement, certain retired members are required to contribute specified amounts monthly to maintain health insurance. Those who retired prior to July 1983 have no required monthly premiums for themselves or dependents. The retirees, or their surviving dependents, who retired between August 1983 and January 1998 are required to pay \$275 per month for pre-Medicare family health insurance. For individuals who retired after January 1998, the required monthly premium for pre-Medicare health insurance is \$275 for single coverage and \$550 for family coverage. There is currently no premium for Medicare eligible retirees or dependents. KUB is responsible for determining the level of retired plan member contributions on an annual basis as part of its review of healthcare cost sharing.

Participants in the Health Reimbursement Arrangement are not eligible for health insurance and are not required to make contributions.

Knoxville Utilities Board Wastewater Division

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Investments

The Trust holds investments in a balanced fund, which invests in passively managed common trust index funds, managed and sponsored by State Street Global Advisors (SSgA), with an asset allocation mirroring the asset allocation of the Trust and rebalanced monthly. The Trust's Investment Policy was established and may only be amended by the KUB Board of Commissioners. The Trust's Investment Policy is to invest in a manner that will provide sufficient investment return to meet current and future retiree health benefits, while conforming to all governing State and Federal statutes. It allows investment of Trust assets in any type of security instrument allowed for in T.C.A 8-50-1203.

The following was the Trust's adopted investment target allocations as set forth in the Trust's Investment Policy as of June 30, 2024:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity:	
Large Cap	30%
Small Cap	8%
International Equity:	
Developed	16%
Emerging	8%
Real Estate Equity	8%
Debt Securities	30%
Total	<u>100%</u>

Actuarially determined contributions for the Wastewater Division of \$200,053 and \$253,704 were made to the OPEB Trust in fiscal years ended June 30, 2024 and 2023, respectively. These were based on the OPEB actuarial valuations as of January 1, 2022, and 2021.

Net OPEB Liability

The below summarizes the disclosures of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"), which requires measurement of the net OPEB liability as total OPEB liability less the amount of the Trust's fiduciary net position. The amounts reported as of June 30 are based on the reporting date for the KUB Other Post-Employment Benefits Plan, which is June 30. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2024, and 2023, and the Total OPEB Liability as of the valuation date, January 1, 2023, updated to June 30, 2024, and January 1, 2022, updated to June 30, 2023, respectively. The Division's share of the total net OPEB liability was \$1,578,688 as of June 30, 2024, and \$2,321,053 as of June 30, 2023.

The components of the net OPEB liability of the Trust are as follows as of June 30:

	2024	2023
Total OPEB liability	\$ 61,042,928	\$ 61,637,102
Plan fiduciary net position	<u>51,669,855</u>	<u>48,706,447</u>
Net OPEB liability	<u>\$ 9,373,073</u>	<u>\$ 12,930,655</u>
Plan fiduciary net position as a percentage of the total OPEB liability	84.65%	79.02%

Knoxville Utilities Board Wastewater Division
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Changes in Net OPEB Liability are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2023	\$ 61,637,102	\$ 48,706,447	\$ 12,930,655
Changes for the year:			
Service cost	615,753	-	615,753
Interest	4,256,122	-	4,256,122
Changes of Benefits	(164,746)	-	(164,746)
Differences between Expected and Actual Experience	587,252	-	587,252
Changes of Assumptions	(2,102,184)	-	(2,102,184)
Contributions - employer	-	1,187,768	(1,187,768)
Contributions - member	-	-	-
Net investment income	-	5,656,390	(5,656,390)
Benefit payments	(3,786,371)	(3,786,371)	-
Administrative expense	-	(94,379)	94,379
Net changes	(594,174)	2,963,408	(3,557,582)
Balances at June 30, 2024	\$ 61,042,928	\$ 51,669,855	\$ 9,373,073

Actuarial assumptions

The total OPEB liability was determined by actuarial valuations, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation dates:	January 1, 2023, rolled forward to June 30, 2024; January 1, 2022, rolled forward to June 30, 2023
Discount rate:	7.00% as of June 30, 2024 and June 30, 2023
Healthcare cost trend rates:	Pre-Medicare: 5.75% grading down to 3.935% over 20 years as of June 30, 2024 and June 30, 2023 Medicare: 11.30% grading down to 3.935% over 20 years as of June 30, 2024 and June 30, 2023 Administrative expenses: 3.0% per year
Salary increases:	From 2.50% to 5.65
Mortality:	115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010) for males and females, respectively, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Healthy Annuitant Mortality Table, both projected using scale MP2018 fully generational
Inflation:	2.50%

The actuarial assumptions used in the January 1, 2023, and January 1, 2022, valuations were based on the results of actuarial experience studies for the periods January 1, 2014, through December 31, 2018.

Knoxville Utilities Board Wastewater Division

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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	
	2024	2023
Domestic equity	5.4%	5.1%
International equity	6.1%	6.1%
Emerging Market equity	7.8%	8.4%
Real estate equity	5.5%	5.3%
Debt securities	2.3%	1.8%
Cash and deposits	0.9%	0.7%

Discount rate

The discount rate used to measure the total OPEB liability was 7.00 percent as of June 30, 2024 and June 30, 2023. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate.

The following presents the net OPEB liability of the Trust as of June 30, 2024, calculated using the discount rate of 7.00 percent, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is one percent lower (6.00 percent) or one percent higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB liability	\$15,834,714	\$9,373,073	\$3,950,645

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.

The following presents the net OPEB liability of the Trust as of June 30, 2024, as well as what the Trust's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percent lower or one percent higher than the current rate:

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	1% Decrease	Baseline Trends	1% Increase
Net OPEB liability	\$3,895,008	\$9,373,073	\$15,785,165

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2024, KUB's Wastewater Division recognized OPEB expense of \$327,165.

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was seven years. During the measurement year, there was an experience loss of \$587,252, with \$83,893 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$503,359. Unrecognized experience losses from prior periods were \$100,858, of which \$16,810 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of resources of \$84,048. The combination of unrecognized experience gains or losses results in a deferred outflow of resources of \$587,407 (Division's share \$98,936).

During the measurement year, there was a benefit change gain of \$164,746. The entire amount was recognized as a decrease in OPEB expense in the current year.

During the measurement year, there was an assumption change gain of \$2,102,184, with \$300,312 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred inflow of resources of \$1,801,872 (Division's share \$303,486). Unrecognized assumption losses from prior periods were \$2,166,706, of which \$361,118 is recognized as an increase in OPEB expense in the current year, resulting in a deferred outflow of \$1,805,588 (Division's share \$304,112).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$2,339,599, of which \$467,920 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$1,871,679. Net unrecognized investment losses from prior periods were \$3,211,114, of which \$843,284 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$2,367,829. The combination of unrecognized gains and losses from the current year and prior periods results in a deferred outflow of resources of \$496,150 (Division's share \$83,565).

The impact of the change in proportionate share for the Wastewater Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is seven years. This change resulted in a deferred inflow of \$82,508, with \$11,787 of that recognized in the current year and the remaining amount recognized over the next six years, resulting in a deferred inflow of resources of \$70,721. Net proportionate share changes from prior periods were \$9,246, with \$1,541 of that recognized in the current year resulting in a deferred inflow of resources of \$7,705. The table below summarizes the current balances of deferred outflows and deferred inflows of resources of the Wastewater Division.

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 98,936	\$ -
Changes in assumptions	304,112	303,486
Net difference between projected and actual earnings on OPEB plan investments	83,565	-
Change in proportionate share	-	78,426
Total	<u>\$ 486,613</u>	<u>\$ 381,912</u>

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ended June 30:	
2025	\$ (9,782)
2026	312,650
2027	(98,867)
2028	(64,936)
2029	13,874
Thereafter	(48,238)

For the year ended June 30, 2023, KUB's Wastewater Division recognized OPEB expense of \$475,279.

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 7.0 years. During the measurement year, there was an experience loss of \$117,668, with \$16,810 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$100,858 (Division's share \$18,104). Unrecognized experience losses from prior periods were \$30,475, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there were no benefit changes.

During the measurement year, there was an assumption change loss of \$2,527,824, with \$361,118 of that recognized in the current year. The remaining amount will be recognized over the next six years, resulting in a deferred outflow of resources of \$2,166,706 (Division's share \$388,924).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$1,007,293, of which \$201,459 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$805,834. Net unrecognized investment losses from prior periods were \$5,179,219, of which \$1,162,271 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$4,016,948. The combination of unrecognized gains this year, along with the net unrecognized investment losses from prior periods, results in a deferred outflow of resources of \$3,211,114 (Division's share \$576,395).

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The impact of the change in proportionate share for the Wastewater Division during the measurement period is recognized over the average future working life of the Plan's active and inactive members, which is seven years. This change resulted in a deferred inflow of \$10,787, with \$1,541 of that recognized in the current year and the remaining amount recognized over the next six years, resulting in a deferred inflow of resources of \$9,246. Net proportionate share changes from prior periods were \$38,804, of which the entire amount was recognized in the current year. The table below summarizes the current balances of deferred outflows and deferred inflows of resources of the Wastewater Division.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 18,104	\$ -
Changes in assumptions	388,924	-
Net difference between projected and actual earnings on OPEB plan investments	576,395	-
Change in proportionate share	-	9,246
Total	<u>\$ 983,423</u>	<u>\$ 9,246</u>

16. Related Party Transactions

The Division, in the normal course of operations, is involved in transactions with the City of Knoxville and with other divisions of KUB. Such transactions for the years ended June 30, 2024, and 2023, are summarized as follows:

	2024	2023
City of Knoxville		
Amounts billed by the Division for utilities and related services	\$ 1,133,373	\$ 1,059,153
Payments by the Division in lieu of property tax	5,652,868	5,383,684
Payments by the Division for services provided	460,858	620,567
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	422,527	392,032
Interdivisional rental expense	638,459	665,449
Interdivisional rental income	278,727	284,459
Amounts billed to the Division by other divisions for utilities services provided	4,307,710	4,140,921

With respect to these transactions, accounts receivable from the City of Knoxville included in the balance sheet at year end were as follows:

	2024	2023
Accounts receivable	\$ 91,403	\$ 32,015

Knoxville Utilities Board Wastewater Division
Notes to Financial Statements
June 30, 2024 and 2023

17. 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 Wastewater Division

Required Supplementary Information – Schedule of Changes in Net Pension Liability and Related Ratios

June 30, 2024

	Year ended December 31									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability										
Service cost	\$ 8,221,181	\$ 6,349,402	\$ 6,647,220	\$ 5,227,657	\$ 6,142,213	\$ 5,095,488	\$ 4,607,486	\$ 4,226,985	\$ 4,157,062	\$ 4,092,808
Interest	17,868,490	17,430,465	16,982,226	16,393,202	16,030,626	15,344,193	15,015,282	14,966,559	14,812,784	14,698,657
Changes of benefit terms	-	-	-	-	163,199	-	-	-	-	-
Differences between expected and actual experience	2,092,475	282,014	1,935,276	1,930,170	(1,054,117)	(605,649)	(1,087,161)	(2,233,762)	(1,890,334)	-
Changes of assumptions	-	5,268,672	-	-	8,473,160	-	(357,633)	(2,932,883)	-	-
Benefit payments, including refunds of member contributions	(19,237,834)	(17,125,610)	(17,725,963)	(16,006,565)	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)	(15,533,167)
Net change in total pension liability	8,944,312	12,204,943	7,838,759	7,544,464	14,660,606	4,559,218	3,207,995	(111,612)	1,728,586	3,258,298
Total pension liability - beginning	254,406,723	242,201,780	234,363,021	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)	\$ 263,351,035	\$ 254,406,723	\$ 242,201,780	\$ 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	\$ 1,866,261	\$ 3,144,770	\$ 3,416,428	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541
Contributions - participants	5,752,609	3,812,595	3,939,687	2,284,727	3,170,825	2,081,125	1,488,632	555,075	487,546	475,854
Net investment income	35,927,438	(63,493,985)	37,575,566	44,814,914	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)	22,292,369
Other additions	4,568	9,415	112,484	7,740	13,579	62,616	82,239	45,848	30,879	29,733
Benefit payments, including refunds of member contributions	(19,193,834)	(17,065,610)	(17,653,963)	(15,962,565)	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)	(15,405,167)
Administrative expense	(602,078)	(498,988)	(441,017)	(455,191)	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)	(378,085)
Death benefits	(44,000)	(60,000)	(72,000)	(44,000)	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)	(128,000)
Net change in plan fiduciary net position**	23,710,964	(74,151,803)	26,877,185	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**	232,187,691	306,339,494	279,462,309	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)**	\$ 255,898,655	\$ 232,187,691	\$ 306,339,494	\$ 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)	\$ 7,452,380	\$ 22,219,032	\$ (64,137,714)	\$ (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	97.17%	91.27%	126.48%	119.24%	108.43%	96.87%	109.53%	100.06%	97.54%	102.97%
Covered payroll	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743	\$ 44,076,351
Plan's net pension liability as a percentage of covered payroll	20.93%	59.39%	(168.45%)	(108.61%)	(47.48%)	15.78%	(45.67%)	(0.28%)	11.34%	(13.66%)

Notes to Schedule:
 ** Excludes amounts related to 401(k) matching contributions.

See accompanying Independent Auditor's Report

**Knoxville Utilities Board Wastewater Division
 Required Supplementary Information – Schedule of Employer Pension Contributions
 June 30, 2024**

	Year ended December 31										
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	
Actuarially determined contribution	\$ 1,866,261	\$ 3,144,770	\$ 3,416,428	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541	
Contribution in relation to the actuarially determined contribution	1,866,261	3,144,770	3,416,428	2,876,752	2,871,241	3,456,475	4,286,597	5,243,146	5,991,887	5,908,541	
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Covered payroll	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743	\$ 44,076,351	
Contributions as a percentage of covered payroll	5.24%	8.41%	8.97%	6.93%	7.13%	8.20%	9.90%	11.80%	13.48%	13.41%	

Notes to Schedule:

Timing: Actuarially determined contributions for a Plan year are based upon 50% of the amounts determined at the actuarial valuations for each of the two prior Plan years.
 Valuation Dates: January 1, 2022 and January 1, 2021

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Individual entry age
 Asset valuation method: 5-year smoothed market, adjusted to remain within 20% of the market value
 Amortization method: As of January 1, 2022: Level dollar, 30-year closed period with 19 years remaining, or a level dollar, 30-year open period for a negative unfunded liability
 As of January 1, 2021: Level dollar, 30-year closed period with 20 years remaining, or a level dollar, 30-year open period for a negative unfunded liability
 As of January 1, 2022 and 2021, the unfunded liability was negative.
 Discount rate: 7.25%
 Salary increases: 2.50% to 5.65%, based on years of service; As of January 1, 2021, a one-time reduction was applied to reduce the 2020 compensation by 3.7% to account for an additional 2020 pay period
 Mortality: 115% and 110% of the benefits-weighted Public Sector General Healthy Annuitant Mortality Table (PubG-2010), respectively, for males and females, using the Public Sector General Employee Table while in active employment and for annuitant ages prior to the start of the Healthy Annuitant Mortality Table, both projected from the 2010 base rates using scale MP2018 fully generational
 Inflation: 2.5%

Please refer to prior year's audited financial statements for prior methods and assumptions.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division

Required Supplementary Information – Schedule of Changes in Net OPEB Liability and Related Ratios

June 30, 2024

	*Year ended June 30						
	2024	2023	2022	2021	2020	2019	2018
Total OPEB liability							
Service cost	\$ 615,753	\$ 595,392	\$ 416,277	\$ 283,786	\$ 256,270	\$ 270,515	\$ 202,603
Interest	4,256,122	4,133,008	3,858,276	3,861,304	3,672,291	3,624,737	3,295,240
Change of benefit terms	(164,746)	-	6,594,293	-	(202,408)	-	-
Differences between expected and actual experience	587,252	117,668	60,951	42,802	43,902	999,098	1,324,769
Changes of assumptions	(2,102,184)	2,527,824	-	(4,105,835)	3,604,843	3,231,601	(397,180)
Benefit payments	(3,786,371)	(4,273,070)	(3,908,635)	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Net change in total OPEB liability	<u>(594,174)</u>	<u>3,100,822</u>	<u>7,021,162</u>	<u>(3,029,122)</u>	<u>4,346,302</u>	<u>4,593,507</u>	<u>1,126,693</u>
Total OPEB liability - beginning	<u>61,637,102</u>	<u>58,536,280</u>	<u>51,515,118</u>	<u>54,544,240</u>	<u>50,197,938</u>	<u>45,604,431</u>	<u>44,477,738</u>
Total OPEB liability - ending (a)	<u>\$ 61,042,928</u>	<u>\$ 61,637,102</u>	<u>\$ 58,536,280</u>	<u>\$ 51,515,118</u>	<u>\$ 54,544,240</u>	<u>\$ 50,197,938</u>	<u>\$ 45,604,431</u>
Plan fiduciary net position							
Contributions - employer	\$ 1,187,768	\$ 1,413,392	\$ 1,989,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Net investment income	5,656,390	4,333,538	(8,122,417)	12,890,602	975,155	2,981,928	3,705,473
Benefit payments	(3,786,371)	(4,273,070)	(3,908,635)	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	(94,379)	(101,186)	(71,187)	(44,496)	(53,286)	(54,787)	(51,668)
Net change in plan fiduciary net position	<u>2,963,408</u>	<u>1,372,674</u>	<u>(10,113,173)</u>	<u>10,492,153</u>	<u>(1,795,403)</u>	<u>(605,303)</u>	<u>355,066</u>
Plan fiduciary net position - beginning	<u>48,706,447</u>	<u>47,333,773</u>	<u>57,446,946</u>	<u>46,954,793</u>	<u>48,750,196</u>	<u>49,355,499</u>	<u>49,000,433</u>
Plan fiduciary net position - ending (b)	<u>\$ 51,669,855</u>	<u>\$ 48,706,447</u>	<u>\$ 47,333,773</u>	<u>\$ 57,446,946</u>	<u>\$ 46,954,793</u>	<u>\$ 48,750,196</u>	<u>\$ 49,355,499</u>
Net OPEB liability (asset) - ending (a) - (b)	<u>\$ 9,373,073</u>	<u>\$ 12,930,655</u>	<u>\$ 11,202,507</u>	<u>\$ (5,931,828)</u>	<u>\$ 7,589,447</u>	<u>\$ 1,447,742</u>	<u>\$ (3,751,068)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	84.65%	79.02%	80.86%	111.51%	86.09%	97.12%	108.23%
Covered employee payroll**	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	11.21%	18.44%	15.15%	(27.49%)	32.48%	5.95%	(15.84%)

Notes to Schedule:

* Information not reflected prior to 2018 due to changes in actuary methodologies required under GASB 75, which was implemented in 2018.

** The covered-employee payroll increased in FY 2022 due to the inclusion of plan participants eligible for the HRA benefits.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division

Required Supplementary Information – Schedule of Employer OPEB Contributions

June 30, 2024

	2024	2023	2022	*Year ended June 30 2021	2020	2019	2018
Actuarially determined contribution	\$ 1,187,768	\$ 1,413,392	\$ 489,066	\$ 757,226	\$ 311,324	\$ -	\$ -
Contribution in relation to the annual required contribution	<u>1,187,768</u>	<u>1,413,392</u>	<u>1,989,066</u>	<u>757,226</u>	<u>311,324</u>	<u>-</u>	<u>-</u>
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,500,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll*	\$ 83,596,708	\$ 70,129,341	\$ 73,927,857	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Contributions as a percentage of covered employee payroll	1.42%	2.02%	2.69%	3.51%	1.33%	0.00%	0.00%

* The covered-employee payroll increased in FY 2022 due to the inclusion of plan participants eligible for the HRA benefits.

KUB elected to make a \$1,500,000 voluntary contribution to the Trust to initially fund the HRA benefit which was effective January 1, 2022. This contribution was not required.

Notes to Schedule:

Valuation Date: January 1, 2022 and January 1, 2021
Timing: Actuarially determined contribution rates are calculated based on the actuarial valuation completed 18 months before the beginning of the fiscal year.

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age normal
Asset valuation method: 5-year smoothed market
Amortization method: 15-year layered amortization bases for annual changes in the unfunded liabilities as of January 1, 2021 and 2022; 30-year rolling amortization for a funding surplus; As of January 1, 2021 and 2022, there was an unfunded liability
Discount rate: 7.25%
Healthcare cost trend rate: Pre-Medicare: 6.50% grading down to 4.04% over 18 years as of January 1, 2022; 6.75% grading down to 4.04% over 19 years as of January 1, 2021
Medicare: 6.20% grading down to 4.04% over 18 years as of January 1, 2022; 6.30% grading down to 4.04% over 19 years as of January 1, 2021
Administrative expenses: 3.0% per year
Salary increases: From 2.50% to 5.65%, based on years of service
Mortality: 115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational
Inflation: 2.5%
Investment rate of return: 7.25%
Retirement age: 2% at ages 50-57, grading up to 100% at age 70

* Schedule of Employer Contribution information is not reflected prior to 2018 due to changes in actuary methodologies required under GASB 75, which was implemented in 2018. Please refer to prior year's audited financial statement for prior methods and assumptions.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement
Schedule of Changes in Total Pension Liability and Related Ratios
June 30, 2024

	*Year ended December 31							
	2023	2022	2021	2020	2019	2018	2017	2016
Total pension liability								
Service cost	\$ -	\$ -	\$ -	\$ -	\$ 9,181	\$ 941	\$ 584	\$ -
Interest (includes interest on service cost)	-	-	268	388	9,181	9,676	7,535	-
Changes of benefit terms	-	-	-	-	(218,272)	-	-	185,077
Differences between expected and actual experience	-	-	(6,816)	10,165	34	(36,125)	13,684	-
Changes of assumptions	-	-	-	91	13,342	(22,950)	73,461	-
Benefit payments, including refunds of member contributions	-	-	(12,166)	(12,166)	(15,932)	-	-	-
Net change in total pension liability	-	-	(18,714)	(1,522)	(211,647)	(48,458)	95,264	185,077
Total pension liability - beginning	-	-	18,714	20,236	231,883	280,341	185,077	-
Total pension liability - ending	\$ -	\$ -	\$ -	\$ 18,714	\$ 20,236	\$ 231,883	\$ 280,341	\$ 185,077
Covered payroll	\$ 35,604,464	\$ 37,412,132	\$ 38,074,863	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747
Total pension liability as a percentage of covered payroll	0.00%	0.00%	0.00%	0.05%	0.05%	0.55%	0.65%	0.42%

Notes to Schedule:

* There are no assets accumulated in a trust that meet the criteria in paragraph 4 of GASB 73 to pay related benefits.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Debt Maturities by Fiscal Year
June 30, 2024

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FY	2010C			2015A		2015B		2016		2017A		2017B	
	Principal	Interest	Rebate*	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
24-25		1,235,250	432,338	3,785,000	3,483,412	625,000	18,750	575,000	421,031	615,000	70,450	660,000	654,212
25-26		1,235,250	432,338	1,425,000	3,369,864			575,000	409,531	640,000	52,000	690,000	621,213
26-27		1,235,250	432,338	1,490,000	3,323,550			600,000	398,031	660,000	26,400	715,000	600,512
27-28		1,235,250	432,338	1,405,000	3,271,400			600,000	386,032			725,000	586,213
28-29		1,235,250	432,338	1,450,000	3,222,226			625,000	374,032			745,000	570,806
29-30		1,235,250	432,338	1,455,000	3,178,726			625,000	361,532			760,000	553,112
30-31		1,235,250	432,338	1,515,000	3,135,076			650,000	348,250			785,000	530,313
31-32		1,235,250	432,338	1,520,000	3,089,626			675,000	333,625			805,000	506,762
32-33		1,235,250	432,338	1,580,000	3,042,125			675,000	318,438			830,000	482,613
33-34		1,235,250	432,338	1,635,000	2,992,750			700,000	302,406			855,000	457,712
34-35		1,235,250	432,338	1,690,000	2,939,612			700,000	284,906			880,000	432,063
35-36	3,700,000	1,235,250	432,338	1,750,000	2,884,688			725,000	267,406			910,000	405,662
36-37	3,875,000	1,009,550	353,343	1,825,000	2,827,812			750,000	249,282			935,000	378,363
37-38	4,050,000	773,175	270,611	13,420,000	2,768,500			775,000	229,594			965,000	350,312
38-39	4,225,000	526,125	184,144	13,895,000	2,298,800			775,000	209,250			995,000	320,156
39-40	4,400,000	268,400	93,940	14,480,000	1,743,000			800,000	186,000			1,025,000	289,063
40-41				15,130,000	1,236,200			825,000	162,000			1,055,000	257,032
41-42				15,775,000	631,000			850,000	137,250			1,090,000	224,062
42-43								875,000	111,750			1,125,000	190,000
43-44								900,000	85,500			1,160,000	154,844
44-45								950,000	58,500			1,195,000	118,594
45-46								1,000,000	30,000			1,230,000	81,250
46-47												1,270,000	41,275
47-48													
48-49													
49-50													
50-51													
51-52													
Total	\$ 20,250,000	\$ 17,400,250	\$ 6,090,094	\$ 95,225,000	\$ 49,438,367	\$ 625,000	\$ 18,750	\$ 16,225,000	\$ 5,664,346	\$ 1,915,000	\$ 148,850	\$ 21,405,000	\$ 8,806,144

*Series 2010c bonds were issued as federally taxable Build America Bonds. KUB will receive a 35 percent interest rebate payment from the United States Government for each interest payment. Effective October 1, 2021 these bonds became subject to a 5.7% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Debt Maturities by Fiscal Year
June 30, 2024

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FY	2018		2019		2020A		2020B		2021A		2022A	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
24-25	290,000	354,756	360,000	487,950	785,000	887,400	625,000	789,100	6,150,000	7,753,250	210,000	451,150
25-26	305,000	343,156	380,000	469,950	825,000	848,150	650,000	764,100	8,360,000	7,507,250	220,000	440,650
26-27	315,000	330,956	400,000	450,950	865,000	806,900	675,000	738,100	8,535,000	7,172,850	230,000	429,650
27-28	325,000	321,506	420,000	430,950	910,000	763,650	705,000	711,100	9,760,000	6,746,100	245,000	418,150
28-29	335,000	311,756	435,000	409,950	955,000	718,150	730,000	682,900	10,260,000	6,258,100	255,000	405,900
29-30	345,000	301,706	455,000	388,200	1,005,000	670,400	760,000	653,700	10,800,000	5,745,100	270,000	393,150
30-31	355,000	291,356	475,000	370,000	1,055,000	620,150	785,000	630,900	11,315,000	5,205,100	280,000	379,650
31-32	365,000	280,706	495,000	351,000	1,095,000	577,950	805,000	607,350	11,935,000	4,639,350	295,000	365,650
32-33	375,000	269,756	515,000	331,200	1,140,000	534,150	830,000	583,200	12,550,000	4,042,600	310,000	350,900
33-34	390,000	258,038	530,000	315,750	1,175,000	499,950	855,000	558,300	13,015,000	3,540,600	325,000	335,400
34-35	400,000	245,362	545,000	299,850	1,210,000	464,700	880,000	532,650	13,550,000	3,020,000	340,000	322,400
35-36	415,000	232,364	560,000	283,500	1,245,000	428,400	905,000	506,250	10,885,000	2,478,000	355,000	308,800
36-37	425,000	218,874	580,000	266,700	1,285,000	391,050	935,000	479,100	11,430,000	2,042,600	370,000	294,600
37-38	440,000	204,532	595,000	249,300	1,320,000	352,500	965,000	451,050	2,465,000	1,585,400	380,000	279,800
38-39	455,000	189,682	615,000	231,450	1,360,000	312,900	990,000	422,100	2,595,000	1,486,800	395,000	264,600
39-40	475,000	173,756	615,000	213,000	1,400,000	272,100	1,020,000	392,400	2,705,000	1,383,000	415,000	248,800
40-41	490,000	157,132	635,000	194,550	1,445,000	230,100	1,050,000	361,800	3,515,000	1,274,800	430,000	232,200
41-42	505,000	139,982	655,000	175,500	1,490,000	186,750	1,085,000	330,300	3,655,000	1,134,200	445,000	215,000
42-43	525,000	122,306	675,000	155,850	1,530,000	142,050	1,115,000	297,750	3,920,000	988,000	465,000	197,200
43-44	540,000	103,932	700,000	135,600	1,580,000	96,150	1,150,000	264,300	4,110,000	831,200	485,000	178,600
44-45	560,000	85,032	720,000	114,600	1,625,000	48,750	1,185,000	229,800	4,335,000	666,800	505,000	159,200
45-46	580,000	65,432	740,000	93,000			1,220,000	194,250	4,580,000	493,400	525,000	139,000
46-47	600,000	44,406	765,000	70,800			1,255,000	157,650	4,830,000	310,200	545,000	118,000
47-48	625,000	22,656	785,000	47,850			1,295,000	120,000	1,425,000	117,000	565,000	96,200
48-49			810,000	24,300			1,335,000	81,150	1,500,000	60,000	590,000	73,600
49-50							1,370,000	41,100			610,000	50,000
50-51											640,000	25,600
51-52												
Total	\$ 10,435,000	\$ 5,069,140	\$ 14,460,000	\$ 6,561,750	\$ 25,300,000	\$ 9,852,300	\$ 25,175,000	\$ 11,580,400	\$ 178,180,000	\$ 76,481,700	\$ 10,700,000	\$ 7,173,850

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Debt Maturities by Fiscal Year
June 30, 2024

Continued from Previous Page

FY	2022B		2022C		Totals		Grand Total	Grand Total
	Principal	Interest	Principal	Interest	Principal	Interest	(P + I)	(Less Rebates)
24-25		1,003,300	175,000	431,525	14,855,000	18,041,536	32,896,536	32,464,198
25-26	545,000	1,003,300	185,000	422,775	14,800,000	17,487,189	32,287,189	31,854,851
26-27	575,000	976,050	195,000	413,525	15,255,000	16,902,724	32,157,724	31,725,386
27-28	610,000	947,300	205,000	403,775	15,910,000	16,221,426	32,131,426	31,699,088
28-29	635,000	916,800	215,000	393,525	16,640,000	15,499,395	32,139,395	31,707,057
29-30	690,000	885,050	225,000	382,775	17,390,000	14,748,701	32,138,701	31,706,363
30-31	715,000	850,550	235,000	371,525	18,165,000	13,968,120	32,133,120	31,700,782
31-32	745,000	814,800	250,000	359,775	18,985,000	13,161,844	32,146,844	31,714,506
32-33	775,000	777,550	260,000	347,275	19,840,000	12,315,057	32,155,057	31,722,719
33-34	835,000	738,800	275,000	334,275	20,590,000	11,569,231	32,159,231	31,726,893
34-35	870,000	697,050	290,000	320,525	21,355,000	10,794,368	32,149,368	31,717,030
35-36	935,000	653,550	305,000	306,025	22,690,000	9,989,895	32,679,895	32,247,557
36-37	965,000	606,800	320,000	290,775	23,695,000	9,055,506	32,750,506	32,397,163
37-38	465,000	568,200	335,000	274,775	26,175,000	8,087,138	34,262,138	33,991,527
38-39	465,000	549,600	345,000	261,375	27,110,000	7,072,838	34,182,838	33,998,694
39-40	460,000	531,000	360,000	247,575	28,155,000	5,948,094	34,103,094	34,009,154
40-41	1,060,000	512,600	375,000	233,175	26,010,000	4,851,589	30,861,589	30,861,589
41-42	1,110,000	470,200	390,000	218,175	27,050,000	3,862,419	30,912,419	30,912,419
42-43	1,155,000	425,800	405,000	202,575	11,790,000	2,833,281	14,623,281	14,623,281
43-44	1,205,000	379,600	420,000	186,375	12,250,000	2,416,101	14,666,101	14,666,101
44-45	1,255,000	331,400	440,000	169,575	12,770,000	1,982,251	14,752,251	14,752,251
45-46	1,300,000	281,200	455,000	151,425	11,630,000	1,528,957	13,158,957	13,158,957
46-47	1,350,000	229,200	475,000	132,656	11,090,000	1,104,187	12,194,187	12,194,187
47-48	1,395,000	175,200	495,000	113,062	6,585,000	691,968	7,276,968	7,276,968
48-49	1,470,000	119,400	515,000	92,644	6,220,000	451,094	6,671,094	6,671,094
49-50	1,515,000	60,600	535,000	71,400	4,030,000	223,100	4,253,100	4,253,100
50-51			560,000	48,662	1,200,000	74,262	1,274,262	1,274,262
51-52			585,000	24,863	585,000	24,863	609,863	609,863
Total	\$ 23,100,000	\$ 15,504,900	\$ 9,825,000	\$ 7,206,387	\$ 452,820,000	\$ 220,907,134	\$ 673,727,134	\$ 667,637,040

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Changes in Long-term Debt by Individual Issue
June 30, 2024

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding Balance 7/1/2023	Issued During Period	Paid/Matured During Period	Refunded During Period	Outstanding Balance 6/30/2024
Business-Type Activities									
<u>BONDS PAYABLE</u>									
<u>Payable through Wastewater Fund</u>									
Revenue Bond, Series 2010C	70,000,000	1.18-6.1	12/08/10	04/01/40	\$ 20,250,000	\$	\$ -	\$	20,250,000
Revenue Bond Refunding, Series 2015A	129,825,000	3.0-5.0	05/01/15	04/01/42	98,945,000		3,720,000		95,225,000
Revenue Bond, Series 2015B	30,000,000	3.0-5.0	05/20/15	04/01/25	1,225,000		600,000		625,000
Revenue Bond, Series 2016	20,000,000	2.0-5.0	08/05/16	04/01/46	16,775,000		550,000		16,225,000
Revenue Bond Refunding, Series 2017A	11,965,000	3.0-5.0	04/07/17	04/01/27	2,510,000		595,000		1,915,000
Revenue Bond, Series 2017B	25,000,000	2.0-5.0	09/15/17	04/01/47	22,035,000		630,000		21,405,000
Revenue Bond, Series 2018	12,000,000	3.0-5.0	09/14/18	04/01/48	10,715,000		280,000		10,435,000
Revenue Bond, Series 2019	16,000,000	3.0-5.0	08/20/19	04/01/49	14,805,000		345,000		14,460,000
Revenue Bond Refunding, Series 2020A	28,230,000	3.0-5.0	05/22/20	04/01/45	26,050,000		750,000		25,300,000
Revenue Bond, Series 2020B	27,460,000	3.0-4.0	10/30/20	04/01/50	25,775,000		600,000		25,175,000
Revenue Bond Refunding, Series 2021A	190,815,000	4.0-5.0	04/19/21	04/01/49	184,265,000		6,085,000		178,180,000
Revenue Bond, Series 2022A	11,125,000	4.0-5.0	04/29/22	04/01/51	10,900,000		200,000		10,700,000
Revenue Bond Refunding, Series 2022B	23,200,000	4.0-5.0	05/13/22	04/01/50	23,100,000		-		23,100,000
Revenue Bond, Series 2022C	9,995,000	4.0-5.0	12/16/22	04/01/52	9,995,000		170,000		9,825,000
					<u>\$ 467,345,000</u>	<u>\$ -</u>	<u>\$ 14,525,000</u>	<u>\$ -</u>	<u>\$ 452,820,000</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Supplemental Information - Schedule of Changes in Lease Liabilities
June 30, 2024

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Maturity Date	Outstanding 6/30/2023	Issued During Period	Paid and/or Matured During Period	Remeasure- ments	Outstanding 6/30/2024
<u>Lease Liabilities</u>									
<u>Payable through Wastewater Fund</u>									
Centriworks	\$ 9,442	3.88%	11/1/2020	10/31/2023	\$ 1,402	\$ -	\$ (1,402)	\$ -	\$ -
Crown Castle	16,250	3.90%	3/1/2023	2/1/2043	16,121	-	(402)	-	15,719
Manki 1 Investments	66,495	3.88%	7/1/2020	5/31/2027	53,160	-	(12,815)	-	40,345
Ricoh Americas	7,834	3.88%	7/1/2020	7/31/2025	5,748	-	(2,593)	-	3,155
RJ Young Company	10,654	3.88%	7/1/2020	6/30/2026	5,533	-	(2,713)	-	2,820
Total Lease Liabilities					\$ <u>81,964</u>	\$ <u>-</u>	\$ <u>(19,925)</u>	\$ <u>-</u>	\$ <u>62,039</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Statistical Information – Schedule of Insurance in Force
June 30, 2024
(Unaudited)

Insurance coverage is for KUB as a consolidated entity.

Crime

Covers losses resulting from employee dishonesty, robbery, burglary, and computer fraud. Limits of coverage - \$5,000,000; \$250,000 retention.

Directors' and Officers' Liability Insurance

Covers KUB personnel appropriately authorized to make decisions on behalf of KUB (including but not limited to Commissioners, President and CEO, Senior Vice Presidents, Vice Presidents, and Directors) for wrongful acts. Limits of coverage - \$20,000,000; \$500,000 corporate deductible, \$0 individual deductible.

Employment Practices Liability

Coverage for costs related to actual or alleged employment practices violations for amounts exceeding specified amount (\$500,000). Limits of coverage - \$10,000,000.

Fiduciary

Covers losses resulting from wrongful acts related to KUB's Pension, 401(k), OPEB Trust funds, and Medical Plan. Limits of coverage - \$10,000,000; \$150,000 deductible.

Environmental and Pollution Legal Liability

Environmental and Pollution coverage for covered losses resulting from a pollution or environmental event. Limits of coverage - \$15,000,000.

Property Insurance

This coverage provides protection of KUB's property for fire, extended coverage, vandalism and malicious mischief, and coverage on boilers and machinery. Also included are flood and earthquake damage and mechanical failure. Limits of coverage - \$250,000,000 per occurrence (subject to certain sub limits); \$3,500,000 deductible per occurrence.

Travel Accident

Covers losses related to employees' business travel. Limits of coverage - \$1,000,000 aggregate.

Excess Insurance for General Liability

As a governmental entity, KUB's liability is limited under the Tennessee Governmental Tort Liability Act (TCA §29-20-403). Limits of coverage - \$5,000,000; \$700,000 retention.

Excess Insurance for Workers' Compensation

Covers all losses exceeding specified amount per occurrence (\$1,000,000). Limits of coverage - Statutory; stop loss coverage applies for aggregate losses over \$5,000,000.

Employee Health Plan Stop Loss Coverage

KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses for more than \$700,000 per individual participant.

Cyber Security Liability

Liability coverage resulting from losses related to a covered event such as data breaches, ransomware, regulatory fines, cyber extortion, business interruption and other cyber-related events. Limits of coverage - \$5,000,000; \$500,000 deductible.

Drone

Liability coverage resulting from losses related to bodily injury or damaged property arising out of the ownership, maintenance, or use of a drone aircraft. Limits of coverage - \$2,000,000.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Statistical Information – Schedule of Current Rates in Force
June 30, 2024
(Unaudited)

Rate Class	Base Charge	Number of Customers
Residential Inside City rate	For wastewater service furnished to premises entirely within the corporate limits of the City of Knoxville:	57,028
	Commodity Charge	
	First 2 CCF Per Month at \$2.30 Per CCF	
	Over 2 CCF Per Month at \$10.10 Per CCF	
	Additional Monthly Customer Charge	
	5/8" meter \$ 35.90	
Non-Residential Inside City rate	For wastewater service furnished to premises entirely within the corporate limits of the City of Knoxville:	7,837
	Commodity Charge	
	First 2 CCF Per Month at \$3.00 Per CCF	
	Next 8 CCF Per Month at \$12.95 Per CCF	
	Next 90 CCF Per Month at \$12.25 Per CCF	
	Next 300 CCF Per Month at \$10.70 Per CCF	
	Next 4,600 CCF Per Month at \$8.75 Per CCF	
	Next 5,000 CCF Per Month at \$5.15 Per CCF	
	Additional Monthly Customer Charge	
	5/8" meter \$ 35.90	
	1" meter \$ 53.40	
	1 1/2" meter \$ 69.00	
	2" meter \$ 96.00	
	3" meter \$ 181.00	
	4" meter \$ 296.00	
	6" meter \$ 620.00	
	8" meter \$ 1,075.00	
	10" meter \$ 1,640.00	
	12" meter \$ 2,500.00	

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Statistical Information – Schedule of Current Rates in Force
June 30, 2024
(Unaudited)

Rate Class	Base Charge	Number of Customers																																						
Residential Outside City rate	For wastewater service furnished to premises entirely or partly outside the corporate limits of the City of Knoxville: <div style="text-align: center;">Commodity Charge</div> <table border="0" style="margin-left: 40px;"> <tr> <td>First</td> <td style="text-align: center;">2</td> <td>CCF Per Month at \$2.45 Per CCF</td> </tr> <tr> <td>Over</td> <td style="text-align: center;">2</td> <td>CCF Per Month at \$11.05 Per CCF</td> </tr> </table> <div style="text-align: center;">Additional Monthly Customer Charge</div> <table border="0" style="margin-left: 40px;"> <tr> <td style="text-align: right;">5/8" meter</td> <td style="text-align: right;">\$ 39.90</td> </tr> </table>	First	2	CCF Per Month at \$2.45 Per CCF	Over	2	CCF Per Month at \$11.05 Per CCF	5/8" meter	\$ 39.90	9,746																														
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First	2	CCF Per Month at \$3.35 Per CCF																																						
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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
Wastewater Division of the Knoxville Utilities Board
Knoxville, Tennessee

We have audited, 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 (*Government Auditing Standards*), the financial statements of the Wastewater Division (the Division) of the Knoxville Utilities Board, a component unit of the City of Knoxville, Tennessee, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements, and have issued our report thereon dated October 23, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Division'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 the Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division'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 the Division's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Board of Commissioners
Wastewater Division of the Knoxville Utilities Board
Knoxville, Tennessee

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Division’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 the Division’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Coulter & Justus, P. C.

Knoxville, Tennessee
October 23, 2024