



Consolidated

Financial Statements and Supplemental Information

June 30, 2021 and 2020

KUB Board of Commissioners

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John Worden, Vice Chair

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Kathy Hamilton

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Adrienne Simpson-Brown

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Vice President and Assistant to Chief Technology Officer

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Vice President and Century II Administrator

Knoxville Utilities Board

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Independent Auditor's Report

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to KUB's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of KUB's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise KUB's basic financial statements. The Schedule of Expenditures of Federal Awards and State Financial Assistance, as required by the State of Tennessee, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2021, on our consideration of KUB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KUB's internal control over financial reporting and compliance.

Coulter & Justus, P.C.

Knoxville, Tennessee
October 25, 2021

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2021 and 2020

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

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

The Management Discussion and Analysis (MD&A) focuses on the fiscal year ended June 30, 2021 activities, resulting changes and current known facts, and should be read in conjunction with KUB's consolidated financial statements.

Consolidated Highlights

System Highlights

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

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

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

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

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

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

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

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Management's Discussion and Analysis

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KUB's natural gas system was named to the American Public Gas Association's (APGA) System Operational Achievement Recognition (SOAR) Program in 2018, reflecting KUB's focus on system integrity, continuous improvement, safety, and employee development. KUB is a Gold level winner and remains a member of the program through 2023. KUB was designated a Safety Contest Winner for calendar year 2019 by APGA, indicating the lowest number of recordable injuries per labor-hours worked.

KUB's treatment plants continue to meet high standards of operation. KUB was awarded the National Association of Clean Water Agencies (NACWA) Peak Performance recognition for three Wastewater Treatment Plants in calendar year 2020. Fourth Creek and Loves Creek Wastewater Treatment Plants won silver awards while Eastbridge won gold.

KUB continued to maintain Platinum certification with the National Biosolids Partnership following a rigorous review process and independent audit that was conducted in December 2020. Biosolids are nutrient-rich organic matter produced by wastewater treatment and is a registered fertilizer with the Tennessee Department of Agriculture.

Century II Infrastructure Program

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

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

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

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

KUB is currently in the process of implementing a Water Plant Redundancy initiative to ensure that high quality, reliable water service will be provided to customers over the long term. KUB maintains a single water treatment plant for its system. In lieu of building a second treatment facility to ensure capacity will be available to meet the needs of current and future water customers, KUB will invest approximately \$173 million in various redundant facilities at the site of its existing Mark B. Whitaker Water Treatment Plant over a 16-year period that began in fiscal year 2017. Construction of a new generator building with three 2,500

Knoxville Utilities Board

Management's Discussion and Analysis

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

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

Consent Decree

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

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

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

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

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Management's Discussion and Analysis

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

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

Financial Highlights

Fiscal Year 2021 Compared to Fiscal Year 2020

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

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

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

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

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

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

Long-term debt represented 44.8 percent of KUB's consolidated capital structure, compared to 48.3 percent last fiscal year. Capital structure equals long-term debt (including the current and long-term portion of revenue bonds), plus net position.

Fiscal Year 2020 Compared to Fiscal Year 2019

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

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

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

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

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

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

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

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

Knoxville Utilities Board Consolidated Financial Statements

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

Statement of Net Position

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

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

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

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

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

Statement of Revenues, Expenses and Changes in Net Position

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

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

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

Statement of Cash Flows

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

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

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

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

Condensed Financial Statements

Statement of Net Position

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

Statements of Net Position
As of June 30

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

Normal Impacts on Statement of Net Position

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

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

Knoxville Utilities Board

Management's Discussion and Analysis

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Impacts and Analysis

Current, Restricted and Other Assets

Fiscal Year 2021 Compared to Fiscal Year 2020

Current, restricted and other assets increased \$36.2 million or 9.2 percent, due to an increase in the actuarially determined net pension asset of \$26 million, an increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) of \$7.4 million, an increase in the actuarially determined net OPEB asset of \$5.9 million, and an increase in accounts receivable of \$3.1 million. KUB under recovered \$1.4 million in wholesale gas costs from its customers in fiscal year 2021. This under recovery of costs will be charged to KUB's gas customers during the next fiscal year through adjustments to rates via the Purchased Gas Adjustment.

Fiscal Year 2020 Compared to Fiscal Year 2019

Current, restricted and other assets increased \$5.4 million or 1.4 percent. This increase reflects an increase in the actuarially determined net pension asset of \$19.1 million offset by a \$7.1 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments), and a \$6.8 million decrease in inventories. KUB under recovered \$1.5 million in wholesale gas costs from its customers in fiscal year 2020. This under recovery of costs will be charged to KUB's gas customers during the next fiscal year through adjustments to rates via the Purchased Gas Adjustment.

Capital Assets

Fiscal Year 2021 Compared to Fiscal Year 2020

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

Fiscal Year 2020 Compared to Fiscal Year 2019

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

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Deferred Outflows of Resources

Fiscal Year 2021 Compared to Fiscal Year 2020

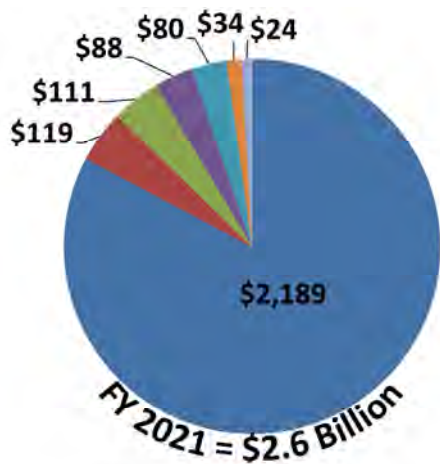
Deferred outflows of resources decreased \$9.2 million compared to the prior year, reflecting a decrease in unamortized bond refunding costs of \$5.2 million and a \$4.2 million decrease in OPEB outflow when compared to the prior fiscal year.

Fiscal Year 2020 Compared to Fiscal Year 2019

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

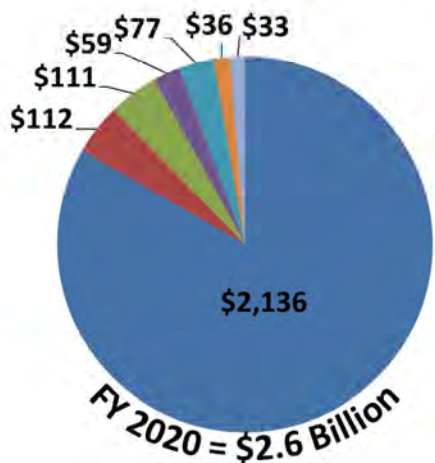
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**Knoxville Utilities Board
Management's Discussion and Analysis
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**Consolidated Total Assets and
Deferred Outflows of Resources
(in Millions)**

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



Current and Other Liabilities

Fiscal Year 2021 Compared to Fiscal Year 2020

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

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

Fiscal Year 2020 Compared to Fiscal Year 2019

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

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Management's Discussion and Analysis

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

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

Long-term Debt

Fiscal Year 2021 Compared to Fiscal Year 2020

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

Fiscal Year 2020 Compared to Fiscal Year 2019

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

Deferred Inflows of Resources

Fiscal Year 2021 Compared to Fiscal Year 2020

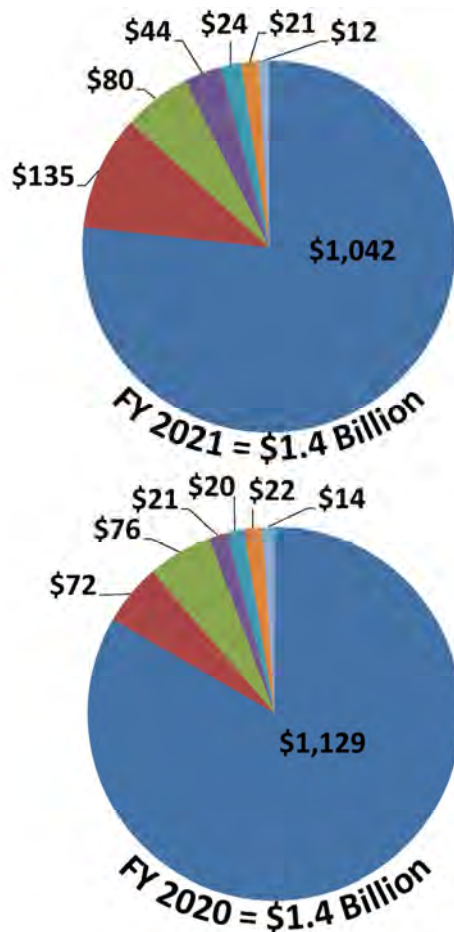
Deferred inflows increased \$23.7 million compared to the prior fiscal year due to a \$15.6 million increase in pension inflow and an \$8 million increase in OPEB inflow.

Fiscal Year 2020 Compared to Fiscal Year 2019

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

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

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

Net Position

Fiscal Year 2021 Compared to Fiscal Year 2020

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

Fiscal Year 2020 Compared to Fiscal Year 2019

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

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Statement of Revenues, Expenses and Changes in Net Position

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

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

(in thousands of dollars)

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

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

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

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

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

Impacts and Analysis

Change in Net Position

Fiscal Year 2021 Compared to Fiscal Year 2020

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

Fiscal Year 2020 Compared to Fiscal Year 2019

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

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Margin from Sales

Fiscal Year 2021 Compared to Fiscal Year 2020

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

Wholesale energy expense increased \$6.1 million or 1.4 percent. Purchased power expense decreased \$3 million compared to last year, reflecting the net effect of higher customer demand and flow through of lower wholesale power costs. KUB received \$9.2 million in wholesale power rate credits during the fiscal year as part of KUB's long-term Partnership Agreement with TVA, which decreased power expenses in the current fiscal year. Purchased gas expense was \$9.1 million higher, reflecting higher customer demand for the fiscal year and higher natural gas prices.

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

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

Fiscal Year 2020 Compared to Fiscal Year 2019

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

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

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

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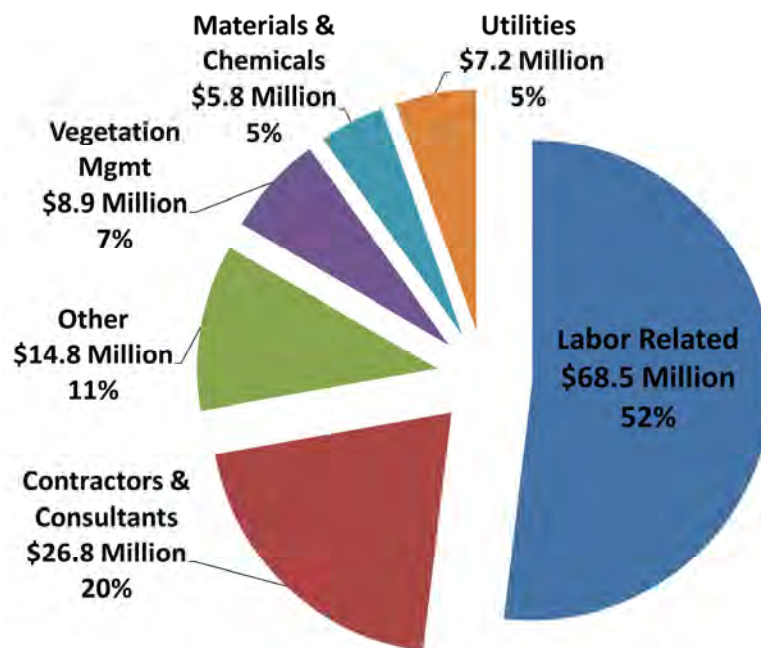
Operating Expenses

Fiscal Year 2021 Compared to Fiscal Year 2020

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

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

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



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

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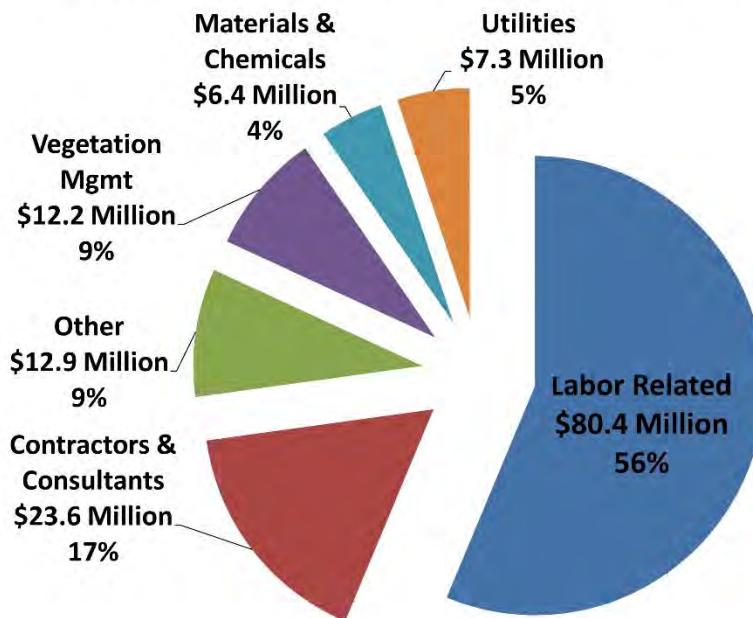
- Taxes and tax equivalents increased \$1.6 million or 4.4 percent. Tax equivalent payments to taxing jurisdictions in which KUB’s utility systems are located are based on a combination of net plant values and margin from energy sales.

Fiscal Year 2020 Compared to Fiscal Year 2019

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

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

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

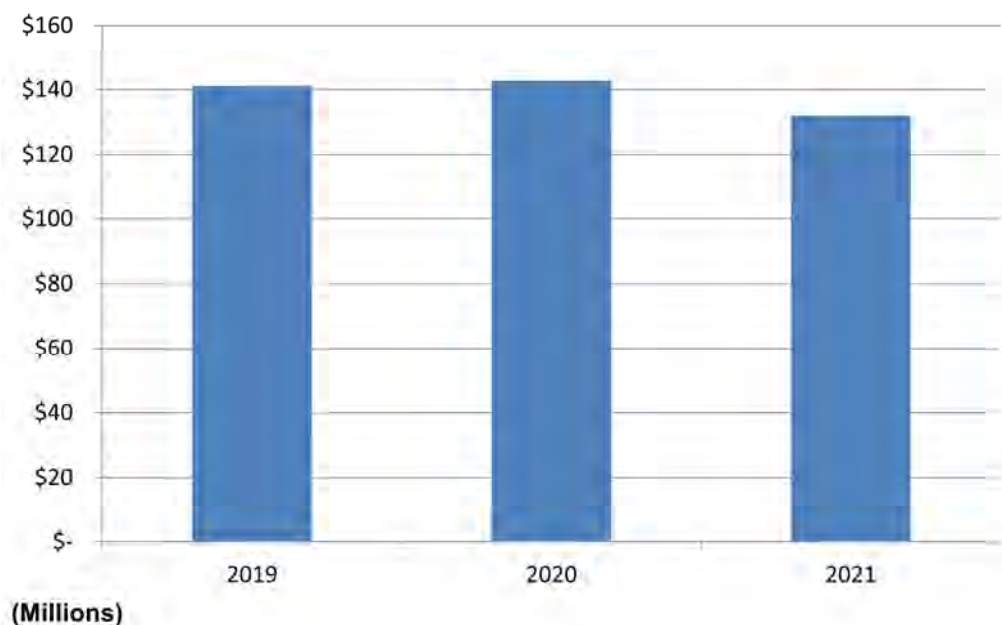


- Depreciation expense decreased \$1.9 million or 2.5 percent. KUB added \$135.4 million in assets during fiscal year 2019. A full year of depreciation expense was recorded on these capital investments and a partial year of depreciation expense was incurred on \$161.1 million in assets placed in service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

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

Consolidated Operation & Maintenance Expense



Other Income and Expense

Fiscal Year 2021 Compared to Fiscal Year 2020

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

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

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

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

Fiscal Year 2020 Compared to Fiscal Year 2019

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

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

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

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

Capital Assets

**Capital Assets
As of June 30
(Net of Depreciation)**

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

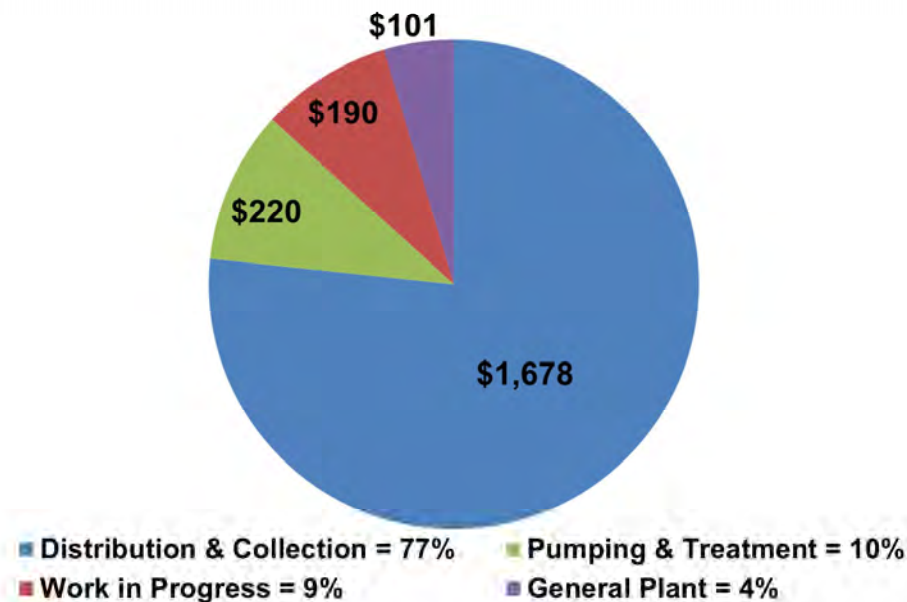
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Fiscal Year 2021 Compared to Fiscal Year 2020

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

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



Major capital asset additions during the year were as follows:

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

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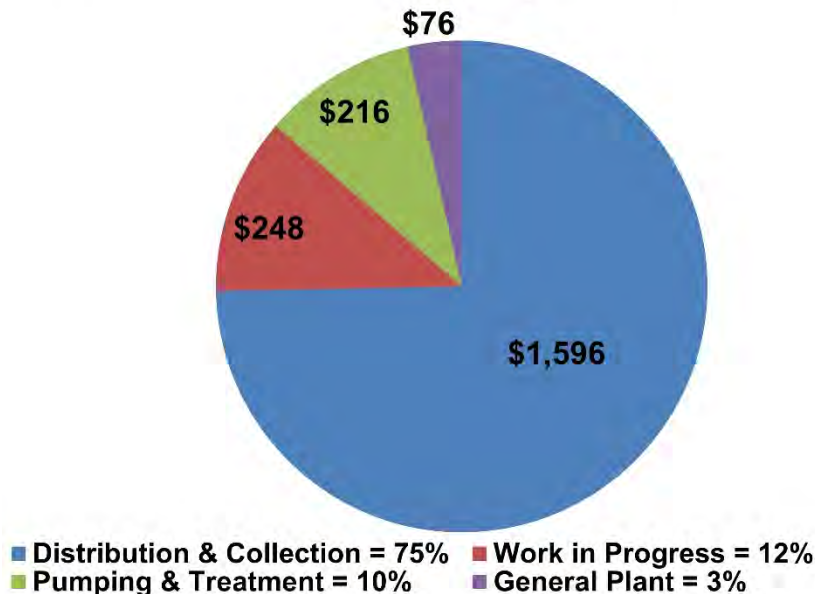
June 30, 2021 and 2020

Fiscal Year 2020 Compared to Fiscal Year 2019

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

FY 2020 Consolidated Capital Assets = \$2.1 Billion

(in Millions)



Major capital asset additions during the year were as follows:

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

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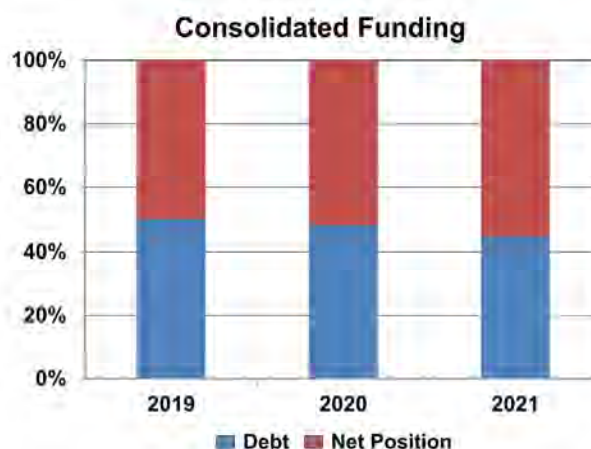
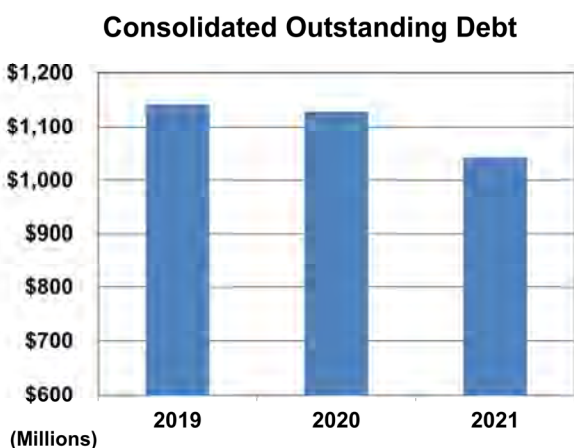
Debt Administration

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

Outstanding Debt As of June 30

(in thousands of dollars)

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



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

Fiscal Year 2021 Compared to Fiscal Year 2020

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

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

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

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KUB sold \$9 million in water system revenue bonds in October 2020 for the purpose of funding water system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.36 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2050.

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

KUB sold \$27.5 million in wastewater system revenue bonds in October 2020 for the purpose of funding wastewater system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.41 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2050.

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

KUB's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2021, Standard & Poor's rated the revenue bonds of the Water Division AAA, the Wastewater Division AA+, and the revenue bonds of the Electric Division and the Gas Division AA. Moody's Investors Service rated the bonds of the Water Division Aa1 and the Electric, Gas, and Wastewater Divisions Aa2.

Fiscal Year 2020 Compared to Fiscal Year 2019

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

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

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

KUB sold \$20 million in water system revenue bonds in July 2019 for the purpose of funding water system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.79 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2049.

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

KUB sold \$16 million in wastewater system revenue bonds in July 2019 for the purpose of funding wastewater system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.79 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2049.

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

KUB's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2020, Standard & Poor's rated the revenue bonds of the Water Division AAA, the Wastewater Division AA+, and the revenue bonds of the Electric Division and the Gas Division AA. Moody's Investors Service rated the bonds of the Water Division Aa1 and the Electric, Gas, and Wastewater Divisions Aa2.

Impacts on Future Financial Position

KUB anticipates a net increase of 3,675 customers during fiscal year 2022.

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

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

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

During the period of October 2020 to September 2021, TVA is providing a Pandemic Relief Credit to local power companies. KUB has excluded the Standard Service portion of this credit from the Purchased Power Adjustment in order to assist customers in need of financial assistance due to the pandemic. An estimated \$6.6 million is available to residential and small business customers through the COVID Utility Relief Effort (CURE) fund.

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

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

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

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

Broadband services will be provided by a high-speed fiber optic network that will be owned and maintained by the Electric Division. In addition to providing broadband services, the fiber network will allow KUB to implement new advanced technologies to improve the reliability of its electric system.

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

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

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

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

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

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

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

GASB Statement No. 87, *Leases*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, is effective for fiscal years beginning after December 15, 2020. GASB Statement No. 91, *Conduit Debt Obligations*, is effective for fiscal years beginning after December 15, 2021. GASB Statement No. 92, *Omnibus 2020*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 93, *Replacement of Interbank Offered Rates*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, is effective for fiscal years beginning after June 15, 2021. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on KUB's financial position or results of operations during fiscal year 2021.

Financial Contact

KUB's financial statements are designed to present users (citizens, customers, investors, and creditors) with a general overview of KUB's financial position and results of operations for the fiscal years ended June 30, 2021 and 2020. If you have questions about the statements or need additional financial information, contact KUB's Chief Financial Officer at 445 South Gay Street, Knoxville, Tennessee 37902.

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

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

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

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

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

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

Knoxville Utilities Board
Consolidated Statements of Revenues, Expenses and Changes in Net Position
June 30, 2021 and 2020

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

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

Knoxville Utilities Board

Consolidated Statements of Cash Flows

June 30, 2021 and 2020

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

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

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

1. Description of Business

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

2. Significant Accounting Policies

Basis of Accounting

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

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

Recently Adopted New Accounting Pronouncements

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

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

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Principles of Consolidation

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

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

Plant

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

The provision for depreciation of plants in service is based on the estimated useful lives of the assets, which range from three to sixty-seven years, and is computed using the straight-line method. Pursuant to FERC/NARUC, the caption "Provision for depreciation" in the consolidated Statements of Revenues, Expenses and Changes in Net Position does not include depreciation for transportation equipment of \$3,162,734 in fiscal year 2021 and \$2,826,868 in fiscal year 2020. Under regulatory accounting, interest costs are expensed as incurred with construction of plant assets.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of KUB. Operating revenue is recorded when the service is rendered, on a cycle basis, and includes an estimate of unbilled revenue. Revenues are reported net of bad debt expense of \$2,814,225 in fiscal year 2021 and \$1,917,715 in fiscal year 2020.

Non-operating Revenue

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

Expense

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

Net Position

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

These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

OPEB Plan

KUB's employees hired prior to July 1, 1999, who are retired and who (prior to retirement) qualified for retiree medical insurance by meeting the Rule of 80 (age plus years of service) with a minimum of 20 years of service and were enrolled in medical coverage on their last day, are eligible for post-employment health care. KUB's OPEB Trust was established by KUB's Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. KUB's policy is to fully fund the annual actuarially determined contributions, which are determined by actuarial valuation. As required by GASB Statement No. 75, KUB measures net OPEB liability as total OPEB liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2021 and 2020 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a June 30, 2021 and 2020 measurement date, respectively. The net OPEB asset is \$5,931,828 as of June 30, 2021, and the net OPEB liability is \$7,589,447 as of June 30, 2020.

Pension Plan and Qualified Excess Benefit Arrangement

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 10). KUB's policy is to fully fund the annual actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2021 and 2020 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a December 31, 2020 and 2019 measurement date, respectively. The net pension asset is \$45,099,288 as of June 30, 2021, and \$19,121,375 as of June 30, 2020.

KUB implemented a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). The QEBA is a single-employer defined benefit pension plan, administered by KUB (Note 11). As required by GASB Statement No. 73, KUB measures the total pension liability of the QEBA. The amounts reported

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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

Investments

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

Self-Insurance

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

Estimates

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

Restricted and Designated Assets

Certain assets are restricted by bond resolutions for the construction of utility plant and debt repayment. Certain additional assets are designated by management for contingency purposes and economic development.

Cash Equivalents

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

Deferred Outflows and Inflows of Resources

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

Debt Premium/Discount

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

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Debt Issuance Costs

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

Deferred Gain/Loss on Refunding of Debt

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

Compensated Absences

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

TVA Conservation Program

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

Subsequent Events

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

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

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

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

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

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

Purchased Power Adjustment

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

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

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

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

Under the PPA mechanism, KUB tracks the actual over/(under) recovered amount in the Over/(Under) Recovered Purchased Power Cost accounts. These accounts are rolled into the PPA rate adjustments thereby assuring that any over/(under) recovered amounts are promptly passed on to KUB's electric customers. The amount of over/(under) recovered cost was \$427,351 on June 30, 2021, and \$1,848,630 on June 30, 2020.

Purchased Gas Adjustment

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

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

Under the PGA mechanism, KUB tracks the actual over/(under) recovered amount in the Over/(Under) Recovered Purchased Gas Cost accounts. These accounts are rolled into the PGA rate adjustment on June 30 of each year thereby ensuring that any over/(under) recovered amounts are

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

Recently Issued Accounting Pronouncements

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

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

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

In January 2020, the GASB issued GASB Statement No. 92 (Statement No. 92), *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain provisions of Statement No. 92 were effective immediately. Paragraphs 6, 7, 8, 9, and 12 are effective for fiscal years beginning after June 15, 2021.

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

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

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

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

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

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

3. Deposits and Investments

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

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

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

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

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

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Classification of deposits and investments per Statement of Net Position:

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

The above amounts do not include accrued interest of \$125,975 in fiscal year 2021 and \$358,658 in fiscal year 2020. Interest income is recorded on an accrual basis.

Investments and maturities of KUB's deposits and investments as held by financial institutions as of June 30, 2021:

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

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

KUB has the following recurring fair value measurements as of June 30, 2021:

- U.S. Agency bonds of \$34,899,420, which have a maturity at purchase of greater than one year, are valued using quoted market prices (Level 1 inputs)

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

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4. Accounts Receivable

Accounts receivable consists of the following:

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

5. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

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

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Knoxville Utilities Board

Notes to Consolidated Financial Statements

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6. Long-Term Obligations

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

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

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

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

The Divisions have pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet bond principal and interest payments of revenue bonds when due. Such bond requirements are being met through monthly deposits to the bond funds as required by the bond covenants. As of June 30, 2021, these requirements had been satisfied.

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

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

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

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

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

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

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

During fiscal year 2011, KUB's Wastewater Division issued Series 2010C bonds to fund capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. These bonds are subject to a reduction in rebate payment amounts which is subject to change based on Congressional action. As of October 1, 2020, the effective reduction in rebate is 5.7 percent.

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

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

Other liabilities consist of the following:

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

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

7. Lease Commitments

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

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

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8. Capital Assets

Capital asset activity was as follows:

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

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9. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. At June 30, 2021 and June 30, 2020, the amount of these liabilities was \$1,936,245 and \$1,720,620, respectively, resulting from the following changes:

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

10. Pension Plan

Description of Plan

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

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

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

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

Retirement Benefits

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

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

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

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

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

Contributions

Participation in Plan A requires employee contributions of 3% of the first \$4,800 of annual earnings and 5% of annual earnings in excess of \$4,800. KUB contributions are determined by the enrolled actuary of the Plan and equal the amount necessary to provide the benefits under the Plan determined by the application of accepted actuarial methods and assumptions. The method of funding shall be consistent with Plan objectives.

Plan Funding

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

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Investments

The Plan's investments are held by State Street Bank and Trust Company (the "Trustee"). The Plan's policy in regard to the allocation of invested assets is established by the Retirement System Investment Committee and approved by the KUB Board of Commissioners and may only be amended by the KUB Board of Commissioners. It is the policy of the Retirement System Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Plan's adopted asset allocation policy as of December 31, 2020:

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

Contributions of \$3,167,680 and \$2,585,824 for 2019 and 2018, respectively, were made during the Plan sponsor's fiscal years ended June 30, 2021 and 2020, respectively. The fiscal year 2021 contribution was determined as part of the January 1, 2019 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability or death.

Net Pension Liability (Asset)

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB 68"), which requires measurement of the net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 will be based on the December 31, 2020 and 2019 measurement date, respectively.

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

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

Plan fiduciary net position as a percentage of the total pension liability	119.24%	108.43%
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Changes in Net Pension Liability (Asset) are as follows:

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

Actuarial Assumptions

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

Valuation dates	January 1, 2020, rolled forward to December 31, 2020; January 1, 2019, rolled forward to December 31, 2019
Discount rate	7.25% as of December 31, 2020 and 2019
Salary increases	From 2.50% to 5.65%, based on years of service as of December 31, 2020 and 2019
Mortality	115% and 110% of the PubG-2010 table, for males and females respectively, using the Public Sector General Employee Table for ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of December 31, 2020 and 2019
Inflation	2.5% as of December 31, 2020 and 2019

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

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2020 and 2019 are

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summarized in the following table. The real rate of return reported for fixed income is for aggregate fixed income. The Plan has both aggregate and long duration fixed income.

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

Discount rate

The discount rate used to measure the total pension liability was 7.25 percent as of December 31, 2020 and 2019. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

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

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

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

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2019, this average was 5.00 years. During the measurement year, there was a liability experience loss of \$1,930,170 with \$386,034 of that recognized in the current year and in each of the next four years, resulting in a deferred outflow of \$1,544,136. Unrecognized liability experience gains from prior periods were \$2,088,302 of which \$996,139 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$1,092,163.

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

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

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

\$1,583,842 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

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

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

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2018, this average was 5.00 years. During the measurement year, there was an experience gain of \$1,054,117 with \$210,822 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of \$843,295. Unrecognized experience gains from prior periods were \$2,408,388 of which \$1,163,381 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$1,245,007.

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

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

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

11. Qualified Excess Benefit Arrangement

Description

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

As of June 30, 2021, there are 487 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. There is currently one member receiving benefits under the QEBA. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the KUB Pension Plan. The KUB Pension Plan was amended to include the provision of QEBA benefits; therefore, amendments to the QEBA require the same authority as amendments to the KUB Pension Plan. As required by federal tax law, the QEBA is unfunded within the meaning of the federal tax laws. KUB may not pre-fund the QEBA to cover future liabilities beyond the current year. KUB has established procedures to pay for these benefits on a pay-as-you-go basis, funded by KUB. There are no assets accumulated in a trust that meets the GASB's criteria.

Total Pension Liability of the QEBA

The below summarizes the disclosures of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"). GASB 73 extends a similar approach of financial reporting to plans meeting specific criteria that are not administered through trusts that GASB 68 established for pension plans. GASB 73 requires measurement of the total pension liability of the QEBA. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a December 31, 2020 and 2019 measurement date, respectively.

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

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

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

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

Actuarial Assumptions

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

Valuation dates	December 31, 2020 and December 31, 2019
Actuarial cost method	Individual entry age
Salary increase	From 2.50% to 5.65%, based on years of service as of December 31, 2020 and 2019
Mortality	115% and 110% of the Public Sector General Healthy Annuitant Mortality Table (PubG-2010), for males and females, respectively, using the Public Sector General Employee Table for ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of December 31, 2020 and 2019
Inflation	2.5% as of December 31, 2020 and 2019

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

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Discount rate

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

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

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

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

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

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

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2019, this average was 5 years. During the measurement year, there was an experience loss of \$10,165, with \$2,033 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$8,132. There was a deferred inflow at the end of the measurement year of \$14,450 from experience gains in prior years and a deferred outflow of \$2,756 from experience losses in prior years.

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 10,888	\$ 14,450
Changes in assumptions	22,772	9,180
Contributions subsequent to measurement date	6,084	-
Total	<u>\$ 39,744</u>	<u>\$ 23,630</u>

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

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

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

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2018, this average was 5 years. During the measurement year, there was an experience loss of \$34, with \$7 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$27. There was a deferred inflow at the end of the measurement year of \$21,675 from experience gains in prior years and a deferred outflow of \$5,473 from experience losses in prior years.

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,500	\$ 21,675
Changes in assumptions	40,059	13,770
Contributions subsequent to measurement date	6,083	-
Total	\$ 51,642	\$ 35,445

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12. Defined Contribution Plan

The KUB Asset Accumulation 401(k) Plan (the “401(k) Plan”) is a defined contribution 401(k) employee retirement savings plan covering eligible KUB employees established by the KUB Board of Commissioners in accordance with the Charter of the City of Knoxville, Tennessee. The 401(k) Plan’s assets are held in trust under an agreement between KUB and Fidelity Management Trust Company. Employees hired prior to January 1, 2011 may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. Employees hired on or after January 1, 2011 have an enhanced 401(k) due to the closure of the Defined Benefit Pension Plan. They may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. They also receive a nonelective KUB contribution of 3 percent to 6 percent, depending on years of service, whether they contribute or not.

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

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13. Other Post-Employment Benefits (OPEB)

Description of Trust

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

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

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

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

Benefits

Other post-employment benefits may include, but shall not be limited to, medical, prescription drugs, dental, vision, hearing, Medicare Part B or Part D premiums, life insurance, long-term care, and long-term disability. Only medical and pharmacy are currently provided to eligible retirees.

Contributions and Plan Funding

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

Contributions are authorized by the terms of the Trust as established by KUB Resolution No. 1168, as amended, as approved by the Tennessee State Funding Board. KUB shall have the right at any time to amend, in whole or in part, the provisions of this Trust; however, no such amendment shall

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authorize or permit the assets of the Trust to be used for or diverted to purposes other than those expressed in the Declaration of Trust.

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

Based on the date of retirement, certain retired plan members are required to contribute specified amounts monthly to maintain health insurance. Those who retired prior to July 1983 have no required monthly premiums for themselves or dependents. The retirees, or their surviving dependents, who retired between August 1983 and January 1998 are required to pay \$262.50 per month for pre-Medicare family health insurance. For individuals who retired after January 1998, the required monthly premium for pre-Medicare health insurance is \$262.50 for single coverage and \$525 for family coverage. There is currently no premium for Medicare eligible retirees or dependents. KUB is responsible for determining the level of retired plan member contributions on an annual basis, as part of its review of healthcare cost sharing.

Investments

The Trust holds investments in a balanced fund, which invests in passively managed common trust index funds, managed and sponsored by State Street Global Advisors (SSgA), with an asset allocation mirroring the asset allocation of the Trust and rebalanced monthly. The Trust’s Investment Policy was established and may only be amended by the KUB Board of Commissioners. The Trust’s Investment Policy is to invest in a manner that will provide sufficient investment return to meet current and future retiree health benefits, while conforming to all governing State and Federal statutes. It allows investment of Trust assets in any type of security instrument allowed for in T.C.A 8-50-1203. The following was the Trust’s adopted investment target allocations as set forth in the Trust’s Investment Policy as of June 30, 2021:

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

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

Net OPEB Liability (Asset)

The below summarizes the disclosures of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“GASB 75”), which requires measurement of the net OPEB liability as total OPEB liability less the amount of the Trust’s fiduciary net position. The amounts reported as of June 30 are based on the reporting date for the KUB

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Other Post-Employment Benefits Plan which is June 30. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2021 and 2020 and the Total OPEB Liability as of the valuation date, January 1, 2020 updated to June 30, 2021, and January 1, 2019 updated to June 30, 2020, respectively.

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

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

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

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

Actuarial assumptions

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

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

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Salary increases:	From 2.50% to 5.65%, based on years of service as of January 1, 2020 and 2019
Mortality:	115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Healthy Annuitant Mortality Table, both projected using scale MP2018 fully generational as of January 1, 2020 and 2019
Inflation:	2.50% as of January 1, 2020 and 2019

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

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

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

Discount rate

The discount rate used to measure the total OPEB liability was 7.25 percent as of June 30, 2021 and 2020. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

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

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

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

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

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

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

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

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was 2.0 years. During the measurement year, there was an experience loss of \$42,802, with \$21,401 of that recognized in the current year and the remaining amount will be recognized in the next year, resulting in a deferred outflow of resources of \$21,401. Unrecognized experience losses from prior periods were \$21,951, of which the entire amount is recognized as an increase in OPEB expense in the current year.

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

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$9,571,802, of which \$1,914,360 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were \$2,354,338, of which \$602,585 was recognized as an increase in OPEB expense in the current year. The combination of unrecognized gains this year along with the net unrecognized investment losses from prior periods results in a net difference between projected and actual earnings on OPEB plan investments as of June 30, 2021 of \$5,905,689. The following table summarizes the current balances of deferred outflows and deferred inflows of resources.

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

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

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

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

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

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was 2.0 years. During the measurement year, there was an experience loss of \$43,902, with \$21,951 of that recognized in the current year and the remaining amount will be recognized in the next year, resulting in a deferred outflow of resources of \$21,951. Unrecognized experience losses from prior periods were \$499,549, of which the entire amount is recognized as an increase in OPEB expense in the current year.

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

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

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

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

14. Related Party Transactions

KUB, in the normal course of operations, is involved in transactions with the City of Knoxville. Such transactions for the years ended June 30, 2021 and 2020 are summarized as follows:

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

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

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

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

15. Natural Gas Supply Contract Commitments

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

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

Firm obligations related to purchased gas – demand

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

Firm obligations related to purchased gas – commodity

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

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

16. Other Commitments and Contingencies

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

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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

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

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

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

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

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

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

17. Risks and Uncertainties

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

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

18. Segment Information

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

Condensed Statement of Net Position

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

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

Condensed Statement of Net Position

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

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

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

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

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

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

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

Condensed Statement of Cash Flows

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

Condensed Statement of Cash Flows

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

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

	*Year ended December 31						
	2020	2019	2018	2017	2016	2015	2014
Total pension liability							
Service cost	\$ 5,227,657	\$ 6,142,213	\$ 5,095,488	\$ 4,607,486	\$ 4,226,985	\$ 4,157,062	\$ 4,092,808
Interest	16,393,202	16,030,626	15,344,193	15,015,282	14,966,559	14,812,784	14,698,657
Changes of benefit terms	-	163,199	-	-	-	-	-
Differences between expected and actual experience	1,930,170	(1,054,117)	(605,649)	(1,087,161)	(2,233,762)	(1,890,334)	-
Changes of assumptions	-	8,473,160	-	(357,633)	(2,932,883)	-	-
Benefit payments, including refunds of member contributions	(16,006,565)	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)	(15,533,167)
Net change in total pension liability	7,544,464	14,660,606	4,559,218	3,207,995	(111,612)	1,728,586	3,258,298
Total pension liability - beginning	226,818,557	212,157,951	207,598,733	204,390,738	204,502,350	202,773,764	199,515,466
Total pension liability - ending (a)	\$ 234,363,021	\$ 226,818,557	\$ 212,157,951	\$ 207,598,733	\$ 204,390,738	\$ 204,502,350	\$ 202,773,764
Plan fiduciary net position							
Contributions - employer	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541
Contributions - participants	2,284,727	3,170,825	2,081,125	1,488,632	555,075	487,546	475,854
Net investment income	44,814,914	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)	22,292,369
Other additions	7,740	13,579	62,616	82,239	45,848	30,879	29,733
Benefit payments, including refunds of member contributions	(15,962,565)	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)	(15,405,167)
Administrative expense	(455,191)	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)	(378,085)
Death benefits	(44,000)	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)	(128,000)
Net change in plan fiduciary net position**	33,522,377	40,431,737	(21,868,910)	22,862,426	5,052,489	(9,333,204)	12,795,245
Plan fiduciary net position - beginning**	245,939,932	205,508,195	227,377,105	204,514,679	199,462,190	208,795,394	196,000,149
Plan fiduciary net position - ending (b)**	\$ 279,462,309	\$ 245,939,932	\$ 205,508,195	\$ 227,377,105	\$ 204,514,679	\$ 199,462,190	\$ 208,795,394
Plan's net pension liability - ending (a) - (b)	\$ (45,099,288)	\$ (19,121,375)	\$ 6,649,756	\$ (19,778,372)	\$ (123,941)	\$ 5,040,160	\$ (6,021,630)
Plan fiduciary net position as a percentage of the total pension liability	119.24%	108.43%	96.87%	109.53%	100.06%	97.54%	102.97%
Covered payroll	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743	\$ 44,076,351
Plan's net pension liability as a percentage of covered payroll	(108.61%)	(47.48%)	15.78%	(45.67%)	(0.28%)	11.34%	(13.66%)

Notes to Schedule:

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

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board
Required Supplementary Information - Schedule of Employer Pension Contributions
June 30, 2021

	*Year ended December 31						
	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541
Contribution in relation to the actuarially determined contribution	2,876,752	2,871,241	3,456,475	4,286,597	5,243,146	5,991,887	5,908,541
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743	\$ 44,076,351
Contributions as a percentage of covered payroll	6.93%	7.13%	8.20%	9.90%	11.80%	13.48%	13.41%

Notes to Schedule:

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

Valuation Dates: January 1, 2019 and January 1, 2018

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Individual entry age
Asset valuation method: 5-year smoothed market
Amortization method: Level dollar, 30-year closed period with 22 years remaining (23 years as of January 1, 2018), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2019 and 2018, the unfunded liability was negative.
Discount rate: 7.5%
Salary increases: As of January 1, 2019: 2.50% to 5.65%, based on years of service
As of January 1, 2018: 2.80% to 5.15%, based on years of service
Mortality: As of January 1, 2019: 115% and 110% of the benefits-weighted Public Sector General Healthy Annuitant Mortality Table (PubG-2010), respectively, for males and females, using the Public Sector General Employee Table while in active employment and for annuitant ages prior to the start of the Healthy Annuitant Mortality Table, both projected from the 2010 base rates using scale MP2018 fully generational
As of January 1, 2018: Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation: 2.5% as of January 1, 2019 and 2.8% as of January 1, 2018

* Schedule of Employer Contribution information is not reflected prior to 2014 due to changes in actuary methodologies required under GASB 67, which was implemented 2014. Please refer to prior year's audited financial statements for prior methods and assumptions.

See accompanying Independent Auditor's Report

Knoxville Utilities Board

Required Supplementary Information – Schedule of Changes in Net OPEB Liability and Related Ratios June 30, 2021

	*Year ended June 30			
	2021	2020	2019	2018
Total OPEB liability				
Service cost	\$ 283,786	\$ 256,270	\$ 270,515	\$ 202,603
Interest	3,861,304	3,672,291	3,624,737	3,295,240
Change of benefit terms	-	(202,408)	-	-
Differences between expected and actual experience	42,802	43,902	999,098	1,324,769
Changes of assumptions	(4,105,835)	3,604,843	3,231,601	(397,180)
Benefit payments	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Net change in total OPEB liability	<u>(3,029,122)</u>	<u>4,346,302</u>	<u>4,593,507</u>	<u>1,126,693</u>
Total OPEB liability - beginning	54,544,240	50,197,938	45,604,431	44,477,738
Total OPEB liability - ending (a)	<u>\$ 51,515,118</u>	<u>\$ 54,544,240</u>	<u>\$ 50,197,938</u>	<u>\$ 45,604,431</u>
Plan fiduciary net position				
Contributions - employer	\$ 757,226	\$ 311,324	\$ -	\$ -
Net investment income	12,890,602	975,155	2,981,928	3,705,473
Benefit payments	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	(44,496)	(53,286)	(54,787)	(51,668)
Net change in plan fiduciary net position	<u>10,492,153</u>	<u>(1,795,403)</u>	<u>(605,303)</u>	<u>355,066</u>
Plan fiduciary net position - beginning	46,954,793	48,750,196	49,355,499	49,000,433
Plan fiduciary net position - ending (b)	<u>\$ 57,446,946</u>	<u>\$ 46,954,793</u>	<u>\$ 48,750,196</u>	<u>\$ 49,355,499</u>
Net OPEB liability (asset) - ending (a) - (b)	<u>\$ (5,931,828)</u>	<u>\$ 7,589,447</u>	<u>\$ 1,447,742</u>	<u>\$ (3,751,068)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	111.51%	86.09%	97.12%	108.23%
Covered employee payroll	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	(27.49%)	32.48%	5.95%	(15.84%)

Notes to Schedule:

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

See accompanying Independent Auditor's Report

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

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

Notes to Schedule:

Valuation Date:	January 1, 2019 and January 1, 2018
Timing:	Actuarially determined contribution rates are calculated based on the actuarial valuation completed 18 months before the beginning of the fiscal year.

Key methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry age normal
Asset valuation method:	5-year smoothed market
Amortization method:	Level dollar, 30-year closed period with 17 years remaining as of January 1, 2019 (18 years as of January 1, 2018), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2019, the unfunded liability was positive and negative as of January 1, 2018
Discount rate:	7.5%
Healthcare cost trend rate:	Pre-Medicare: 7.83% grading down to 4.50% over 19 years as of January 1, 2019; 8.00% grading down to 4.50% over 20 years as of January 1, 2018 Medicare: 6.88% grading down to 4.50% over 19 years as of January 1, 2019; 7.00% grading down to 4.50% over 20 years as of January 1, 2018 Administrative expenses: 3.0% per year
Salary increases:	From 2.50% to 5.65%, based on years of service as of January 1, 2019; From 2.80% to 5.15%, based on years of service as of January 1, 2018
Mortality:	115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational as of January 1, 2019; Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA as of January 1, 2018
Inflation:	2.5% as of January 1, 2019; 2.8% as of January 1, 2018
Investment rate of return:	7.5%
Retirement age:	2% at ages 50-57 at January 1, 2019 and January 1, 2018, grading up to 100% at age 70

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board
Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement
Schedule of Changes in Total Pension Liability and Related Ratios
June 30, 2021

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

Notes to Schedule:

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board
Supplemental Information - Schedule of Expenditures of Federal Awards and
State Financial Assistance
June 30, 2021

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

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards and State Financial Assistance includes the federal award related grant activity of Knoxville Utilities Board and is presented on the accrual basis of accounting. The expenditures reported in the Schedule of Expenditures and State Financial Assistance were incurred in fiscal years 2019 and 2020. In accordance with the requirements of CFDA 97.036, the expenditures have been reported in fiscal year 2021 when the grant was approved by the Federal Emergency Management Association. KUB did not elect to use 10% de minimis indirect cost rate.

See accompanying Independent Auditor's Report

Knoxville Utilities Board
Statistical Information - Schedule of Insurance in Force
June 30, 2021
(Unaudited)

Crime

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

Directors' and Officers' Liability Insurance

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

Employment Practices Liability

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

Fiduciary

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

Pollution Legal Liability

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

Property Insurance

This coverage provides protection of KUB's property for fire, extended coverage, vandalism and malicious mischief, and coverage on boilers and machinery. Also included are flood and earthquake damage and mechanical failure. Limits of coverage - \$250,000,000 per occurrence (subject to certain sublimits); \$2,500,000 deductible per occurrence.

Travel Accident

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

Excess Insurance for General Liability

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

Excess Insurance for Workers' Compensation

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

Employee Health Plan Stop Loss Coverage

KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses in excess of \$600,000 per individual participant.

Cyber Security Liability

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

See accompanying Independent Auditor's Report

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

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Knoxville Utilities Board (KUB), a component unit of the City of Knoxville, Tennessee, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements, and have issued our report thereon dated October 25, 2021.

Internal Control over Financial Reporting

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

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

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

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Compliance and Other Matters

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

Purpose of this Report

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

Coulter & Justus, P.C.

Knoxville, Tennessee
October 25, 2021

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

Section I -- Summary of Auditor's Results

Financial Statements

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

Section II -- Financial Statement Findings

None reported.

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

None reported.

Section IV -- Summary Schedule of Prior Year Audit Findings

Not applicable as there were no prior year findings reported.



Electric Division

Financial Statements and Supplemental Information
June 30, 2021 and 2020

KUB Board of Commissioners

Dr. Jerry W. Askew, Chair
John Worden, Vice Chair

Claudia Caballero
Kathy Hamilton

Celeste Herbert
Adrienne Simpson-Brown

Tyvi Small

Management

Gabriel Bolas II
President and Chief Executive Officer

Mark Walker
Senior Vice President and Chief Financial Officer

Susan Edwards
Senior Vice President and Chief Administrative Officer

Derwin Hagood
Senior Vice President of Operations

Eddie Black
Senior Vice President and Chief Technology Officer

John Williams
Senior Vice President of Engineering & Construction

Tiffany Martin
Vice President and Chief Customer Officer

Mike Bolin
Vice President of Utility Advancement

John Gresham
Vice President of Operations

Jamie Davis
Vice President and Assistant to Chief Technology Officer

Julie Childers
Vice President and Century II Administrator

Knoxville Utilities Board Electric Division

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June 30, 2021 and 2020

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Independent Auditor's Report

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

We have audited the accompanying 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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the index.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Division's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 26 and the required supplementary information on pages 65 through 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise 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.

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

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, 2021 and 2020, 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 25, 2021, 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 25, 2021

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

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. 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 at June 30, 2021 and 2020, 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, 2021 activities, resulting changes and current known facts, and should be read in conjunction with the Division's financial statements.

Electric Division Highlights

System Highlights

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

KUB serves 213,008 electric customers over a 688 square mile service area and maintains 5,437 miles of service lines and 63 electric substations to provide 5.8 million megawatt hours to its customers annually.

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

KUB's electric system record peak in demand remains 1,328 megawatt hours, set in February 2015.

KUB has added 6,575 electric system customers over the past three years representing annual growth of one percent. In fiscal year 2021, 2,615 customers were added.

The typical residential customer's average monthly electric bill was \$108.24 as of June 30, 2021, representing a decrease of \$0.22 compared to June 30, 2020. Bill levels are based on 1,000 kwh of monthly power use. The slight decrease in the monthly bill during fiscal year 2021 was the net result of the flow through of TVA wholesale rate adjustments and prior year over recovered wholesale power costs.

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

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.

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, but accelerated, investment.

In fiscal year 2015, KUB concluded the smart grid pilot project, of which a portion of the project was funded by a United States Department of Energy Smart Grid Investment Grant (SGIG). This grant was received by KUB in 2009 as part of the American Reinvestment and Recovery Act (ARRA). Based upon the success of that pilot, KUB formed a plan to move forward with a Century II Grid Modernization initiative, which includes advanced metering for all KUB customers, a telecommunication system linking critical KUB infrastructure, and an increased investment in automation technology to help operate KUB's energy and water distribution systems. Over the course of ten years, KUB plans to spend approximately \$124.4 million on Grid Modernization, of which the Electric Division's share is approximately \$80.1 million. The deployment is funded in large part by debt issues and system revenues. In fiscal year 2020, KUB completed the final year of the four-year advanced meter deployment, spending \$48.7 million. The project was completed on time and under budget.

In May 2017, a new Century II funding resolution was adopted by the KUB Board to express the continued commitment to funding Century II programs for the next ten years. The funding will be achieved through a combination of rate increases and debt issues supplemented by cost savings and new revenue from net customer additions.

In June 2017, the Board approved the next phase of electric rate increases to support the Century II program. The three approved electric rate increases went into effect in October 2017, October 2018, and October 2019 generating \$10.9 million, \$11.2 million, and \$5.7 million in additional annual Electric Division revenue, respectively.

During the fiscal year, KUB replaced 1,438 poles, exceeding the target level of 1,400 poles, and replaced 9.1 miles of transmission lines, slightly exceeding the target level of 9 miles, while staying on track with Century II goals and within the Electric Division's total capital budget.

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Knoxville Utilities Board Electric Division

Management's Discussion and Analysis

June 30, 2021 and 2020

Financial Highlights

Fiscal Year 2021 Compared to Fiscal Year 2020

The Division's Change in Net Position increased \$31.6 million in fiscal year 2021. Comparatively, net position increased by \$26.7 million in fiscal year 2020.

Operating revenue increased \$6.2 million or 1.1 percent over the prior fiscal year. The increase in operating revenue was the net result of additional revenue from a 6.8 percent increase in billed sales and the flow through of \$1.8 million of over recovered purchased power from the prior year. KUB flows changes to wholesale power rates directly through to its retail electric rates via its Purchased Power Adjustment.

Seventy-three percent of Electric Division sales revenue was used to purchase electric power from TVA for the fiscal year ended June 30, 2021. Purchased power expense decreased \$3.7 million compared to last fiscal year due to lower wholesale power costs. Billed power sales were up 6.8 percent compared to the prior fiscal year, reflecting colder winter temperatures.

Margin on electric sales (operating revenue less purchased power expense) increased \$9.9 million or 6.6 percent.

Operating expenses (excluding purchased power expense) increased \$2.9 million. Operating and maintenance (O&M) expenditures decreased \$8.1 million. Depreciation expense increased \$10.2 million or 34 percent, as \$14.8 million of multi-year projects were capitalized this fiscal year. Taxes and tax equivalents were \$0.8 million, or 4.4 percent, higher than the prior fiscal year.

Interest income was \$1.3 million less than the prior fiscal year, due to lower short-term interest rates. Interest expense decreased \$0.4 million or 3.7 percent.

Capital contributions were \$0.2 million lower than the prior fiscal year, reflecting a decrease in electric system assets provided to KUB during the fiscal year.

Total capital assets (net) increased \$14.2 million or 2.1 percent over the end of the last fiscal year, reflecting pole replacements and other distribution system improvements as part of KUB's Century II electric program.

During fiscal year 2021, KUB refinanced outstanding debt, selling \$70.2 million in electric system revenue refunding bonds in March 2021. KUB will realize a total debt service savings of \$14.3 million over the life of the bonds (\$11.9 million on a net present value basis).

Long-term debt represented 38.3 percent of the Division's capital structure as of June 30, 2021, compared to 42.6 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. Current year debt coverage for the fiscal year was 3.80. Maximum debt service coverage was 4.20.

Fiscal Year 2020 Compared to Fiscal Year 2019

The Division's Change in Net Position increased \$26.7 million in fiscal year 2020. Comparatively, net position increased by \$20 million in fiscal year 2019.

Operating revenue decreased \$10.7 million or 1.9 percent over the prior fiscal year. The decrease in operating revenue was the net result of additional revenue from KUB's 1 percent electric rate increase effective October 2019, the flow through of TVA rate adjustments, a 2.3 percent decrease in billed sales

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

and the flow through of prior year over recovered purchased power costs to KUB's electric customers. KUB's over recovered purchased power cost decreased by \$0.8 million in fiscal year 2020. KUB flows changes to wholesale power rates directly through to its retail electric rates via its Purchased Power Adjustment.

Seventy-five percent of Electric Division sales revenue was used to purchase electric power from TVA for the fiscal year ended June 30, 2020. Purchased power expense decreased \$19.4 million compared to last fiscal year. Billed power sales were down 2.3 percent compared to the prior fiscal year, as milder winter weather offset warmer autumn and summer seasons.

Margin on electric sales (operating revenue less purchased power expense) increased \$8.8 million or 6.2 percent, reflecting additional revenue from the KUB electric rate increase.

Operating expenses (excluding purchased power expense) increased \$1 million. Operating and maintenance (O&M) expenditures increased \$3.3 million. Depreciation expense decreased \$2 million or 6.2 percent. Taxes and tax equivalents were \$0.4 million, or 2 percent, lower than the prior fiscal year.

Interest income was \$1.1 million less than the prior fiscal year, due to lower short-term interest rates. Interest expense decreased \$0.1 million or 0.5 percent.

Capital contributions were less than \$0.1 million higher than the prior fiscal year, reflecting a steady level of electric system assets provided to KUB during the fiscal year.

Total capital assets (net) increased \$42.9 million or 6.8 percent over the end of the last fiscal year, reflecting pole replacements and other distribution system improvements as part of KUB's Century II electric program.

During fiscal year 2020, KUB sold \$14.4 million in electric system revenue refunding bonds for the purpose of refinancing existing electric system revenue bonds at lower interest rates. KUB will realize a total debt service savings of \$2.4 million over the life of the bonds (\$2.2 million on a net present value basis).

Long-term debt represented 42.6 percent of the Division's capital structure as of June 30, 2020, compared to 45.6 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. Current year debt coverage for the fiscal year was 3.34. Maximum debt service coverage was 3.35.

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

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, 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 is the net book value of all capital assets less the outstanding balances of debt used to acquire, construct, or improve those assets.

Restricted net position includes assets that have been limited to specific uses by 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, 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
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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>	2021	2020	2019
Current, restricted and other assets	\$ 194,570	\$ 181,494	\$ 175,145
Capital assets, net	691,361	677,193	634,286
Deferred outflows of resources	3,971	8,535	12,340
Total assets and deferred outflows of resources	<u>889,902</u>	<u>867,222</u>	<u>821,771</u>
Current and other liabilities	138,731	140,286	114,634
Long-term debt outstanding	286,588	305,318	320,244
Deferred inflows of resources	21,248	9,873	1,845
Total liabilities and deferred inflows of resources	<u>446,567</u>	<u>455,477</u>	<u>436,723</u>
Net position			
Net investment in capital assets	384,826	356,245	300,563
Restricted	14,546	14,186	13,610
Unrestricted	43,963	41,314	70,875
Total net position	<u>\$ 443,335</u>	<u>\$ 411,745</u>	<u>\$ 385,048</u>

Normal Impacts on Statement of Net Position

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

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

Knoxville Utilities Board Electric Division

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Impacts and Analysis

Current, Restricted and Other Assets

Fiscal Year 2021 Compared to Fiscal Year 2020

Current, restricted and other assets increased \$13.1 million or 7.2 percent. The change reflects an increase in the actuarially determined net pension asset of \$12.5 million, an increase in accounts receivable of \$3.8 million, and an increase in the actuarially determined net OPEB asset of \$2.8 million. These increases were offset by a decrease in general fund cash (consisting of cash and cash equivalents, short-term investments, and long-term investments) of \$3.4 million.

Fiscal Year 2020 Compared to Fiscal Year 2019

Current, restricted and other assets increased \$6.3 million or 3.6 percent. The change reflects an increase in the actuarially determined net pension asset of \$9.2 million, an increase in general fund cash (consisting of cash and cash equivalents, short-term investments, and long-term investments) of \$2.9 million, and a net increase in operating contingency reserves of \$1.1 million. These increases were offset by a decrease in inventory of \$4.4 million, a decrease in accounts receivable of \$1.2 million, and a decrease in TVA conservation receivables of \$1 million.

Capital Assets

Fiscal Year 2021 Compared to Fiscal Year 2020

Capital assets, net of depreciation, increased \$14.2 million or 2.1 percent. Spending was slowed this year to allow for better financial liquidity in response to the pandemic. Major capital expenditures included \$23.9 million for distribution system improvements, \$6.1 million for Grid Modernization including Supervisory Control and Data Acquisition (SCADA) system upgrades, \$5.8 million for building improvements, \$5.6 million for pole replacements and \$5.4 million for installation or replacement of electric services. Electric system assets of \$19.7 million were retired in fiscal year 2021.

Fiscal Year 2020 Compared to Fiscal Year 2019

Capital assets, net of depreciation, increased \$42.9 million or 6.8 percent. Major capital expenditures included \$24.1 million for distribution system improvements, \$8.1 million for building improvements, \$7.3 million for pole replacements, \$7.3 million for Grid Modernization including Supervisory Control and Data Acquisition (SCADA) system upgrades and \$5.8 million for installation or replacement of electric services.

Deferred Outflows of Resources

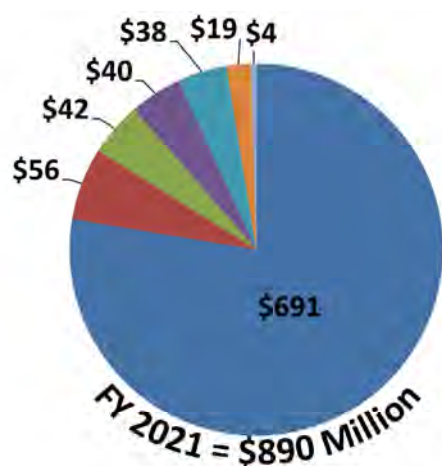
Fiscal Year 2021 Compared to Fiscal Year 2020

Deferred outflows of resources decreased \$4.6 million compared to the prior fiscal year due to a decrease in unamortized bond refunding costs of \$2.6 million and a decrease in OPEB outflow of \$2 million.

Fiscal Year 2020 Compared to Fiscal Year 2019

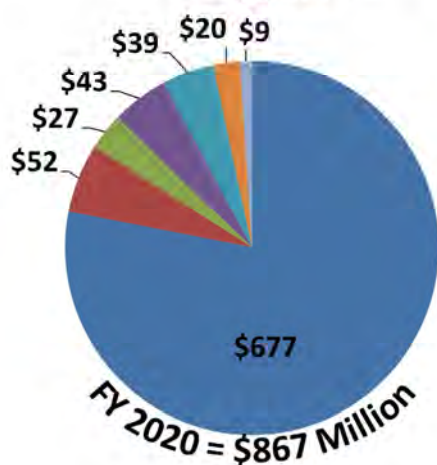
Deferred outflows of resources decreased \$3.8 million compared to the prior fiscal year primarily due to a decrease in pension outflow of \$4.4 million and an increase in OPEB outflow of \$0.8 million.

**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>FY21</u>	<u>FY20</u>
Plant	78%	78%
Accounts Receivable	6%	6%
Other Assets	5%	3%
General Fund	5%	5%
Contingency Fund	4%	5%
Restricted Assets	2%	2%
Deferred Outflows of Resources	<1%	1%



Current and Other Liabilities

Fiscal Year 2021 Compared to Fiscal Year 2020

Current and other liabilities decreased \$1.6 million. Net OPEB liability decreased \$3.6 million, over recovered purchased power cost decreased \$1.4 million, and accrued interest on revenue bonds decreased \$1.3 million. These decreases were offset by a \$3.1 million increase in accounts payable and a \$2.2 million increase in accrued expenses. The outstanding balance on TVA conservation loans declined by \$0.9 million, as KUB ceased issuance of any new loans in fiscal year 2016.

KUB over recovered \$0.4 million in wholesale power costs from its customers in fiscal year 2021, as compared to a \$1.8 million over recovery in fiscal year 2020. This over recovery of costs will be flowed back to KUB’s electric customers during the next fiscal year through adjustments to rates via the Purchased Power Adjustment.

Fiscal Year 2020 Compared to Fiscal Year 2019

Current and other liabilities increased \$25.7 million. Accounts payable increased \$24.1 million, net OPEB liability increased \$2.9 million, customer advances for construction increased \$1.2 million, accrued expenses increased \$0.9 million, and the current portion of revenue bonds and associated accrued interest increased \$0.4 million. The increase in accounts payable is primarily attributable to a change in timing of

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the payment of the May TVA wholesale power invoice. The increases in liabilities were offset by a decrease in net pension liability of \$3.3 million. The outstanding balance on TVA conservation loans declined by \$1.1 million, as KUB ceased issuance of any new loans in fiscal year 2016.

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

Long-Term Debt

Fiscal Year 2021 Compared to Fiscal Year 2020

Long-term debt decreased \$18.7 million or 6.1 percent. The decrease is due in part to the scheduled repayment of debt. KUB also sold \$70.2 million of electric system revenue refunding bonds in March 2021 with a premium of \$16.7 million to refund \$86.4 million in outstanding debt, resulting in a reduction of principal of \$16.2 million.

Fiscal Year 2020 Compared to Fiscal Year 2019

Long-term debt decreased \$14.9 million or 4.7 percent. Electric system revenue refunding bonds of \$14.4 million, sold in April 2020, were offset by the refunded bonds and the scheduled repayment of debt.

Deferred Inflows of Resources

Fiscal Year 2021 Compared to Fiscal Year 2020

Deferred inflows increased \$11.4 million compared to the prior fiscal year due to a \$7.5 million increase in pension inflow and a \$3.8 million increase in OPEB inflow.

Fiscal Year 2020 Compared to Fiscal Year 2019

Deferred inflows increased \$8 million compared to the prior fiscal year due to differences in pension inflow.

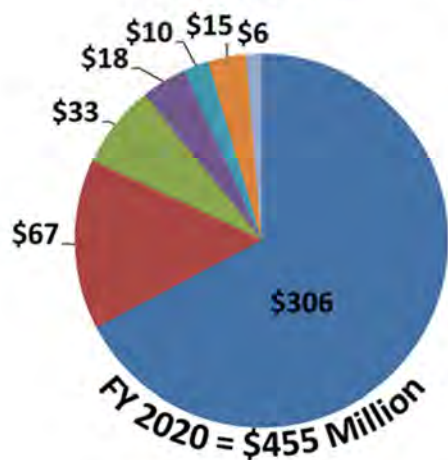
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Electric Division Total Liabilities and Deferred Inflows of Resources (in Millions)

	<u>FY21</u>	<u>FY20</u>
■ Bond Debt	62%	67%
■ Payables	16%	15%
■ Other Liabilities	9%	7%
■ Misc Current	5%	4%
■ Deferred Inflows of Resources	4%	2%
■ Customer Deposits	3%	4%
■ Interest Accrued	1%	1%



Net Position

Fiscal Year 2021 Compared to Fiscal Year 2020

Total net position increased \$31.6 million or 7.7 percent. Unrestricted net position increased \$2.6 million, primarily due to changes in the pension and OPEB accruals for the fiscal year. Net investment in capital assets increased by \$28.6 million or 8 percent. The change was primarily the result of an increase of \$14.2 million in net electric plant additions and a decrease in the current portion of revenue bonds and total long-term debt of \$18.4 million. Restricted net position increased \$0.4 million due to the net increase of the electric bond fund and the associated interest payable.

Fiscal Year 2020 Compared to Fiscal Year 2019

Total net position increased \$26.7 million or 6.9 percent. Unrestricted net position decreased \$29.6 million, primarily due to the \$25.7 million increase in current and other liabilities. This increase is offset by a decrease in deferred outflows of \$3.8 million and an increase in deferred inflows of \$8 million related to pension and OPEB. Net investment in capital assets increased by \$55.7 million or 18.5 percent. The increase was primarily the result of an increase of \$42.9 million in net electric plant additions and a decrease in the current portion of revenue bonds and total long-term debt of \$14.3 million. Restricted net position increased \$0.6 million due to the net increase of the electric bond fund and the associated interest payable.

**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>	2021	2020	2019
Operating revenues	\$ 553,902	\$ 547,687	\$ 558,370
Less: Purchased power expense	<u>394,542</u>	<u>398,230</u>	<u>417,675</u>
Margin from sales	<u>159,360</u>	<u>149,457</u>	<u>140,695</u>
Operating expenses			
Distribution	37,118	39,929	35,540
Customer service	6,236	6,186	7,160
Administrative and general	13,461	18,764	18,844
Depreciation	40,183	29,994	31,991
Taxes and tax equivalents	<u>19,147</u>	<u>18,333</u>	<u>18,711</u>
Total operating expenses	<u>116,145</u>	<u>113,206</u>	<u>112,246</u>
Operating income	<u>43,215</u>	<u>36,251</u>	<u>28,449</u>
Interest income	233	1,579	2,667
Interest expense	(11,213)	(11,648)	(11,704)
Other income/(expense)	<u>(645)</u>	<u>346</u>	<u>500</u>
Change in net position before capital contributions	<u>31,590</u>	<u>26,528</u>	<u>19,912</u>
Capital contributions	<u>-</u>	<u>169</u>	<u>121</u>
Change in net position	<u>\$ 31,590</u>	<u>\$ 26,697</u>	<u>\$ 20,033</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 expense is impacted by 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.

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- 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 2021 Compared to Fiscal Year 2020

The Division's Change in Net Position increased \$31.6 million in fiscal year 2021. Comparatively, net position increased \$26.7 million in fiscal year 2020.

The higher earnings were attributable to the net effect of a \$9.9 million increase in margin on sales offset by a \$2.9 million increase in operating expenses, a \$1 million increase in other expenses, and a \$1.3 million decrease in interest income.

Fiscal Year 2020 Compared to Fiscal Year 2019

The Division's Change in Net Position increased \$26.7 million in fiscal year 2020. Comparatively, net position increased \$20 million in fiscal year 2019.

The higher earnings were attributable to the net effect of an \$8.8 million increase in margin on sales offset by a \$1.1 million decrease in interest income and a \$1 million increase in operating expenses.

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

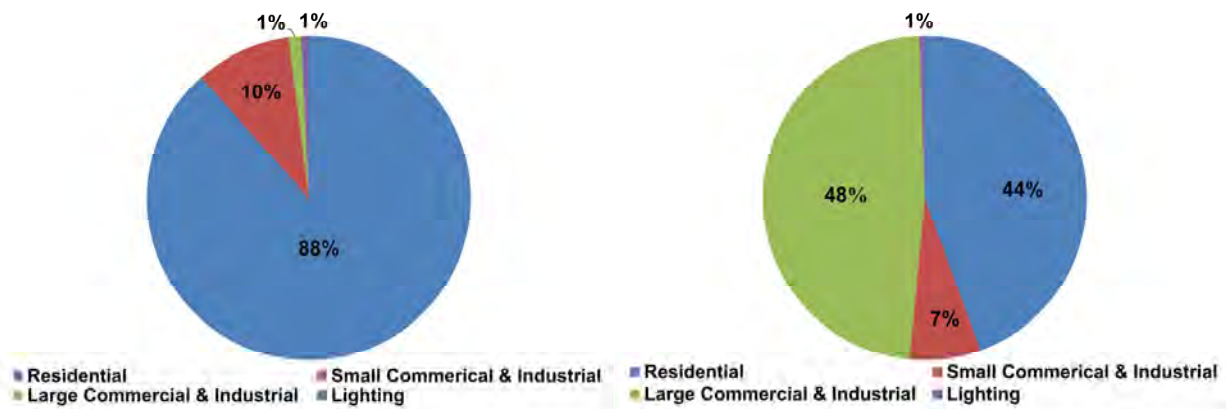
Fiscal Year 2021 Compared to Fiscal Year 2020

Margin on electric sales grew \$9.9 million, reflecting increased sales volumes and a full year of wholesale power rate credits associated with the long-term Partnership Agreement with TVA .

Operating revenue increased \$6.2 million or 1.1 percent. Billed power sales increased 6.8 percent compared to fiscal year 2020. Purchased power expense decreased \$3.7 million from last year. KUB received \$9.2 million as a result of TVA’s Long-Term Partnership Credit, which decreased power expenses in the current fiscal year.

FY 2021 Total Electric Customers = 213,008

FY 2021 Electric Sales = 5.6 million MWh



Residential customers represented 88 percent of total electric system customers and accounted for 44 percent of electric sales volumes for the year. Large commercial and industrial customers accounted for 48 percent of electric sales volumes.

KUB’s ten largest electric customers accounted for 22 percent of KUB’s billed volumes. Those ten customers represent four industrial and six commercial customers, including three governmental customers. Sales to the Carpenter Creek LLC, KUB’s largest industrial customer, accounted for 6.5 percent of total electric system sales.

KUB has added 6,575 electric system customers over the past three years, representing annual growth of one percent. Electric billed sales volumes have increased 1.2 percent over the past three years. Fiscal year 2021 customer growth was 2,615.

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

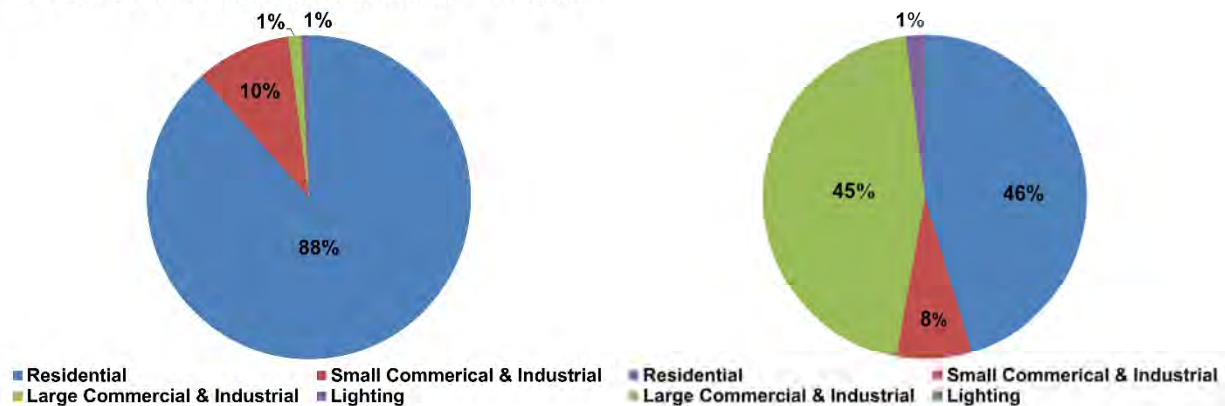
Fiscal Year 2020 Compared to Fiscal Year 2019

Margin on electric sales grew \$8.8 million, reflecting increased revenue due to the October 2019 rate increase.

Operating revenue decreased \$10.7 million or 1.9 percent, reflecting the net result of additional revenue from KUB's 1 percent electric rate increase effective October 2019, the flow through of previously over recovered wholesale power costs, and the flow through of TVA rate adjustments. Billed power sales were down 2.3 percent compared to fiscal year 2019. Purchased power expense decreased \$19.4 million over last year.

FY 2020 Total Electric Customers = 210,393

FY 2020 Electric Sales = 5.3 million MWh



Residential customers represented 88 percent of total electric system customers and accounted for 46 percent of electric sales volumes for the year. Large commercial and industrial customers accounted for 45 percent of electric sales volumes, though volumes decreased 2.6 percent partially due to the closure of Tennova's Physicians Regional Medical Center campus in North Knoxville last fiscal year.

KUB's ten largest electric customers accounted for 18 percent of KUB's billed volumes. Those ten customers represent two industrial and eight commercial customers, including four governmental customers. Sales to the University of Tennessee, KUB's largest commercial/governmental customer, accounted for 4.2 percent of total electric system sales.

KUB has added 5,305 electric system customers over the past three years, representing annual growth of less than one percent. Fiscal year 2020 customer growth was 1,411.

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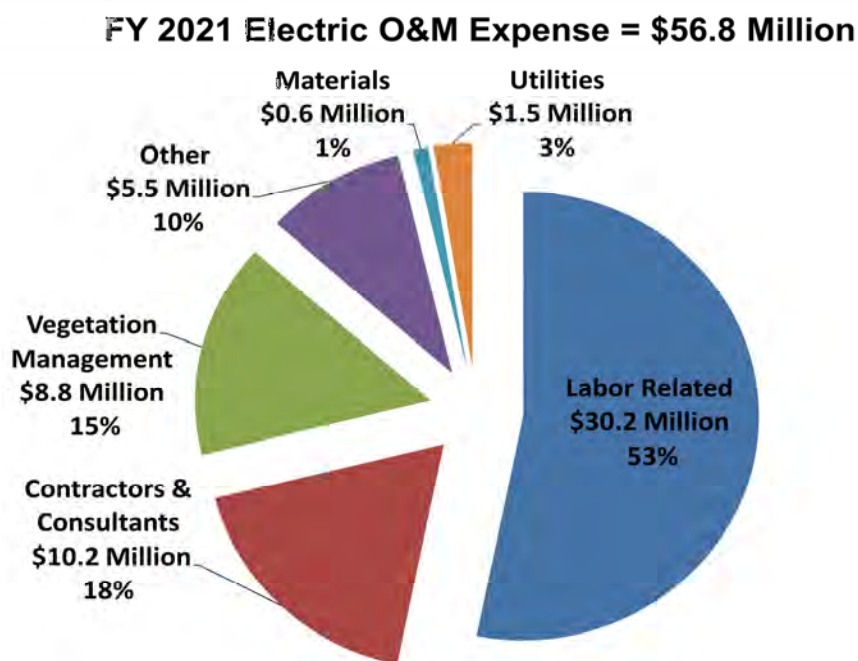
Knoxville Utilities Board Electric Division Management's Discussion and Analysis June 30, 2021 and 2020

Operating Expenses

Fiscal Year 2021 Compared to Fiscal Year 2020

Operating expenses (excluding purchased power expense) increased \$2.9 million, compared to fiscal year 2020. Operating expenses include operations and maintenance (O&M) expense, depreciation, and taxes/tax equivalents. O&M expenses can be further classified as distribution, customer service, and administrative and general.

- Distribution expenses decreased \$2.8 million or 7 percent, primarily due to a timing delay in vegetation management circuit work costs due to the pandemic.
- Customer service expenses were consistent with the prior fiscal year.
- Administrative and general expenses decreased \$5.3 million, primarily due to a decrease in labor related expenses, including lower pension and OPEB costs.



- Depreciation expense increased \$10.2 million or 34 percent. KUB added \$96.4 million in assets during fiscal year 2021, including \$14.8 million of multi-year projects being held in Construction Work in Progress. A partial year of depreciation expense was recorded on these capital investments and a full year of depreciation expense was incurred on \$73.6 million in assets placed in service during fiscal year 2020. In addition, \$19.7 million of assets were retired in fiscal year 2021.
- Taxes and tax equivalents were \$0.8 million higher than the prior fiscal year.

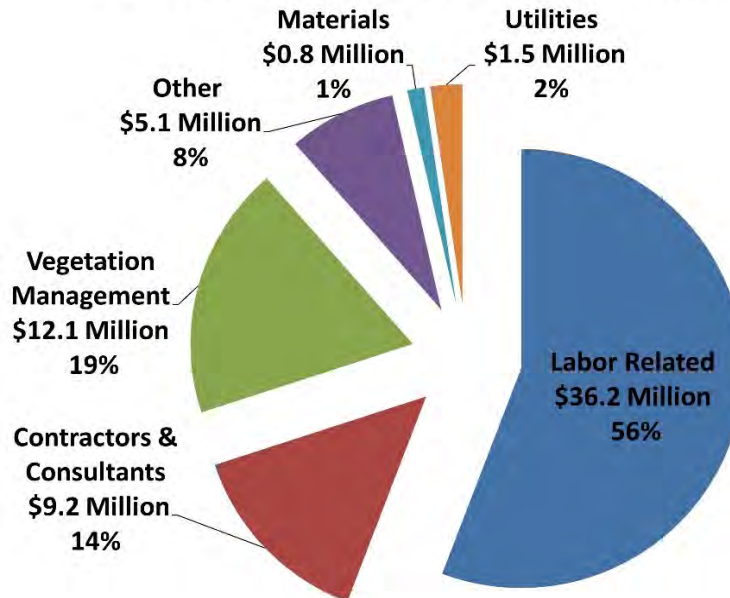
Knoxville Utilities Board Electric Division Management's Discussion and Analysis June 30, 2021 and 2020

Fiscal Year 2020 Compared to Fiscal Year 2019

Operating expenses (excluding purchased power expense) increased \$1 million, compared to fiscal year 2019. Operating expenses include operations and maintenance (O&M) expense, depreciation, and taxes/tax equivalents. O&M expenses can be further classified as distribution, customer service, and administrative and general.

- Distribution expenses increased \$4.4 million or 12.3 percent, primarily due to an increase in vegetation management costs.
- Customer service expenses decreased \$1 million, primarily due to reduced use of outside contractors.
- Administrative and general expenses were consistent with the prior fiscal year.

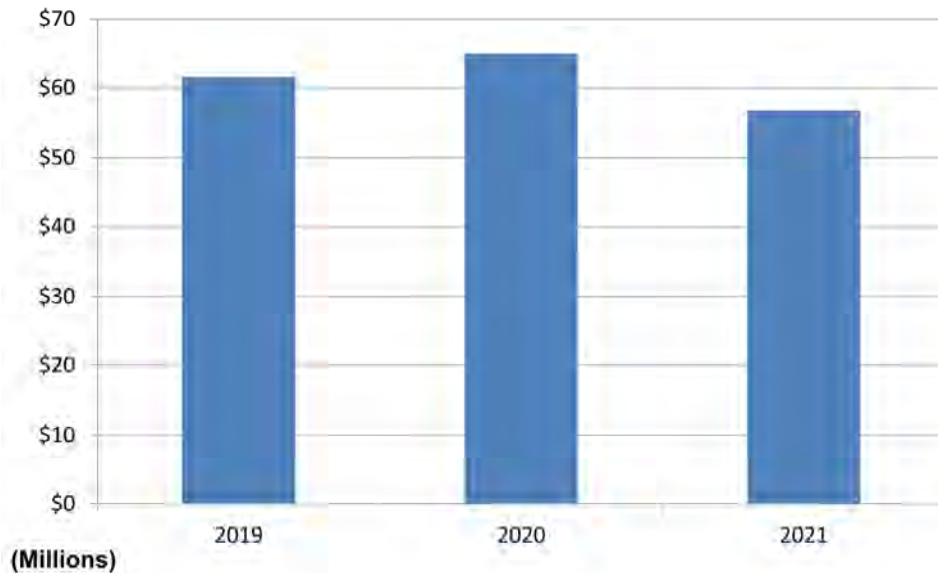
FY 2020 Electric O&M Expense = \$64.9 Million



- Depreciation expense for fiscal year 2020 decreased \$2 million or 6.2 percent, as the accelerated depreciation of existing meters replaced as part of KUB's system wide deployment of advanced metering equipment came to a close this year and \$26.1 million of assets were retired.
- Taxes and tax equivalents were \$0.4 million lower than the prior fiscal year, due to lower Knox County equalization rates.

**Knoxville Utilities Board Electric Division
Management’s Discussion and Analysis
June 30, 2021 and 2020**

Electric Division Operation & Maintenance Expense



Other Income and Expense

Fiscal Year 2021 Compared to Fiscal Year 2020

Interest income decreased \$1.3 million compared to the prior fiscal year, primarily due to decreased short-term interest rates over the prior fiscal year.

Interest expense decreased \$0.4 million or 3.7 percent.

Other expense (net) increased \$1 million, primarily due to losses on disposal of property.

The Division’s capital contributions decreased \$0.2 million, reflecting a decline in developer donated utility assets compared to the prior fiscal year.

Fiscal Year 2020 Compared to Fiscal Year 2019

Interest income decreased \$1.1 million compared to the prior fiscal year, primarily due to decreased short-term interest rates over the prior fiscal year.

Interest expense decreased \$0.1 million or 0.5 percent.

Other income (net) decreased \$0.2 million, primarily due to mark-to-market adjustments on investments.

The Division’s capital contributions increased less than \$0.1 million, reflecting a steady level of developer donated utility assets compared to the prior fiscal year.

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

Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

<i>(in thousands of dollars)</i>	2021	2020	2019
Distribution Plant			
Services and Meters	\$ 46,748	\$ 50,485	\$ 41,665
Electric Station Equipment	62,704	57,564	52,974
Poles, Towers and Fixtures	157,575	140,424	137,804
Overhead Conductors	133,419	110,865	108,965
Line Transformers	61,575	61,725	61,784
Other Accounts	117,350	112,004	107,268
Total Distribution Plant	<u>\$ 579,371</u>	<u>\$ 533,067</u>	<u>\$ 510,460</u>
General Plant	57,524	48,484	28,442
Total Plant Assets	<u>\$ 636,895</u>	<u>\$ 581,551</u>	<u>\$ 538,902</u>
Work In Progress	54,466	95,642	95,384
Total Net Plant	<u><u>\$ 691,361</u></u>	<u><u>\$ 677,193</u></u>	<u><u>\$ 634,286</u></u>

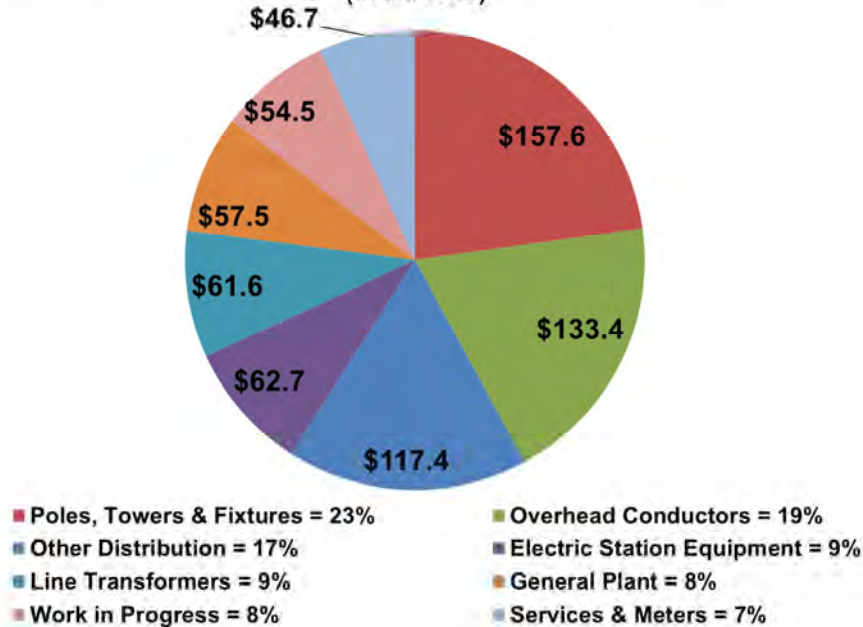
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Knoxville Utilities Board Electric Division Management's Discussion and Analysis June 30, 2021 and 2020

Fiscal Year 2021 Compared to Fiscal Year 2020

As of June 30, 2021, the Division had \$691.4 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 \$14.2 million or 2.1 percent over the end of the last fiscal year. Spending on capital assets was slowed this year to allow for better financial liquidity in response to the pandemic.

FY 2021 Electric Division Capital Assets = \$691.4 Million
(in Millions)



Major capital asset expenditures during the year were as follows:

- \$23.9 million for electric distribution system improvements
- \$6.1 million for Grid Modernization, including SCADA system upgrades
- \$5.8 million for building improvements including a new Engineering Building
- \$5.6 million for pole replacements
- \$5.4 million for installation of new electric services and the upgrade or replacement of existing services

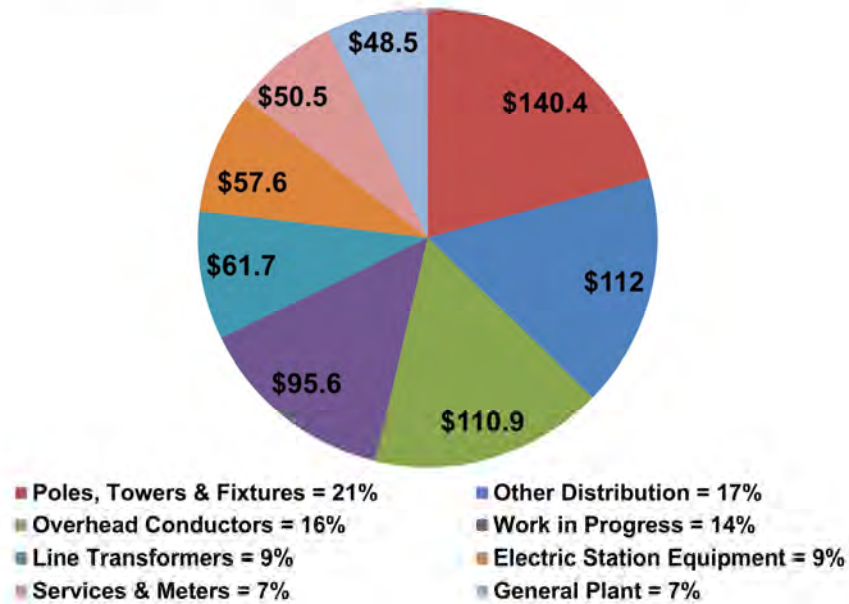
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Knoxville Utilities Board Electric Division Management's Discussion and Analysis June 30, 2021 and 2020

Fiscal Year 2020 Compared to Fiscal Year 2019

As of June 30, 2020, the Division had \$677.2 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 \$42.9 million or 6.8 percent over the end of the last fiscal year.

FY 2020 Electric Division Capital Assets = \$677.2 Million
(in Millions)



Major capital asset expenditures during the year were as follows:

- \$24.1 million for electric distribution system improvements
- \$8.1 million for building improvements including a new Engineering Building
- \$7.3 million for pole replacements
- \$7.3 million for Grid Modernization, including SCADA system upgrades
- \$5.8 million for installation of new electric services and the upgrade or replacement of existing services

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

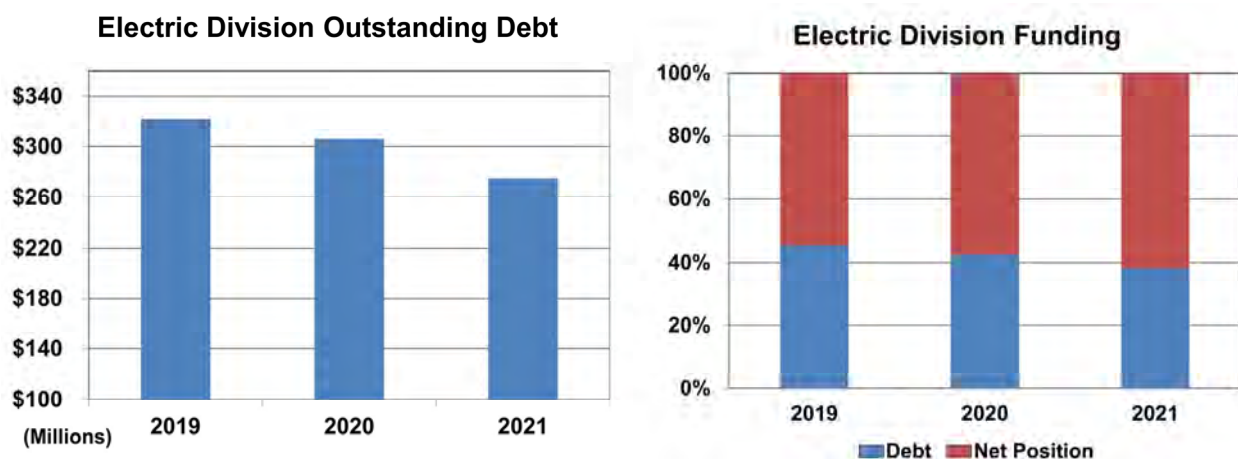
Debt Administration

The Division's outstanding debt was \$275.4 million at June 30, 2021. The bonds are secured solely by revenues of the Electric Division. Debt as a percentage of the Division's capital structure was 38.3 percent in 2021, 42.6 percent in 2020, and 45.6 percent at the end of fiscal year 2019. KUB's Debt Management Policy limits the Division's debt ratio to 60 percent or less.

Outstanding Debt As of June 30

(in thousands of dollars)

	2021	2020	2019
Revenue bonds	\$ 275,415	\$ 305,835	\$ 322,170
Total outstanding debt	\$ 275,415	\$ 305,835	\$ 322,170



The Division will pay \$134.8 million in principal payments over the next ten years, representing 48.9 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 2021 Compared to Fiscal Year 2020

As of June 30, 2021, the Division had \$275.4 million in outstanding debt (including the current portion of revenue bonds), compared to \$305.8 million last year, a decrease of \$30.4 million or 9.9 percent. As of June 30, 2021, the Division's weighted average cost of debt was 3.89 percent.

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

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2021, the Division's revenue bonds were rated AA by Standard & Poor's and Aa2 by Moody's Investors Service.

Knoxville Utilities Board Electric Division

Management's Discussion and Analysis

June 30, 2021 and 2020

Fiscal Year 2020 Compared to Fiscal Year 2019

As of June 30, 2020, the Division had \$305.8 million in outstanding debt (including the current portion of revenue bonds), compared to \$322.2 million last year, a decrease of 16.4 million or 5.1 percent. The decrease is attributable to new revenue refunding bonds issued during the fiscal year offset by the refunded bonds and the scheduled repayment of debt. As of June 30, 2020, the Division's weighted average cost of debt was 3.59 percent (3.58 percent including the impact of Build America Bonds rebates).

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

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2020, the Division's revenue bonds were rated AA by Standard & Poor's and Aa2 by Moody's Investors Service.

Impacts on Future Financial Position

KUB anticipates adding 1,700 additional electric customers in fiscal year 2022.

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

In March 2020, KUB executed a new Long-Term Partnership Agreement with TVA, extending the term of its five-year evergreen power supply contract with TVA to a 20-year evergreen contract. In return for signing the longer-term agreement with TVA, KUB will receive an annual partnership credit of 3.1% on TVA's wholesale base rates, estimated to be around \$9.2 million per year. Among other things, the new partnership agreement also provides KUB with the flexibility to self-generate up to five percent of its annual power supply through renewable sources.

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

During the period of October 2020 to September 2021, TVA is providing a Pandemic Relief Credit to local power companies. KUB has excluded the Standard Service portion of this credit from the Purchased Power Adjustment in order to assist customers in need of financial assistance due to the pandemic. An estimated \$6.6 million is available to residential and small business customers through the COVID Utility Relief Effort (CURE) fund.

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

Knoxville Utilities Board Electric Division

Management's Discussion and Analysis

June 30, 2021 and 2020

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

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

Broadband services will be provided by a high-speed fiber optic network that will be owned and maintained by the Electric Division. In addition to providing broadband services, the fiber network will allow KUB to implement new advanced technologies to improve the reliability of its electric system.

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

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

The Pension Plan actuarial valuation resulted in an actuarially determined contribution of \$3,665,168 for the fiscal year ending June 30, 2022, based on the Plan's current funding policy. The Electric Division's portion of this contribution is \$1,759,281. Subsequent to June 30, 2021, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$2,624,373 for the fiscal year ending June 30, 2023, based on the Plan's current funding policy. The Electric Division's portion of this contribution is \$1,259,699. For the Plan year beginning January 1, 2021, the Plan's actuarial funded ratio is 105.56 percent, and the market value funded ratio is 120.37 percent.

The OPEB Plan actuarial valuation resulted in an actuarially determined contribution of \$489,066 for the fiscal year ending June 30, 2022, based on the Plan's current funding policy. The Electric Division's portion of this contribution is \$234,752. Subsequent to June 30, 2021, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$1,413,392 for the fiscal year ending June 30, 2023, based on the Plan's current funding policy. The Electric Division's portion of this contribution is \$678,428. The Plan's actuarial funded ratio is 89.85 percent, and the market value funded ratio is 95.93 percent.

GASB Statement No. 87, *Leases*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, is effective for fiscal years beginning after December 15, 2020. GASB Statement No. 91, *Conduit Debt Obligations*, is effective for fiscal years beginning after December 15, 2021. GASB Statement No. 92, *Omnibus 2020*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 93, *Replacement of Interbank Offered Rates*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, is effective for fiscal years beginning after June 15, 2021. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

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

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 2021.

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, 2021 and 2020. If you have questions about the statements or need additional financial information, contact KUB's Chief Financial Officer at 445 South Gay Street, Knoxville, Tennessee 37902.

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

	2021	2020
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	\$ 39,974,435	\$ 43,327,171
Short-term contingency fund investments	28,323,053	33,658,768
Other current assets	-	418,467
Accrued interest receivable	1,426	6,001
Accounts receivable, less allowance of uncollectible accounts of \$491,743 in 2021 and \$430,529 in 2020	56,269,230	52,494,791
Inventories	12,079,500	11,987,689
Prepaid expenses	755,502	703,611
Total current assets	<u>137,403,146</u>	<u>142,596,498</u>
Restricted assets:		
Electric bond fund	18,920,977	19,873,134
Other funds	727	727
Total restricted assets	<u>18,921,704</u>	<u>19,873,861</u>
Electric plant in service	1,099,995,066	1,023,267,900
Less accumulated depreciation	<u>(463,099,778)</u>	<u>(441,716,884)</u>
	636,895,288	581,551,016
Retirement in progress	2,471,610	3,159,699
Construction in progress	51,993,957	92,482,611
Net plant in service	<u>691,360,855</u>	<u>677,193,326</u>
Other assets:		
Net pension asset	21,647,658	9,178,260
Net OPEB asset	2,847,277	-
Long-term contingency fund investments	9,993,813	4,880,955
TVA conservation program receivable	1,103,185	1,933,798
Other	2,653,185	3,030,366
Total other assets	<u>38,245,118</u>	<u>19,023,379</u>
Total assets	<u>885,930,823</u>	<u>858,687,064</u>
Deferred outflows of resources:		
Pension outflow	3,960,777	3,899,081
OPEB outflow	10,272	2,005,781
Unamortized bond refunding costs	-	2,630,234
Total deferred outflows of resources	<u>3,971,049</u>	<u>8,535,096</u>
Total assets and deferred outflows of resources	<u>\$ 889,901,872</u>	<u>\$ 867,222,160</u>

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

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

	2021	2020
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	\$ 14,545,000	\$ 14,185,000
Sales tax collections payable	921,214	919,794
Accounts payable	69,175,449	66,095,573
Accrued expenses	20,538,897	18,309,578
Customer deposits plus accrued interest	14,997,148	15,449,939
Accrued interest on revenue bonds	4,375,852	5,688,009
Total current liabilities	<u>124,553,560</u>	<u>120,647,893</u>
Other liabilities:		
TVA conservation program	1,158,556	2,023,948
Accrued compensated absences	4,654,095	4,724,274
Customer advances for construction	7,866,759	7,285,510
Net pension liability	8,983	9,713
Net OPEB liability	-	3,642,935
Over recovered purchased power cost	427,351	1,848,630
Other	61,347	103,644
Total other liabilities	<u>14,177,091</u>	<u>19,638,654</u>
Long-term debt:		
Electric revenue bonds	260,870,000	291,650,000
Unamortized premiums/discounts	25,718,420	13,668,174
Total long-term debt	<u>286,588,420</u>	<u>305,318,174</u>
Total liabilities	<u>425,319,071</u>	<u>445,604,721</u>
Deferred inflows of resources:		
Pension inflow	17,367,447	9,872,921
Unamortized bond refunding costs	60,935	-
OPEB inflow	3,820,131	-
Total deferred inflows of resources	<u>21,248,513</u>	<u>9,872,921</u>
Total liabilities and deferred inflows of resources	<u>446,567,584</u>	<u>455,477,642</u>
Net position		
Net investment in capital assets	384,825,723	356,245,321
Restricted for:		
Debt service	14,545,125	14,185,125
Other	727	727
Unrestricted	43,962,713	41,313,345
Total net position	<u>443,334,288</u>	<u>411,744,518</u>
Total liabilities, deferred inflows, and net position	<u>\$ 889,901,872</u>	<u>\$ 867,222,160</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, 2021 and 2020

	2021	2020
Operating revenues	\$ <u>553,901,761</u>	\$ <u>547,686,983</u>
Operating expenses		
Purchased power	394,541,982	398,229,905
Distribution	37,118,162	39,928,275
Customer service	6,235,472	6,186,221
Administrative and general	13,460,612	18,764,049
Provision for depreciation	40,182,922	29,994,212
Taxes and tax equivalents	19,147,427	18,332,928
Total operating expenses	<u>510,686,577</u>	<u>511,435,590</u>
Operating income	<u>43,215,184</u>	<u>36,251,393</u>
Non-operating revenues (expenses)		
Contributions in aid of construction	2,563,006	2,063,288
Interest income	232,758	1,579,182
Interest expense	(11,213,265)	(11,647,959)
Amortization of debt costs	810,435	378,924
Write-down of plant for costs recovered through contributions	(2,563,006)	(2,063,288)
Other	(1,455,342)	(33,702)
Total non-operating revenues (expenses)	<u>(11,625,414)</u>	<u>(9,723,555)</u>
Change in net position before capital contributions	31,589,770	26,527,838
Capital contributions	-	169,009
Change in net position	31,589,770	26,696,847
Net position, beginning of year	411,744,518	385,047,671
Net position, end of year	<u>\$ 443,334,288</u>	<u>\$ 411,744,518</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, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash receipts from customers	\$ 540,687,567	\$ 539,716,128
Cash receipts from other operations	10,079,239	11,093,817
Cash payments to suppliers of goods or services	(425,737,964)	(407,431,732)
Cash payments to employees for services	(29,337,790)	(26,220,385)
Payment in lieu of taxes	(16,891,189)	(16,067,210)
Cash receipts from collections of TVA conservation loan program participants	917,979	1,171,803
Cash payments for TVA conservation loan program	(952,757)	(1,203,172)
Net cash provided by operating activities	<u>78,765,085</u>	<u>101,059,249</u>
Cash flows from capital and related financing activities:		
Principal paid on revenue bonds	(14,185,000)	(13,600,000)
Interest paid on revenue bonds	(12,525,422)	(11,856,523)
Acquisition and construction of electric plant	(60,816,728)	(76,390,903)
Changes in electric bond fund, restricted	952,157	(376,437)
Customer advances for construction	715,286	1,226,285
Proceeds received on disposal of plant	449,423	193,187
Cash received from developers and individuals for capital purposes	2,563,006	2,063,288
Net cash used in capital and related financing activities	<u>(82,847,278)</u>	<u>(98,741,103)</u>
Cash flows from investing activities:		
Purchase of investment securities	(15,204,772)	(26,938,348)
Maturities of investment securities	15,205,382	40,930,828
Interest received	309,320	1,737,297
Other property and investments	419,527	(178,321)
Net cash provided by investing activities	<u>729,457</u>	<u>15,551,456</u>
Net (decrease) increase in cash and cash equivalents	(3,352,736)	17,869,602
Cash and cash equivalents, beginning of year	<u>43,327,171</u>	<u>25,457,569</u>
Cash and cash equivalents, end of year	<u>39,974,435</u>	<u>\$ 43,327,171</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 43,215,184	\$ 36,251,393
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	41,779,435	31,373,335
Changes in operating assets and liabilities:		
Accounts receivable	(3,774,439)	1,249,428
Inventories	(91,811)	4,388,385
Prepaid expenses	(51,891)	(5,411)
TVA conservation program receivable	830,613	1,027,513
Other assets	111,187	279,440
Sales tax collections payable	1,420	(61,835)
Accounts payable and accrued expenses	(472,854)	27,524,617
Unrecovered purchased power cost	(1,421,279)	(825,836)
TVA conservation program payable	(865,392)	(1,058,881)
Customer deposits plus accrued interest	(452,791)	850,443
Other liabilities	(42,297)	66,658
Net cash provided by operating activities	<u>\$ 78,765,085</u>	<u>\$ 101,059,249</u>
Noncash capital activities:		
Acquisition of plant assets through developer contributions	\$ -	\$ 169,009

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

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2021 and 2020

1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions, including setting rates. 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 at June 30, 2021 and 2020, 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 January 2017, the GASB issued GASB Statement No. 84 (Statement No. 84), *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 is effective for fiscal years beginning after December 15, 2019. Adoption of this Statement did not have a significant impact on the Division's financial statements.

Knoxville Utilities Board Electric Division

Notes to Financial Statements

June 30, 2021 and 2020

In August 2018, the GASB issued GASB Statement No. 90 (Statement No. 90), *Major Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Statement No. 90 is effective for fiscal years beginning after December 15, 2019. Adoption of this Statement did not have a significant impact on the Division'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 "Provision for depreciation" in the Statements of Revenues, Expenses and Changes in Net Position does not include depreciation for transportation equipment of \$1,596,513 in fiscal year 2021 and \$1,379,123 in fiscal year 2020. Under regulatory accounting, interest costs are expensed as incurred with construction of plant assets.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of 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 \$1,969,448 in fiscal year 2021 and \$1,453,483 in fiscal year 2020.

Non-operating Revenue

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

Expense

When an expense is incurred for purposes for which there are both restricted and unrestricted 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, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

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

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

OPEB Plan

KUB's employees hired prior to July 1, 1999, who are retired and who (prior to retirement) qualified for retiree medical insurance by meeting the Rule of 80 (age plus years of service) with a minimum of 20 years of service and were enrolled in medical coverage on their last day, are eligible for post-employment health care. KUB's OPEB Trust was established by KUB's Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. KUB's policy is to fully fund the annual actuarially determined contributions, which are determined by actuarial valuation. As required by GASB Statement No. 75, KUB measures net OPEB liability as total OPEB liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2021 and 2020 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a June 30, 2021 and 2020 measurement date, respectively. The net OPEB asset is \$5,931,828 (Division's share \$2,847,277) as of June 30, 2021, and the net OPEB liability is \$7,589,447 (Division's share \$3,642,935) as of June 30, 2020.

Pension Plan and Qualified Excess Benefit Arrangement

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 10). KUB's policy is to fully fund the annual actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2020 and 2019 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a December 31, 2020 and 2019 measurement date, respectively. The net pension asset is \$45,099,288 (Division's share \$21,647,658) as of June 30, 2021, and \$19,121,375 (Division's share \$9,178,260) as of June 30, 2020.

KUB implemented a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). The QEBA

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is a single-employer defined benefit pension plan, administered by KUB (Note 11). As required by GASB Statement No. 73, KUB measures the total pension liability of the QEBA. The amounts reported as of June 30, 2021 and 2020 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a December 31, 2020 and 2019 measurement date, respectively. The total pension liability of the QEBA is \$18,714 (Division's share \$8,983) as of June 30, 2021, and \$20,236 (Division's share \$9,713) as of June 30, 2020.

Investments

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

Self-Insurance

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

Estimates

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

Restricted and Designated Assets

Certain assets are restricted by bond resolutions for the construction of utility plant and debt repayment. Certain additional assets are designated by management for contingency purposes and economic development.

Cash Equivalents

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

Deferred Outflows and Inflows of Resources

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

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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.

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.

Subsequent Events

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

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

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

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

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

Purchased Power Adjustment

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

Under the PPA mechanism, KUB tracks the actual over/(under) recovered amount in the Over/(Under) Recovered Purchased Power Cost accounts. These accounts are rolled into the PPA rate adjustments thereby assuring that any over/(under) recovered amounts are promptly passed on to KUB's electric customers. The amount of over/(under) recovered cost was \$427,351 on June 30, 2021, and \$1,848,630 on June 30, 2020.

Recently Issued Accounting Pronouncements

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

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

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

In January 2020, the GASB issued GASB Statement No. 92 (Statement No. 92), *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain provisions of Statement No. 92 were effective immediately. Paragraphs 6, 7, 8, 9, and 12 are effective for fiscal years beginning after June 15, 2021.

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

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

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

In June 2020, the GASB issued GASB Statement No. 97 (Statement No. 97), *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The objectives of this Statement are to (a) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (b) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (c) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Statement No. 97 is effective for fiscal years beginning after June 15, 2021.

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

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3. Deposits and Investments

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

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

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

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

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

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Classification of deposits and investments per Statement of Net Position:

	2021	2020
Current assets		
Cash and cash equivalents	\$ 39,974,435	\$ 43,327,171
Short-term contingency fund investments	28,322,859	33,653,741
Other assets		
Long-term contingency fund investments	9,956,600	4,771,755
Restricted assets		
Electric bond fund	18,920,977	19,873,134
Other funds	727	727
	<u>\$ 97,175,598</u>	<u>\$ 101,626,528</u>

The above amounts do not include accrued interest of \$37,407 in fiscal year 2021 and \$114,227 in fiscal year 2020. Interest income is recorded on an accrual basis.

Investments and maturities of KUB's deposits and investments as held by financial institutions, as of June 30, 2021:

	Deposit and Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	\$ 60,546,699	\$ 60,546,699	\$ -
State Treasurer's Investment Pool	24,259,787	24,259,787	-
Agency Bonds	14,670,012	4,713,412	9,956,600
	<u>\$ 99,476,498</u>	<u>\$ 89,519,898</u>	<u>\$ 9,956,600</u>

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

KUB has the following recurring fair value measurements as of June 30, 2021:

- U.S. Agency bonds of \$9,956,600, which have a maturity at purchase of greater than one year, are valued using quoted market prices (Level 1 inputs)

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

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4. Accounts Receivable

Accounts receivable consists of the following:

	2021	2020
Wholesale and retail customers		
Billed services	\$ 33,532,252	\$ 31,629,304
Unbilled services	21,168,714	20,194,987
Other	2,060,007	1,101,029
Allowance for uncollectible accounts	<u>(491,743)</u>	<u>(430,529)</u>
	<u>\$ 56,269,230</u>	<u>\$ 52,494,791</u>

5. Accounts Payable and Accruals

Accounts payable and accruals were composed of the following:

	2021	2020
Trade accounts	\$ 69,175,449	\$ 66,095,573
Salaries and wages	2,016,607	1,893,144
Advances on pole rental	1,379,998	1,262,510
Self-insurance liabilities	929,396	825,898
Other current liabilities	16,212,896	14,328,026
	<u>\$ 89,714,346</u>	<u>\$ 84,405,151</u>

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Knoxville Utilities Board Electric Division
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6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2020	Additions	Payments	Defeased	Balance June 30, 2021	Amounts Due Within One Year
Electric						
Z-2010 - 1.45 - 6.35%	\$ 1,425,000	\$ -	\$ 1,425,000	\$ -	\$ -	\$ -
AA-2012 - 3.0 - 5.0%	22,880,000	-	3,100,000	16,510,000	3,270,000	3,270,000
BB-2012 - 3.0 - 4.0%	30,375,000	-	800,000	28,750,000	825,000	825,000
CC-2013 - 3.0 - 4.0%	7,585,000	-	515,000	6,530,000	540,000	540,000
DD-2014 - 2.0 - 4.0%	36,325,000	-	825,000	34,625,000	875,000	875,000
EE-2015 - 2.0 - 5.0%	25,900,000	-	2,135,000	-	23,765,000	2,235,000
FF-2015 - 2.0 - 5.0%	32,150,000	-	775,000	-	31,375,000	800,000
GG-2016 - 2.0 - 5.0%	37,550,000	-	900,000	-	36,650,000	950,000
HH-2017 - 2.5 - 5.0%	19,510,000	-	2,090,000	-	17,420,000	2,195,000
II-2017 - 3.0 - 5.0%	38,535,000	-	805,000	-	37,730,000	845,000
JJ-2018 - 3.0 - 5.0%	39,220,000	-	815,000	-	38,405,000	855,000
KK-2020 - 5.0%	14,380,000	-	-	-	14,380,000	1,155,000
LL-2021 - 4.0 - 5.0%	-	70,180,000	-	-	70,180,000	-
Total bonds	\$ 305,835,000	\$ 70,180,000	\$ 14,185,000	\$ 86,415,000	\$ 275,415,000	\$ 14,545,000
Unamortized Premium	13,668,174	16,772,021	1,301,355	3,420,420	25,718,420	-
Total long term debt	\$ 319,503,174	\$ 86,952,021	\$ 15,486,355	\$ 89,835,420	\$ 301,133,420	\$ 14,545,000

	Balance June 30, 2019	Additions	Payments	Defeased	Balance June 30, 2020	Amounts Due Within One Year
Z-2010 - 1.45 - 6.35%	\$ 19,930,000	\$ -	\$ 1,390,000	\$ 17,115,000	\$ 1,425,000	\$ 1,425,000
AA-2012 - 3.0 - 5.0%	25,835,000	-	2,955,000	-	22,880,000	3,100,000
BB-2012 - 3.0 - 4.0%	31,125,000	-	750,000	-	30,375,000	800,000
CC-2013 - 3.0 - 4.0%	8,085,000	-	500,000	-	7,585,000	515,000
DD-2014 - 2.0 - 4.0%	37,125,000	-	800,000	-	36,325,000	825,000
EE-2015 - 2.0 - 5.0%	27,975,000	-	2,075,000	-	25,900,000	2,135,000
FF-2015 - 2.0 - 5.0%	32,900,000	-	750,000	-	32,150,000	775,000
GG-2016 - 2.0 - 5.0%	38,400,000	-	850,000	-	37,550,000	900,000
HH-2017 - 2.5 - 5.0%	21,500,000	-	1,990,000	-	19,510,000	2,090,000
II-2017 - 3.0 - 5.0%	39,300,000	-	765,000	-	38,535,000	805,000
JJ-2018 - 3.0 - 5.0%	39,995,000	-	775,000	-	39,220,000	815,000
KK-2020 - 5.0%	-	14,380,000	-	-	14,380,000	-
Total bonds	\$ 322,170,000	\$ 14,380,000	\$ 13,600,000	\$ 17,115,000	\$ 305,835,000	\$ 14,185,000
Unamortized Premium	11,673,884	2,896,021	901,731	-	13,668,174	-
Total long term debt	\$ 333,843,884	\$ 17,276,021	\$ 14,501,731	\$ 17,115,000	\$ 319,503,174	\$ 14,185,000

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

Fiscal Year	Total		Grand Total
	Principal	Interest	
2022	\$ 14,545,000	\$ 9,408,314	\$ 23,953,314
2023	14,040,000	9,718,399	23,758,399
2024	14,705,000	9,035,899	23,740,899
2025	15,315,000	8,381,224	23,696,224
2026	13,465,000	7,769,474	21,234,474
2027-2031	62,725,000	30,766,475	93,491,475
2032-2036	41,040,000	21,111,102	62,151,102
2037-2041	44,855,000	13,419,521	58,274,521
2042-2046	44,545,000	5,377,138	49,922,138
2047-2048	10,180,000	309,658	10,489,658
Total	<u>\$ 275,415,000</u>	<u>\$ 115,297,204</u>	<u>\$ 390,712,204</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, 2021, these requirements had been satisfied.

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

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

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Other liabilities consist of the following:

	Balance June 30, 2020	Increase	Decrease	Balance June 30, 2021
TVA conservation program	\$ 2,023,948	\$ 113,417	\$ (978,809)	\$ 1,158,556
Accrued compensated absences	4,724,274	7,785,630	(7,855,809)	4,654,095
Customer advances for construction	7,285,510	2,442,397	(1,861,148)	7,866,759
Other	103,644	44,152	(86,449)	61,347
	<u>\$ 14,137,376</u>	<u>\$ 10,385,596</u>	<u>\$ (10,782,215)</u>	<u>\$ 13,740,757</u>

	Balance June 30, 2019	Increase	Decrease	Balance June 30, 2020
TVA conservation program	\$ 3,082,829	\$ 176,370	\$ (1,235,251)	\$ 2,023,948
Accrued compensated absences	4,231,203	7,809,987	(7,316,916)	4,724,274
Customer advances for construction	6,081,864	2,265,866	(1,062,220)	7,285,510
Other	36,986	105,163	(38,505)	103,644
	<u>\$ 13,432,882</u>	<u>\$ 10,357,386</u>	<u>\$ (9,652,892)</u>	<u>\$ 14,137,376</u>

7. Lease Commitments

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

2022	\$ 158,519
2023	29,575
2024	25,447
2025	25,447
2026	18,864
Total operating minimum lease payments	<u>\$ 257,852</u>

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Knoxville Utilities Board Electric Division
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8. Capital Assets

Capital asset activity was as follows:

	Balance June 30, 2020	Increase	Decrease	Balance June 30, 2021
Distribution Plant				
Services and Meters	\$ 76,480,353	\$ 1,844,232	\$ (3,745,148)	\$ 74,579,437
Electric Station Equipment	172,157,527	11,953,246	(1,767,048)	182,343,725
Poles, Towers and Fixtures	197,063,098	23,383,197	(776,179)	219,670,116
Overhead Conductors	161,568,836	26,461,659	(7,803,177)	180,227,318
Line Transformers	105,096,527	2,378,696	(740,100)	106,735,123
Other Accounts	193,364,408	10,887,516	(4,051,254)	200,200,670
Total Distribution Plant	\$ 905,730,749	\$ 76,908,546	\$ (18,882,906)	\$ 963,756,389
General Plant				
	117,537,151	19,506,760	(805,234)	136,238,677
Total Plant Assets	\$ 1,023,267,900	\$ 96,415,306	\$ (19,688,140)	\$ 1,099,995,066
Less Accumulated Depreciation	(441,716,884)	(43,337,591)	21,954,697	(463,099,778)
Net Plant Assets	\$ 581,551,016	\$ 53,077,715	\$ 2,266,557	\$ 636,895,288
Work In Progress	95,642,310	57,561,401	(98,738,144)	54,465,567
Total Net Plant	\$ 677,193,326	\$ 110,639,116	\$ (96,471,587)	\$ 691,360,855

	Balance June 30, 2019	Increase	Decrease	Balance June 30, 2020
Distribution Plant				
Services and Meters	\$ 80,127,124	\$ 10,833,316	\$ (14,480,087)	\$ 76,480,353
Electric Station Equipment	162,076,580	11,097,794	(1,016,847)	172,157,527
Poles, Towers and Fixtures	190,331,961	8,214,374	(1,483,237)	197,063,098
Overhead Conductors	159,466,936	6,401,128	(4,299,228)	161,568,836
Line Transformers	103,617,680	2,488,983	(1,010,136)	105,096,527
Other Accounts	186,331,981	10,535,773	(3,503,346)	193,364,408
Total Distribution Plant	\$ 881,952,262	\$ 49,571,368	\$ (25,792,881)	\$ 905,730,749
General Plant				
	93,805,418	24,003,579	(271,846)	117,537,151
Total Plant Assets	\$ 975,757,680	\$ 73,574,947	\$ (26,064,727)	\$ 1,023,267,900
Less Accumulated Depreciation	(436,855,568)	(31,479,777)	26,618,461	(441,716,884)
Net Plant Assets	\$ 538,902,112	\$ 42,095,170	\$ 553,734	\$ 581,551,016
Work In Progress	95,383,751	74,140,604	(73,882,045)	95,642,310
Total Net Plant	\$ 634,285,863	\$ 116,235,774	\$ (73,328,311)	\$ 677,193,326

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9. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. At June 30, 2021 and June 30, 2020, the amount of these liabilities was \$929,396 and \$825,898, respectively, resulting from the following changes:

	2021	2020
Balance, beginning of year	\$ 825,898	\$ 917,526
Current year claims and changes in estimates	7,469,778	7,184,747
Claims payments	<u>(7,366,280)</u>	<u>(7,276,375)</u>
Balance, end of year	<u>\$ 929,396</u>	<u>\$ 825,898</u>

10. Pension Plan

Description of Plan

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

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

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

Retirement Benefits

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

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

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

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

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

Contributions

Participation in Plan A requires employee contributions of 3% of the first \$4,800 of annual earnings and 5% of annual earnings in excess of \$4,800. KUB contributions are determined by the enrolled actuary of the Plan and equal the amount necessary to provide the benefits under the Plan determined by the application of accepted actuarial methods and assumptions. The method of funding shall be consistent with Plan objectives.

Plan Funding

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

Investments

The Plan’s investments are held by State Street Bank and Trust Company (the “Trustee”). The

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Plan's policy in regard to the allocation of invested assets is established by the Retirement System Investment Committee and approved by the KUB Board of Commissioners and may only be amended by the KUB Board of Commissioners. It is the policy of the Retirement System Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Plan's adopted asset allocation policy as of December 31, 2020:

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

Contributions of \$3,167,680 and \$2,585,824 for 2019 and 2018, respectively, were made during the Plan sponsor's fiscal years ended June 30, 2021 and 2020, respectively. Of these amounts, \$1,520,486 and \$1,241,196 are attributable to the Electric Division. The fiscal year 2021 contribution was determined as part of the January 1, 2019 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability or death.

Net Pension Liability (Asset)

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB 68"), which requires measurement of the net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 will be based on the December 31, 2020 and 2019 measurement date, respectively. The Division's share of the net pension asset at June 30, 2021 is \$21,647,658 and the net pension asset at June 30, 2020 is \$9,178,260.

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

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

Plan fiduciary net position as a percentage of the total pension liability	119.24%	108.43%
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Changes in Net Pension Liability (Asset) are as follows:

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

Actuarial Assumptions

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

Valuation dates	January 1, 2020, rolled forward to December 31, 2020; January 1, 2019, rolled forward to December 31, 2019
Discount rate	7.25% as of December 31, 2020 and 2019
Salary increases	From 2.50% to 5.65%, based on years of service as of December 31, 2020 and 2019
Mortality	115% and 110% of the PubG-2010 table, for males and females respectively, using the Public Sector General Employee Table for ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of December 31, 2020 and 2019
Inflation	2.5% as of December 31, 2020 and 2019

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

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

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included in the Plan's target asset allocation as of December 31, 2020 and 2019 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	
	2020	2019
Domestic equity	5.1%	5.5%
Non-U.S. equity	6.4%	6.4%
Real estate equity	5.6%	5.9%
Debt securities	0.9%	1.5%
Cash and deposits	0.2%	0.6%

Discount rate

The discount rate used to measure the total pension liability was 7.25 percent as of December 31, 2020 and 2019. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

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

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

For the year ended June 30, 2021, KUB recognized pension expense of (\$7,325,254), Division's share (\$3,516,122).

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2019, this average was 5.00 years. During the measurement year, there was a liability experience loss of \$1,930,170 with \$386,034 of that recognized in the current year and in each of the next four years, resulting in a deferred outflow of \$1,544,136 (Division's share \$741,185). Unrecognized liability experience gains from prior periods were \$2,088,302, of which \$996,139 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$1,092,163 (Division's share \$524,238).

During the measurement year, there were no benefit changes or assumption changes. Unrecognized assumption change losses from prior periods were \$6,778,528, of which \$1,694,632 was recognized as an increase in pension expense in the current year and resulted in a deferred outflow of \$5,083,896 (Division's share \$2,440,270). Unrecognized assumption change decreases from prior periods were \$729,629, of which \$658,104 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$71,525 (Division's share \$34,332).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$27,394,477, of which \$5,478,895 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment gains from prior periods were \$17,715,210, of which \$4,635,928 was recognized as a decrease in pension expense in the current year. The combination of unrecognized investment gains this year along with the net unrecognized investment gains from prior periods results in a net difference between projected and actual earnings on pension plan investments as of December 31, 2020 of \$34,994,864 (Division's share \$16,797,535). The following table summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years. In addition, KUB recorded a deferred outflow of resources of \$1,583,842 at June 30, 2021 for employer contributions made between December 31, 2020 and June 30, 2021 (Division's share \$760,245).

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,544,136	\$ 1,092,163
Changes in assumptions	5,083,896	71,525
Net difference between projected and actual earnings on pension plan investments	-	34,994,864
Contributions subsequent to measurement date	1,583,842	-
Total	<u>\$ 8,211,874</u>	<u>\$ 36,158,552</u>
Division's share	<u>\$ 3,941,700</u>	<u>\$ 17,356,105</u>

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\$1,583,842 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

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

For the year ended June 30, 2020, KUB recognized pension expense of \$2,673,376 (Division's share \$1,283,220).

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2018, this average was 5.00 years. During the measurement year, there was an experience gain of \$1,054,117 with \$210,822 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of \$843,295 (Division's share \$404,782). Unrecognized experience gains from prior periods were \$2,408,388, of which \$1,163,381 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$1,245,007 (Division's share \$597,603).

During the measurement year, there was an assumption change loss of \$8,473,160 with \$1,694,632 of that recognized in the current year and each of the next four years, resulting in a deferred outflow of \$6,778,528 (Division's share \$3,253,693). Unrecognized assumption change decreases from prior periods were \$1,387,733, of which \$658,104 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$729,629 (Division's share \$350,222).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$34,889,331, of which \$6,977,866 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were \$15,614,774, of which \$5,418,519 was recognized as an increase in pension expense in the current year. The combination of unrecognized investment gains this year along with the net unrecognized investment losses from prior periods results in a net difference between projected and actual earnings on pension plan investments as of December 31, 2019 of \$17,715,210 (Division's share \$8,503,301). The following table summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years. In addition, KUB recorded a deferred outflow of resources of \$1,292,915 (Division's share \$620,600) at June 30, 2020 for employer contributions made between December 31, 2019 and June 30, 2020.

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,088,302
Changes in assumptions	6,778,528	729,629
Net difference between projected and actual earnings on pension plan investments	-	17,715,210
Contributions subsequent to measurement date	1,292,915	-
Total	<u>\$ 8,071,443</u>	<u>\$ 20,533,141</u>
Division's share	<u>\$ 3,874,293</u>	<u>\$ 9,855,908</u>

11. Qualified Excess Benefit Arrangement

Description

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

As of June 30, 2021, there are 487 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. There is currently one member receiving benefits under the QEBA. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the KUB Pension Plan. The KUB Pension Plan was amended to include the provision of QEBA benefits; therefore, amendments to the QEBA require the same authority as amendments to the KUB Pension Plan. As required by federal tax law, the QEBA is unfunded within the meaning of the federal tax laws. KUB may not pre-fund the QEBA to cover future liabilities beyond the current year. KUB has established procedures to pay for these benefits on a pay-as-you-go basis, funded by KUB. There are no assets accumulated in a trust that meets the GASB's criteria.

Total Pension Liability of the QEBA

The below summarizes the disclosures of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"). GASB 73 extends a similar approach of financial reporting to plans meeting specific criteria that are not administered through trusts that GASB 68 established for pension plans. GASB 73 requires measurement of the total pension liability of the QEBA. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a December 31, 2020 and 2019 measurement date, respectively. The Division's share of the total pension liability was \$8,983 at June 30, 2021, and \$9,713 at June 30, 2020.

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

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

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

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

Actuarial Assumptions

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

Valuation dates	December 31, 2020 and December 31, 2019
Actuarial cost method	Individual entry age
Salary increase	From 2.50% to 5.65%, based on years of service as of December 31, 2020 and 2019
Mortality	115% and 110% of the Public Sector General Healthy Annuitant Mortality Table (PubG-2010), for males and females, respectively, using the Public Sector General Employee Table for ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of December 31, 2020 and 2019
Inflation	2.5% as of December 31, 2020 and 2019

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

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Discount rate

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

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

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

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

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

For the year ended June 30, 2021, KUB recognized pension expense of \$21,436 for the QEBA (Division's share \$10,289). This amount is not expected to be the same as KUB's contribution to the QEBA (\$22,874), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [\$8,684 - \$10,122 + \$22,874].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2019, this average was 5 years. During the measurement year, there was an experience loss of \$10,165, with \$2,033 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$8,132 (Division's share \$3,903). There was a deferred inflow at the end of the measurement year of \$14,450 (Division's share \$6,936) from experience gains in prior years and a deferred outflow of \$2,756 (Division's share \$1,323) from experience losses in prior years.

During the measurement year, there was an assumption change loss of \$91, with \$18 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$73 (Division's share \$35). There was a deferred inflow at the end of the measurement year of \$9,180 (Division's share \$4,406) and a deferred outflow of \$22,699 (Division's share \$10,896) from assumption changes in prior years. In addition, KUB recorded a deferred outflow of resources of \$6,084 at June 30, 2021 for contributions between December 31, 2020 and June 30, 2021 (Division's share \$2,920).

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 10,888	\$ 14,450
Changes in assumptions	22,772	9,180
Contributions subsequent to measurement date	<u>6,084</u>	<u>-</u>
Total	<u>\$ 39,744</u>	<u>\$ 23,630</u>
 Division's share	 <u>\$ 19,077</u>	 <u>\$ 11,342</u>

\$6,084 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total pension liability in the year ending June 30, 2022 (Division's share \$2,920). Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:

2022	\$ 10,340
2023	(7,089)
2024	4,727
2025	2,052
Thereafter	-

For the year ended June 30, 2020, KUB recognized pension expense of (\$199,098) for the QEBA (Division's share \$95,567). This amount is not expected to be the same as KUB's contribution to the QEBA (\$17,636), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [\$10,122 - \$226,856 + \$17,636].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2018, this average was 5 years. During the measurement year, there was an experience loss of \$34, with \$7 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$27 (Division's share \$12). There was a deferred inflow at the end of the measurement year of \$21,675 (Division's share \$10,403) from experience gains in prior years and a deferred outflow of \$5,473 (Division's share \$2,627) from experience losses in prior years.

During the measurement year, the Plan was amended to provide automatic increases to retirees for benefits limited under Code §415(d), resulting in a change in benefits of \$218,272 that was recognized in the current year (Division's share \$104,771). There was an increase in the total pension liability due to assumption changes of \$13,342, with \$2,668 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$10,674 (Division's share \$5,124). There was a deferred inflow at the end of the measurement year of \$13,770 (Division's share \$6,610) and a deferred outflow of \$29,385 (Division's share \$14,105) from assumption changes in prior years. In addition, KUB recorded a deferred outflow of resources of \$6,083 at June 30, 2020 for contributions between December 31, 2019 and June 30, 2020 (Division's share \$2,920).

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,500	\$ 21,675
Changes in assumptions	40,059	13,770
Contributions subsequent to measurement date	6,083	-
Total	<u>\$ 51,642</u>	<u>\$ 35,445</u>
Division's share	<u>\$ 24,788</u>	<u>\$ 17,013</u>

12. Defined Contribution Plan

The KUB Asset Accumulation 401(k) Plan (the "401(k) Plan") is a defined contribution 401(k) employee retirement savings plan covering eligible KUB employees established by the KUB Board of Commissioners in accordance with the Charter of the City of Knoxville, Tennessee. The 401(k) Plan's assets are held in trust under an agreement between KUB and Fidelity Management Trust Company. Employees hired prior to January 1, 2011 may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. Employees hired on or after January 1, 2011 have an enhanced 401(k) due to the closure of the Defined Benefit Pension Plan. They may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. They also receive a nonelective KUB contribution of 3 percent to 6 percent, depending on years of service, whether they contribute or not.

KUB funded 401(k) matching contributions and nonelective contributions of \$2,984,314 (Division's share \$1,432,471) and \$2,469,273 (Division's share \$1,185,251), respectively, for the years ended June 30, 2021 and 2020.

13. Other Post-Employment Benefits (OPEB)

Description of Trust

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

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

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

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

Benefits

Other post-employment benefits may include, but shall not be limited to, medical, prescription drugs, dental, vision, hearing, Medicare Part B or Part D premiums, life insurance, long-term care, and long-term disability. Only medical and pharmacy are currently provided to eligible retirees.

Contributions and Plan Funding

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

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

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

Based on the date of retirement, certain retired plan members are required to contribute specified amounts monthly to maintain health insurance. Those who retired prior to July 1983 have no required monthly premiums for themselves or dependents. The retirees, or their surviving dependents, who retired between August 1983 and January 1998 are required to pay \$262.50 per month for pre-Medicare family health insurance. For individuals who retired after January 1998, the required monthly premium for pre-Medicare health insurance is \$262.50 for single coverage and \$525 for family coverage. There is currently no premium for Medicare eligible retirees or dependents. KUB is

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responsible for determining the level of retired plan member contributions on an annual basis, as part of its review of healthcare cost sharing.

Investments

The Trust holds investments in a balanced fund, which invests in passively managed common trust index funds, managed and sponsored by State Street Global Advisors (SSgA), with an asset allocation mirroring the asset allocation of the Trust and rebalanced monthly. The Trust's Investment Policy was established and may only be amended by the KUB Board of Commissioners. The Trust's Investment Policy is to invest in a manner that will provide sufficient investment return to meet current and future retiree health benefits, while conforming to all governing State and Federal statutes. It allows investment of Trust assets in any type of security instrument allowed for in T.C.A 8-50-1203. The following was the Trust's adopted investment target allocations as set forth in the Trust's Investment Policy as of June 30, 2021:

<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 of \$757,226 and \$311,324 were made to the OPEB Trust in fiscal years ended June 30, 2021 and 2020, (Division's share \$363,468 and \$149,436), respectively. These were based on the OPEB Plan's actuarial valuations as of January 1, 2019, and 2018.

Net OPEB Liability (Asset)

The below summarizes the disclosures of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"), which requires measurement of the net OPEB liability as total OPEB liability less the amount of the Trust's fiduciary net position. The amounts reported as of June 30 are based on the reporting date for the KUB Other Post-Employment Benefits Plan which is June 30. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2021 and 2020 and the Total OPEB Liability as of the valuation date, January 1, 2020 updated to June 30, 2021, and January 1, 2019 updated to June 30, 2020, respectively. The Division's share of the total net OPEB (asset) liability was (\$2,847,277) at June 30, 2021 and \$3,642,935 at June 30, 2020.

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

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

Knoxville Utilities Board Electric Division
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Changes in Net OPEB Liability (Asset) are as follows:

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

Actuarial assumptions

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

Valuation dates:	January 1, 2020, rolled forward to June 30, 2021; January 1, 2019, rolled forward to June 30, 2020
Discount rate:	7.25% as of January 1, 2020 and 2019
Healthcare cost trend rates:	Pre-Medicare: 6.75% grading down to 4.04% over 20 years as of January 1, 2020; 7.83% grading down to 4.50% over 19 years as of January 1, 2019 Medicare: 6.30% grading down to 4.04% over 20 years as of January 1, 2020; 6.88% grading down to 4.50% over 19 years as of January 1, 2019 Administrative expenses: 3.0% per year
Salary increases:	From 2.50% to 5.65%, based on years of service as of January 1, 2020 and 2019
Mortality:	115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Healthy Annuitant Mortality Table, both projected using scale MP2018 fully generational as of January 1, 2020 and 2019
Inflation:	2.50% as of January 1, 2020 and 2019

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

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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	
	2021	2020
Domestic equity	4.9%	5.4%
International equity	5.9%	6.4%
Emerging Market equity	8.4%	9.3%
Real estate equity	5.4%	5.8%
Debt securities	0.5%	0.2%
Cash and deposits	(0.1%)	(0.2%)

Discount rate

The discount rate used to measure the total OPEB liability was 7.25 percent as of June 30, 2021 and 2020. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

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

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

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

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

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

For the year ended June 30, 2021, KUB recognized OPEB expense of (\$648,134) (Division's share (\$311,104)).

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was 2.0 years. During the measurement year, there was an experience loss of \$42,802, with \$21,401 of that recognized in the current year and the remaining amount will be recognized in the next year, resulting in a deferred outflow of resources of \$21,401 (Division's share \$10,272). Unrecognized experience losses from prior periods were \$21,951, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there was a decrease in the Total OPEB Liability due to assumption changes of \$4,105,835, with \$2,052,918 of that recognized in the current year and in the next year, resulting in a deferred inflow of \$2,052,917 (Division's share \$985,400). Unrecognized assumption changes from prior periods were \$1,802,421, of which the entire amount is recognized as an increase in OPEB expense in the current year.

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$9,571,802, of which \$1,914,360 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were \$2,354,338, of which \$602,585 was recognized as an increase in OPEB expense in the current year. The combination of unrecognized gains this year along with the net unrecognized investment losses from prior periods results in a net difference between projected and actual earnings on OPEB plan investments as of June 30, 2021 of \$5,905,689 (Division's share \$2,834,731). The following table summarizes the current balances of deferred outflows and deferred inflows of resources.

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June 30, 2021 and 2020

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 21,401	\$ -
Changes in assumptions	-	2,052,917
Net difference between projected and actual earnings on OPEB plan investments	-	5,905,689
Total	<u>\$ 21,401</u>	<u>\$ 7,958,606</u>
Division's share	<u>\$ 10,272</u>	<u>\$ 3,820,131</u>

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

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

For the year ended June 30, 2020, KUB recognized OPEB expense of \$4,767,499 (Division's share \$2,288,399).

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was 2.0 years. During the measurement year, there was an experience loss of \$43,902, with \$21,951 of that recognized in the current year and the remaining amount will be recognized in the next year, resulting in a deferred outflow of resources of \$21,951 (Division's share \$10,536). Unrecognized experience losses from prior periods were \$499,549, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there were benefit changes that decreased the expense by \$202,408. There was an increase in the Total OPEB Liability due to assumption changes of \$3,604,843, with \$1,802,422 of that recognized in the current year and in the next year, resulting in a deferred outflow of \$1,802,421 (Division's share \$865,162). Unrecognized assumption changes from prior periods were \$1,615,800, of which the entire amount is recognized as an increase in OPEB expense in the current year.

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment loss of \$2,579,092, of which \$515,818 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred outflow of resources as of June 30, 2020 of \$2,063,274 (Division's share \$990,371). Net unrecognized investment losses from prior periods were \$377,831, of which \$86,767 was recognized as an increase in OPEB expense in the current year and resulting in a net deferred outflow of \$291,064 (Division's share \$139,712). The table below summarizes the current balances of deferred outflows and deferred inflows of resources.

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 21,951	\$ -
Changes in assumptions	1,802,421	-
Net difference between projected and actual earnings on OPEB plan investments	<u>2,354,338</u>	<u>-</u>
Total	<u>\$ 4,178,710</u>	<u>\$ -</u>
Division's share	<u>\$ 2,005,781</u>	<u>\$ -</u>

14. 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, 2021 and 2020 are summarized as follows:

	2021	2020
City of Knoxville		
Amounts billed by the Division for utilities and related services	\$ 5,503,848	\$ 5,879,568
Payments by the Division in lieu of property tax	8,594,084	8,189,287
Payments by the Division for services provided	427,606	66,529
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	5,985,971	6,688,070
Interdivisional rental expense	69,970	69,286
Interdivisional rental income	1,707,928	2,190,576
Amounts billed to the Division by other divisions for utilities services provided	193,109	185,557

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

	2021	2020
Accounts receivable	\$ 413,157	\$ 324,574

15. 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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16. Risks and Uncertainties

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

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

	*Year ended December 31						
	2020	2019	2018	2017	2016	2015	2014
Total pension liability							
Service cost	\$ 5,227,657	\$ 6,142,213	\$ 5,095,488	\$ 4,607,486	\$ 4,226,985	\$ 4,157,062	\$ 4,092,808
Interest	16,393,202	16,030,626	15,344,193	15,015,282	14,966,559	14,812,784	14,698,657
Changes of benefit terms	-	163,199	-	-	-	-	-
Differences between expected and actual experience	1,930,170	(1,054,117)	(605,649)	(1,087,161)	(2,233,762)	(1,890,334)	-
Changes of assumptions	-	8,473,160	-	(357,633)	(2,932,883)	-	-
Benefit payments, including refunds of member contributions	(16,006,565)	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)	(15,533,167)
Net change in total pension liability	7,544,464	14,660,606	4,559,218	3,207,995	(111,612)	1,728,586	3,258,298
Total pension liability - beginning	226,818,557	212,157,951	207,598,733	204,390,738	204,502,350	202,773,764	199,515,466
Total pension liability - ending (a)	\$ 234,363,021	\$ 226,818,557	\$ 212,157,951	\$ 207,598,733	\$ 204,390,738	\$ 204,502,350	\$ 202,773,764
Plan fiduciary net position							
Contributions - employer	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541
Contributions - participants	2,284,727	3,170,825	2,081,125	1,488,632	555,075	487,546	475,854
Net investment income	44,814,914	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)	22,292,369
Other additions	7,740	13,579	62,616	82,239	45,848	30,879	29,733
Benefit payments, including refunds of member contributions	(15,962,565)	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)	(15,405,167)
Administrative expense	(455,191)	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)	(378,085)
Death benefits	(44,000)	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)	(128,000)
Net change in plan fiduciary net position**	33,522,377	40,431,737	(21,868,910)	22,862,426	5,052,489	(9,333,204)	12,795,245
Plan fiduciary net position - beginning**	245,939,932	205,508,195	227,377,105	204,514,679	199,462,190	208,795,394	196,000,149
Plan fiduciary net position - ending (b)**	\$ 279,462,309	\$ 245,939,932	\$ 205,508,195	\$ 227,377,105	\$ 204,514,679	\$ 199,462,190	\$ 208,795,394
Plan's net pension liability - ending (a) - (b)	\$ (45,099,288)	\$ (19,121,375)	\$ 6,649,756	\$ (19,778,372)	\$ (123,941)	\$ 5,040,160	\$ (6,021,630)
Plan fiduciary net position as a percentage of the total pension liability	119.24%	108.43%	96.87%	109.53%	100.06%	97.54%	102.97%
Covered payroll	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743	\$ 44,076,351
Plan's net pension liability as a percentage of covered payroll	(108.61%)	(47.48%)	15.78%	(45.67%)	(0.28%)	11.34%	(13.66%)

Notes to Schedule:

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

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Required Supplementary Information – Schedule of Employer Pension Contributions
June 30, 2021

	*Year ended December 31						
	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541
Contribution in relation to the actuarially determined contribution	2,876,752	2,871,241	3,456,475	4,286,597	5,243,146	5,991,887	5,908,541
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743	\$ 44,076,351
Contributions as a percentage of covered payroll	6.93%	7.13%	8.20%	9.90%	11.80%	13.48%	13.41%

Notes to Schedule:

Timing: Actuarially determined contributions for a Plan year are based upon 50% of the amounts determined at the actuarial valuations for each of the two prior Plan years.
Valuation Dates: January 1, 2019 and January 1, 2018

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Individual entry age
Asset valuation method: 5-year smoothed market
Amortization method: Level dollar, 30-year closed period with 22 years remaining (23 years as of January 1, 2018), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2019 and 2018, the unfunded liability was negative.
Discount rate: 7.5%
Salary increases: As of January 1, 2019: 2.50% to 5.65%, based on years of service
As of January 1, 2018: 2.80% to 5.15%, based on years of service
Mortality: As of January 1, 2019: 115% and 110% of the benefits-weighted Public Sector General Healthy Annuitant Mortality Table (PubG-2010), respectively, for males and females, using the Public Sector General Employee Table while in active employment and for annuitant ages prior to the start of the Healthy Annuitant Mortality Table, both projected from the 2010 base rates using scale MP2018 fully generational
As of January 1, 2018: Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation: 2.5% as of January 1, 2019 and 2.8% as of January 1, 2018

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

	*Year ended June 30			
	2021	2020	2019	2018
Total OPEB liability				
Service cost	\$ 283,786	\$ 256,270	\$ 270,515	\$ 202,603
Interest	3,861,304	3,672,291	3,624,737	3,295,240
Change of benefit terms	-	(202,408)	-	-
Differences between expected and actual experience	42,802	43,902	999,098	1,324,769
Changes of assumptions	(4,105,835)	3,604,843	3,231,601	(397,180)
Benefit payments	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Net change in total OPEB liability	<u>(3,029,122)</u>	<u>4,346,302</u>	<u>4,593,507</u>	<u>1,126,693</u>
Total OPEB liability - beginning	54,544,240	50,197,938	45,604,431	44,477,738
Total OPEB liability - ending (a)	<u>\$ 51,515,118</u>	<u>\$ 54,544,240</u>	<u>\$ 50,197,938</u>	<u>\$ 45,604,431</u>
Plan fiduciary net position				
Contributions - employer	\$ 757,226	\$ 311,324	\$ -	\$ -
Net investment income	12,890,602	975,155	2,981,928	3,705,473
Benefit payments	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	(44,496)	(53,286)	(54,787)	(51,668)
Net change in plan fiduciary net position	<u>10,492,153</u>	<u>(1,795,403)</u>	<u>(605,303)</u>	<u>355,066</u>
Plan fiduciary net position - beginning	46,954,793	48,750,196	49,355,499	49,000,433
Plan fiduciary net position - ending (b)	<u>\$ 57,446,946</u>	<u>\$ 46,954,793</u>	<u>\$ 48,750,196</u>	<u>\$ 49,355,499</u>
Net OPEB liability (asset) - ending (a) - (b)	<u>\$ (5,931,828)</u>	<u>\$ 7,589,447</u>	<u>\$ 1,447,742</u>	<u>\$ (3,751,068)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	111.51%	86.09%	97.12%	108.23%
Covered employee payroll	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	(27.49%)	32.48%	5.95%	(15.84%)

Notes to Schedule:

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

See accompanying Independent Auditor's Report

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

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

Notes to Schedule:

Valuation Date: January 1, 2019 and January 1, 2018
Timing: Actuarially determined contribution rates are calculated based on the actuarial valuation completed 18 months before the beginning of the fiscal year.

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age normal
Asset valuation method: 5-year smoothed market
Amortization method: Level dollar, 30-year closed period with 17 years remaining as of January 1, 2019 (18 years as of January 1, 2018), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2019, the unfunded liability was positive and negative as of January 1, 2018
Discount rate: 7.5%
Healthcare cost trend rate: Pre-Medicare: 7.83% grading down to 4.50% over 19 years as of January 1, 2019; 8.00% grading down to 4.50% over 20 years as of January 1, 2018
Medicare: 6.88% grading down to 4.50% over 19 years as of January 1, 2019; 7.00% grading down to 4.50% over 20 years as of January 1, 2018
Administrative expenses: 3.0% per year
Salary increases: From 2.50% to 5.65%, based on years of service as of January 1, 2019; From 2.80% to 5.15%, based on years of service as of January 1, 2018
Mortality: 115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational as of January 1, 2019; Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA as of January 1, 2018
Inflation: 2.5% as of January 1, 2019; 2.8% as of January 1, 2018
Investment rate of return: 7.5%
Retirement age: 2% at ages 50-57 at January 1, 2019 and January 1, 2018, grading up to 100% at age 70

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement
Schedule of Changes in Total Pension Liability and Related Ratios
June 30, 2021

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

Notes to Schedule:

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

See accompanying Independent Auditor's Report

**Knoxville Utilities Board Electric Division
Supplemental Information – Schedule of Expenditures of Federal Awards and
State Financial Assistance
June 30, 2021**

<u>Federal Grantor/ Pass-Through Grantor</u>	<u>Program Name</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	PA-04-TN-4427-PW-00438	\$ 213,806
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	PA-04-TN-4427-PW-00478	\$ 187,500
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	PA-04-TN-4427-PW-00563	\$ <u>6,317</u>
Total Program 97.036				\$ <u>407,623</u>
Total Federal Awards				\$ <u><u>407,623</u></u>

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards and State Financial Assistance includes the federal award related grant activity of Knoxville Utilities Board and is presented on the accrual basis of accounting. The expenditures reported in the Schedule of Expenditures and State Financial Assistance were incurred in fiscal years 2019 and 2020. In accordance with the requirements of CFDA 97.036, the expenditures have been reported in fiscal year 2021 when the grant was approved by the Federal Emergency Management Association. KUB did not elect to use 10% de minimis indirect cost rate.

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2021

Continued on Next Page

FY	AA-2012		BB-2012		CC-2013		DD-2014		EE-2015		FF-2015		GG-2016	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
21-22	3,270,000	81,750	825,000	16,500	540,000	10,800	875,000	17,500	2,235,000	788,100	800,000	1,297,250	950,000	1,027,688
22-23									2,300,000	708,250	825,000	1,256,625	1,000,000	978,938
23-24									2,415,000	590,375	850,000	1,214,750	1,050,000	927,688
24-25									2,555,000	478,900	900,000	1,171,000	1,100,000	884,938
25-26									2,670,000	387,750	925,000	1,125,375	1,125,000	857,188
26-27									2,735,000	306,675	950,000	1,078,500	1,150,000	834,438
27-28									2,850,000	222,900	975,000	1,030,375	1,175,000	811,188
28-29									2,955,000	135,825	1,025,000	985,500	1,200,000	787,437
29-30									3,050,000	45,750	1,050,000	944,000	1,200,000	762,687
30-31											1,100,000	901,000	1,250,000	731,187
31-32											1,125,000	856,500	1,275,000	693,312
32-33											1,175,000	810,500	1,325,000	654,312
33-34											1,225,000	762,500	1,350,000	614,187
34-35											1,250,000	713,000	1,400,000	572,937
35-36											1,300,000	662,000	1,450,000	535,625
36-37											1,350,000	609,000	1,475,000	500,875
37-38											1,400,000	554,000	1,525,000	459,563
38-39											1,450,000	497,000	1,550,000	417,313
39-40											1,500,000	438,000	1,600,000	377,937
40-41											1,550,000	377,000	1,650,000	335,250
41-42											1,600,000	314,000	1,675,000	289,531
42-43											1,675,000	248,500	1,725,000	242,781
43-44											1,725,000	180,500	1,775,000	194,656
44-45											1,800,000	110,000	1,825,000	142,875
45-46											1,850,000	37,000	1,900,000	87,000
46-47													1,950,000	29,250
47-48														
Total	\$ 3,270,000	\$ 81,750	\$ 825,000	\$ 16,500	\$ 540,000	\$ 10,800	\$ 875,000	\$ 17,500	\$ 23,765,000	\$ 3,664,525	\$ 31,375,000	\$ 18,173,875	\$ 36,650,000	\$ 14,750,781

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2021

Continued from Previous Page

FY	HH-2017		II-2017		JJ-2018		KK-2020		LL-2021		Total		Grand Total (P + I)
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
21-22	2,195,000	647,330	845,000	1,221,525	855,000	1,333,556	1,155,000	690,125	-	2,276,190	14,545,000	9,408,314	23,953,314
22-23	2,305,000	534,830	890,000	1,178,150	895,000	1,294,281	1,215,000	630,875	4,610,000	3,136,450	14,040,000	9,718,399	23,758,399
23-24	2,400,000	444,205	935,000	1,132,525	930,000	1,257,781	1,270,000	568,750	4,855,000	2,899,825	14,705,000	9,035,899	23,740,899
24-25	2,460,000	380,455	985,000	1,084,525	965,000	1,224,706	1,335,000	503,625	5,015,000	2,653,075	15,315,000	8,381,224	23,696,224
25-26	2,560,000	285,705	1,035,000	1,034,025	1,005,000	1,185,106	1,400,000	435,250	2,745,000	2,459,075	13,465,000	7,769,474	21,234,474
26-27	2,695,000	154,330	1,075,000	992,025	1,055,000	1,133,606	1,460,000	363,750	2,890,000	2,318,200	14,010,000	7,181,524	21,191,524
27-28	2,805,000	43,478	1,110,000	959,250	1,100,000	1,090,731	1,525,000	289,125	2,995,000	2,171,075	14,535,000	6,618,122	21,153,122
28-29			1,140,000	925,500	1,130,000	1,057,281	1,595,000	211,125	3,315,000	2,013,325	12,360,000	6,115,993	18,475,993
29-30			1,175,000	890,775	1,165,000	1,022,856	1,675,000	129,375	3,465,000	1,843,825	12,780,000	5,639,268	18,419,268
30-31			1,215,000	854,925	1,200,000	986,631	1,750,000	43,750	2,525,000	1,694,075	9,040,000	5,211,568	14,251,568
31-32			1,250,000	817,950	1,240,000	947,731			3,495,000	1,543,575	8,385,000	4,859,068	13,244,068
32-33			1,285,000	779,925	1,285,000	905,897			2,850,000	1,384,950	7,920,000	4,535,584	12,455,584
33-34			1,325,000	740,775	1,330,000	860,938			2,845,000	1,242,575	8,075,000	4,220,975	12,295,975
34-35			1,365,000	700,425	1,375,000	813,600			2,845,000	1,100,325	8,235,000	3,900,287	12,135,287
35-36			1,410,000	658,800	1,420,000	766,463			2,845,000	972,300	8,425,000	3,595,188	12,020,188
36-37			1,450,000	615,900	1,470,000	719,500			2,845,000	858,500	8,590,000	3,303,775	11,893,775
37-38			1,495,000	571,725	1,520,000	669,963			2,845,000	744,700	8,785,000	2,999,951	11,784,951
38-39			1,540,000	526,200	1,570,000	617,819			2,845,000	630,900	8,955,000	2,689,232	11,644,232
39-40			1,590,000	479,250	1,625,000	562,888			2,845,000	517,100	9,160,000	2,375,175	11,535,175
40-41			1,635,000	430,875	1,685,000	504,963			2,845,000	403,300	9,365,000	2,051,388	11,416,388
41-42			1,685,000	381,075	1,745,000	444,938			2,845,000	289,500	9,550,000	1,719,044	11,269,044
42-43			1,740,000	329,700	1,805,000	382,813			2,845,000	175,700	9,790,000	1,379,494	11,169,494
43-44			1,790,000	275,631	1,870,000	318,500			1,485,000	89,100	8,645,000	1,058,387	9,703,387
44-45			1,850,000	218,756	1,935,000	251,913			1,485,000	29,700	8,895,000	753,244	9,648,244
45-46			1,910,000	160,006	2,005,000	182,963					7,665,000	466,969	8,131,969
46-47			1,970,000	98,151	2,075,000	111,563					5,995,000	238,964	6,233,964
47-48			2,035,000	33,069	2,150,000	37,625					4,185,000	70,694	4,255,694
Total	\$ 17,420,000	\$ 2,490,333	\$ 37,730,000	\$ 18,091,438	\$ 38,405,000	\$ 20,686,612	\$ 14,380,000	\$ 3,865,750	\$ 70,180,000	\$ 33,447,340	\$ 275,415,000	\$ 115,297,204	\$ 390,712,204

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, 2021

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding Balance 7/1/2020	Issued During Period	Paid/Matured During Period	Refunded During Period	Outstanding Balance 6/30/2021
Business-Type Activities									
BONDS PAYABLE									
<u>Payable through Electric Fund</u>									
Revenue Bond, Series Z-2010	30,000,000	1.45-6.35	12/08/10	07/01/30	\$ 1,425,000	\$	\$ 1,425,000	\$	\$ -
Revenue Bond Refunding, Series AA-2012	36,815,000	3.0-5.0	04/20/12	07/01/29	22,880,000		3,100,000	16,510,000	3,270,000
Revenue Bond, Series BB-2012	35,000,000	3.0-4.0	12/18/12	07/01/42	30,375,000		800,000	28,750,000	825,000
Revenue Bond Refunding, Series CC-2013	9,660,000	3.0-4.0	03/15/13	07/01/31	7,585,000		515,000	6,530,000	540,000
Revenue Bond, Series DD-2014	40,000,000	2.0-4.0	09/18/14	07/01/44	36,325,000		825,000	34,625,000	875,000
Revenue Bond Refunding, Series EE-2015	28,550,000	2.0-5.0	05/01/15	07/01/29	25,900,000		2,135,000		23,765,000
Revenue Bond, Series FF-2015	35,000,000	2.0-5.0	05/20/15	07/01/45	32,150,000		775,000		31,375,000
Revenue Bond, Series GG-2016	40,000,000	2.0-5.0	08/05/16	07/01/46	37,550,000		900,000		36,650,000
Revenue Bond Refunding, Series HH-2017	23,445,000	2.5-5.0	04/07/17	07/01/27	19,510,000		2,090,000		17,420,000
Revenue Bond, Series II-2017	40,000,000	3.0-5.0	09/15/17	07/01/47	38,535,000		805,000		37,730,000
Revenue Bond, Series JJ-2018	39,995,000	3.0-5.0	09/14/18	07/01/47	39,220,000		815,000		38,405,000
Revenue Bond Refunding, Series KK-2020	14,380,000	5.0	05/22/20	07/01/30	14,380,000		-		14,380,000
Revenue Bond Refunding, Series LL-2021	70,180,000	4.0-5.0	04/19/21	07/01/44	-	70,180,000	-		70,180,000
					<u>\$ 305,835,000</u>	<u>\$ 70,180,000</u>	<u>\$ 14,185,000</u>	<u>\$ 86,415,000</u>	<u>\$ 275,415,000</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Insurance in Force
June 30, 2021
(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.

Pollution Legal Liability

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

Property Insurance

This coverage provides protection of KUB's property for fire, extended coverage, vandalism and malicious mischief, and coverage on boilers and machinery. Also included are flood and earthquake damage and mechanical failure. Limits of coverage - \$250,000,000 per occurrence (subject to certain sublimits); \$2,500,000 deductible per occurrence.

Travel Accident

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

Excess Insurance for General Liability

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

Excess Insurance for Workers' Compensation

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

Employee Health Plan Stop Loss Coverage

KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses in excess of \$600,000 per individual participant.

Cyber Security Liability

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
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(Unaudited)

Rate Class	Base Charge	Number of Customers
Residential	Customer Charge: \$22.10 per month, less Hydro Allocation Credit: \$1.60 per month. Energy Charge: Summer Period \$0.09014 per kWh per month. Winter Period \$0.08973 per kWh per month. Transition Period \$0.08973 per kWh per month.	188,358
Residential Time of Use Pilot Program	Customer Charge: \$22.10 per month, less Hydro Allocation Credit: \$1.60 per month. Energy Charge: Onpeak \$0.19693 per kWh per month for all metered onpeak kWh Offpeak \$0.06483 per kWh per month for all metered offpeak kWh	16
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: \$29.00 per delivery point per month. Energy Charge: Summer Period \$0.11037 per kWh per month. Winter Period \$0.10996 per kWh per month. Transition Period \$0.10996 per kWh per month.	20,365
	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: \$95.00 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 \$15.33 per kW. Winter Period \$14.54 per kW. Transition Period \$14.54 per kW. Energy Charge: Summer Period First 15,000 kWh per month at \$0.13725 per kWh Additional kWh per month at \$.05951 per kWh. Winter Period First 15,000 kWh per month at \$0.13684 per kWh Additional kWh per month at \$.05951 per kWh. Transition Period First 15,000 kWh per month at \$0.13684 per kWh Additional kWh per month at \$.05951 per kWh.	2,584

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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: \$260.00 per delivery point per month.</p> <p>Demand Charge: Summer Period First 1,000 kW of billing demand per month, at \$16.07 per kW. Excess over 1,000 kW of billing demand per month, at \$16.72 per kW, plus an additional \$16.72 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: 100px;">Winter Period First 1,000 kW of billing demand per month, at \$15.31 per kW. Excess over 1,000 kW of billing demand per month, at \$15.96 per kW, plus an additional \$15.96 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: 100px;">Transition Period First 1,000 kW of billing demand per month, at \$15.31 per kW. Excess over 1,000 kW of billing demand per month, at \$15.96 per kW, plus an additional \$15.96 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 \$0.06938 per kWh per month. Winter Period \$0.06938 per kWh per month. Transition Period \$0.06938 per kWh per month.</p>	<p>39</p>

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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: \$29.00 per delivery point per month. Demand Charge: \$2.00 per kW of maximum billing demand per month. Energy Charge: Onpeak \$0.20473 per kWh per month for all metered onpeak kWh Offpeak \$0.07263 per kWh per month for all metered offpeak kWh	11
	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: \$95.00 per delivery point per month. Demand Charge: \$4.45 per kW of maximum billing demand per month. Energy Charge: Onpeak \$0.21656 per kWh per month for all metered onpeak kWh Offpeak \$0.08446 per kWh per month for all metered offpeak kWh	3
	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: \$110.00 per delivery point per month. Demand Charge: \$6.56 per kW of maximum billing demand per month. Energy Charge: Onpeak \$0.19371 per kWh per month for all metered onpeak kWh Offpeak \$0.06161 per kWh per month for all metered offpeak kWh	4

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Rate Class	Base Charge	Number of Customers
Commercial/ Industrial 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: Customer Charge: \$1,500 per delivery point per month. Administrative Charge: \$700 per delivery point per month. Demand Charge: Summer Period Onpeak Demand \$10.78 per kW per month of the customer's onpeak billing demand, plus Maximum Demand \$6.16 per kW per month of the customer's maximum billing demand, plus Excess Demand \$16.94 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 \$9.82 per kW per month of the customer's onpeak billing demand, plus Maximum Demand \$6.16 per kW per month of the customer's maximum billing demand plus Excess Demand \$15.98 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 \$9.82 per kW per month of the customer's onpeak billing demand, plus Maximum Demand \$6.16 per kW per month of the customer's maximum billing demand plus Excess Demand \$15.98 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		\$0.08407 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05936 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		\$0.02506 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		\$0.02168 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		\$0.07280 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.06155 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		\$0.02506 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		\$0.02168 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		\$0.05904 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05904 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		\$0.02506 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		\$0.02168 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 \$0.01604 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
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. Administrative Charge: \$700 per delivery point per month. Demand Charge:</p> <p>Summer Period Onpeak Demand \$10.78 per kW per month of the customer's onpeak billing demand, plus Maximum Demand \$6.04 per kW per month of the customer's maximum billing demand, plus Excess Demand \$16.82 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.</p> <p>Winter Period Onpeak Demand \$9.82 per kW per month of the customer's onpeak billing demand, plus Maximum Demand \$6.04 per kW per month of the customer's maximum billing demand plus Excess Demand \$15.86 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.</p> <p>Transition Period Onpeak Demand \$9.82 per kW per month of the customer's onpeak billing demand, plus Maximum Demand \$6.04 per kW per month of the customer's maximum billing demand plus Excess Demand \$15.86 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.</p>	1

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Energy Charge:			
Summer Period	Onpeak		\$0.08398 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05927 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		\$0.02497 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		\$0.02159 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		\$0.07271 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.06146 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		\$0.02497 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		\$0.02159 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		\$0.05895 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05895 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		\$0.02497 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		\$0.02159 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 \$0.01604 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	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: Customer Charge: \$1,500 per delivery point per month. Administrative Charge: \$700 per delivery point per month. Demand Charge: Summer Period Onpeak Demand \$10.78 per kW per month of the customer's onpeak billing demand, plus Maximum Demand \$5.91 per kW per month of the customer's maximum billing demand, plus Excess Demand \$16.69 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 \$9.82 per kW per month of the customer's onpeak billing demand, plus Maximum Demand \$5.91 per kW per month of the customer's maximum billing demand plus Excess Demand \$15.73 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 \$9.82 per kW per month of the customer's onpeak billing demand, plus Maximum Demand \$5.91 per kW per month of the customer's maximum billing demand plus Excess Demand \$15.73 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		\$0.08389 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05918 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		\$0.02375 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		\$0.02150 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		\$0.07262 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.06137 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		\$0.02375 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		\$0.02150 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		\$0.05886 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05886 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		\$0.02375 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		\$0.02150 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 \$0.01604 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 Time of Use	<p>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:</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"> <tr> <td>Onpeak Demand</td> <td>\$10.98 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td>Maximum Demand</td> <td>\$6.89 per kW per month of the customer's maximum billing demand, plus</td> </tr> <tr> <td>Excess Demand</td> <td>\$17.87 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>\$10.02 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td>Maximum Demand</td> <td>\$6.89 per kW per month of the customer's maximum billing demand plus</td> </tr> <tr> <td>Excess Demand</td> <td>\$16.91 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>\$10.02 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td>Maximum Demand</td> <td>\$6.89 per kW per month of the customer's maximum billing demand plus</td> </tr> <tr> <td>Excess Demand</td> <td>\$16.91 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	\$10.98 per kW per month of the customer's onpeak billing demand, plus	Maximum Demand	\$6.89 per kW per month of the customer's maximum billing demand, plus	Excess Demand	\$17.87 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	\$10.02 per kW per month of the customer's onpeak billing demand, plus	Maximum Demand	\$6.89 per kW per month of the customer's maximum billing demand plus	Excess Demand	\$16.91 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	\$10.02 per kW per month of the customer's onpeak billing demand, plus	Maximum Demand	\$6.89 per kW per month of the customer's maximum billing demand plus	Excess Demand	\$16.91 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.	8
Onpeak Demand	\$10.98 per kW per month of the customer's onpeak billing demand, plus																			
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Excess Demand	\$17.87 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.																			
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Energy Charge:			
Summer Period	Onpeak		\$0.10773 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.07414 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		\$0.03154 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		\$0.02850 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		\$0.09240 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.07711 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		\$0.03154 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		\$0.02850 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		\$0.07831 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.07831 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		\$0.03154 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		\$0.02850 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 \$0.01733 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	<p>B. 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> <table border="0"> <tr> <td data-bbox="464 656 638 677">Summer Period</td> <td data-bbox="722 656 932 742"> Onpeak Demand Maximum Demand Excess Demand </td> <td data-bbox="959 656 1776 839"> \$10.15 per kW per month of the customer's onpeak billing demand, plus \$3.23 per kW per month of the customer's maximum billing demand, plus \$13.38 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="464 850 611 872">Winter Period</td> <td data-bbox="722 850 932 937"> Onpeak Demand Maximum Demand Excess Demand </td> <td data-bbox="959 850 1776 1034"> \$9.19 per kW per month of the customer's onpeak billing demand, plus \$3.23 per kW per month of the customer's maximum billing demand plus \$12.42 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="464 1045 653 1066">Transition Period</td> <td data-bbox="722 1045 932 1131"> Onpeak Demand Maximum Demand Excess Demand </td> <td data-bbox="959 1045 1776 1229"> \$9.19 per kW per month of the customer's onpeak billing demand, plus \$3.23 per kW per month of the customer's maximum billing demand plus \$12.42 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>	Summer Period	Onpeak Demand Maximum Demand Excess Demand	\$10.15 per kW per month of the customer's onpeak billing demand, plus \$3.23 per kW per month of the customer's maximum billing demand, plus \$13.38 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 Maximum Demand Excess Demand	\$9.19 per kW per month of the customer's onpeak billing demand, plus \$3.23 per kW per month of the customer's maximum billing demand plus \$12.42 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 Maximum Demand Excess Demand	\$9.19 per kW per month of the customer's onpeak billing demand, plus \$3.23 per kW per month of the customer's maximum billing demand plus \$12.42 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
Summer Period	Onpeak Demand Maximum Demand Excess Demand	\$10.15 per kW per month of the customer's onpeak billing demand, plus \$3.23 per kW per month of the customer's maximum billing demand, plus \$13.38 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.									
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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, 2021
(Unaudited)

Energy Charge:			
Summer Period	Onpeak		\$0.07651 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05171 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		\$0.02226 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		\$0.01974 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		\$0.06520 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05393 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		\$0.02226 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		\$0.01974 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		\$0.05479 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05479 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		\$0.02226 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		\$0.01974 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 \$0.01577 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, 2021
(Unaudited)

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> <table border="0" style="width: 100%;"> <tr> <td style="width: 20%;">Summer Period</td> <td style="width: 20%;">Onpeak Demand</td> <td>\$10.15 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td></td> <td>Maximum Demand</td> <td>\$3.11 per kW per month of the customer's maximum billing demand, plus</td> </tr> <tr> <td></td> <td>Excess Demand</td> <td>\$13.26 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>Winter Period</td> <td>Onpeak Demand</td> <td>\$9.19 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td></td> <td>Maximum Demand</td> <td>\$3.11 per kW per month of the customer's maximum billing demand plus</td> </tr> <tr> <td></td> <td>Excess Demand</td> <td>\$12.30 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>Transition Period</td> <td>Onpeak Demand</td> <td>\$9.19 per kW per month of the customer's onpeak billing demand, plus</td> </tr> <tr> <td></td> <td>Maximum Demand</td> <td>\$3.11 per kW per month of the customer's maximum billing demand plus</td> </tr> <tr> <td></td> <td>Excess Demand</td> <td>\$12.30 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>	Summer Period	Onpeak Demand	\$10.15 per kW per month of the customer's onpeak billing demand, plus		Maximum Demand	\$3.11 per kW per month of the customer's maximum billing demand, plus		Excess Demand	\$13.26 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	\$9.19 per kW per month of the customer's onpeak billing demand, plus		Maximum Demand	\$3.11 per kW per month of the customer's maximum billing demand plus		Excess Demand	\$12.30 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	\$9.19 per kW per month of the customer's onpeak billing demand, plus		Maximum Demand	\$3.11 per kW per month of the customer's maximum billing demand plus		Excess Demand	\$12.30 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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See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2021
(Unaudited)

Energy Charge:			
Summer Period	Onpeak		\$0.07530 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05050 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		\$0.02357 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		\$0.02357 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		\$0.06398 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05271 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		\$0.02357 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		\$0.02357 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		\$0.05358 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05358 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		\$0.02357 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		\$0.02357 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 \$0.01577 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, 2021
(Unaudited)

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> <table border="0"> <tr> <td data-bbox="464 656 638 677">Summer Period</td> <td data-bbox="722 656 932 745"> Onpeak Demand Maximum Demand Excess Demand </td> <td data-bbox="957 656 1776 842"> \$10.15 per kW per month of the customer's onpeak billing demand, plus \$2.68 per kW per month of the customer's maximum billing demand, plus \$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> <tr> <td data-bbox="464 850 611 872">Winter Period</td> <td data-bbox="722 850 932 940"> Onpeak Demand Maximum Demand Excess Demand </td> <td data-bbox="957 850 1776 1037"> \$9.19 per kW per month of the customer's onpeak billing demand, plus \$2.68 per kW per month of the customer's maximum billing demand plus \$11.87 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="464 1045 653 1066">Transition Period</td> <td data-bbox="722 1045 932 1143"> Onpeak Demand Maximum Demand Excess Demand </td> <td data-bbox="957 1045 1776 1235"> \$9.19 per kW per month of the customer's onpeak billing demand, plus \$2.68 per kW per month of the customer's maximum billing demand plus \$11.87 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>	Summer Period	Onpeak Demand Maximum Demand Excess Demand	\$10.15 per kW per month of the customer's onpeak billing demand, plus \$2.68 per kW per month of the customer's maximum billing demand, plus \$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.	Winter Period	Onpeak Demand Maximum Demand Excess Demand	\$9.19 per kW per month of the customer's onpeak billing demand, plus \$2.68 per kW per month of the customer's maximum billing demand plus \$11.87 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 Maximum Demand Excess Demand	\$9.19 per kW per month of the customer's onpeak billing demand, plus \$2.68 per kW per month of the customer's maximum billing demand plus \$11.87 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
Summer Period	Onpeak Demand Maximum Demand Excess Demand	\$10.15 per kW per month of the customer's onpeak billing demand, plus \$2.68 per kW per month of the customer's maximum billing demand, plus \$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.									
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See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
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(Unaudited)

Energy Charge:			
Summer Period	Onpeak		\$0.07190 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.04710 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		\$0.02075 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		\$0.02017 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		\$0.06058 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.04930 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		\$0.02075 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		\$0.02017 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		\$0.05017 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05017 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		\$0.02075 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		\$0.02017 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 \$0.01577 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
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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> <table border="0"> <tr> <td data-bbox="464 656 638 677">Summer Period</td> <td data-bbox="726 656 936 743"> Onpeak Demand Maximum Demand Excess Demand </td> <td data-bbox="961 656 1787 841"> \$10.27 per kW per month of the customer's onpeak billing demand, plus \$5.22 per kW per month of the customer's maximum billing demand, plus \$15.49 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="464 854 611 875">Winter Period</td> <td data-bbox="726 854 936 941"> Onpeak Demand Maximum Demand Excess Demand </td> <td data-bbox="961 854 1787 1039"> \$9.30 per kW per month of the customer's onpeak billing demand, plus \$5.22 per kW per month of the customer's maximum billing demand plus \$14.52 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> <tr> <td data-bbox="464 1052 653 1073">Transition Period</td> <td data-bbox="726 1052 936 1140"> Onpeak Demand Maximum Demand Excess Demand </td> <td data-bbox="961 1052 1787 1237"> \$9.30 per kW per month of the customer's onpeak billing demand, plus \$5.22 per kW per month of the customer's maximum billing demand plus \$14.52 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>	Summer Period	Onpeak Demand Maximum Demand Excess Demand	\$10.27 per kW per month of the customer's onpeak billing demand, plus \$5.22 per kW per month of the customer's maximum billing demand, plus \$15.49 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 Maximum Demand Excess Demand	\$9.30 per kW per month of the customer's onpeak billing demand, plus \$5.22 per kW per month of the customer's maximum billing demand plus \$14.52 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.	Transition Period	Onpeak Demand Maximum Demand Excess Demand	\$9.30 per kW per month of the customer's onpeak billing demand, plus \$5.22 per kW per month of the customer's maximum billing demand plus \$14.52 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.	5
Summer Period	Onpeak Demand Maximum Demand Excess Demand	\$10.27 per kW per month of the customer's onpeak billing demand, plus \$5.22 per kW per month of the customer's maximum billing demand, plus \$15.49 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.									
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Knoxville Utilities Board Electric Division
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(Unaudited)

Energy Charge:			
Summer Period	Onpeak		\$0.08269 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		\$0.03011 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		\$0.02756 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		\$0.07125 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.05985 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		\$0.03011 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		\$0.02756 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		\$0.06074 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1		\$0.06074 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		\$0.03011 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		\$0.02756 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 \$0.01733 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
Statistical Information - Schedule of Current Rates in Force
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(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	69		
Energy Charge:	Summer Period \$0.08167 per kWh per month. Winter Period \$0.08167 per kWh per month. Transition Period \$0.08167 per kWh per month.			
Facility Charge:	The annual facility charge shall be 15.89 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	9,816		
	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	\$ 4.97	\$ 10.69
	400 19,100	155	6.94	19.60
	1000** 47,500	378	11.10	41.97
High Pressure Sodium	100 8,550	42	4.97	8.40
	250 23,000	105	5.89	14.47
	400 45,000	165	6.94	20.42
	1000** 126,000	385	11.10	42.54
Decorative	100 8,550	42	5.66	9.09
	* 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, \$0.08167 per rated kWh per month.			
Additional pole charge:	\$5.00 per pole.			

See accompanying Independent Auditor's Report

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2021
(Unaudited)

Rate Class	Base Charge				Number of Customers
LED Outdoor Lighting					14,756
		Charges Per Fixture Per Month			
		Rated	Facility	Total Lamp	
a.	Lamp Size	kWh	Charge	Charge	
	100 WE	21	\$ 5.72	\$ 7.44	
	250 WE	58	7.07	11.81	
	400 WE	79	9.72	16.17	
b.	Energy Charge:	For each lamp size under a. above, \$0.08167 per rated kWh per month.			
	Additional pole charge:	\$5.00 per pole.			

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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2021, 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 25, 2021.

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 may exist that have not been identified.

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

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 25, 2021

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

Section I -- Summary of Auditor's Results

Financial Statements

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

Section II -- Financial Statement Findings

None reported.

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

None reported.

Section IV -- Summary Schedule of Prior Year Audit Findings

Not applicable as there were no prior year findings reported.



Gas Division

Financial Statements and Supplemental Information June 30, 2021 and 2020

KUB Board of Commissioners

Dr. Jerry W. Askew, Chair
John Worden, Vice Chair

Claudia Caballero
Kathy Hamilton

Celeste Herbert
Adrienne Simpson-Brown

Tyvi Small

Management

Gabriel Bolas II

President and Chief Executive Officer

Mark Walker

Senior Vice President and Chief Financial Officer

Susan Edwards

Senior Vice President and Chief Administrative Officer

Derwin Hagood

Senior Vice President of Operations

Eddie Black

Senior Vice President and Chief Technology Officer

John Williams

Senior Vice President of Engineering & Construction

Tiffany Martin

Vice President and Chief Customer Officer

Mike Bolin

Vice President of Utility Advancement

John Gresham

Vice President of Operations

Jamie Davis

Vice President and Assistant to Chief Technology Officer

Julie Childers

Vice President and Century II Administrator

Knoxville Utilities Board Gas Division

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June 30, 2021 and 2020

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Independent Auditor's Report

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

We have audited the accompanying 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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the index.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Division's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 25 and the required supplementary information on pages 64 through 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise 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.

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

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, 2021 and 2020, 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, 25, 2021, 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 25, 2021

Knoxville Utilities Board Gas Division

Management's Discussion and Analysis

June 30, 2021 and 2020

Knoxville Utilities Board (KUB), comprised of Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. 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 at June 30, 2021 and 2020, 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, 2021 activities, resulting changes and current known facts, and should be read in conjunction with the Division's financial statements.

Gas Division Highlights

System Highlights

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

KUB's natural gas system serves 106,010 customers, and its service territory covers 297 square miles. KUB maintains 2,524 miles of service mains to provide 13.2 million dekatherms of natural gas to its customers annually.

KUB's natural gas system service territory experienced more normal temperatures this winter compared to the previous year. As a result, billed natural gas sales increased 8.7 percent when compared to fiscal year 2020. Gas Division margin (operating revenue less purchased gas cost) was \$3.7 million higher in fiscal year 2021.

The natural gas system's record peak in demand remains 140,204 dekatherms, set in January 2018.

The natural gas system has added 3,811 customers over the past three years representing annual growth of one percent. In fiscal year 2021, 1,577 customers were added.

The typical residential gas customer's average monthly gas bill was \$57.36 for the twelve months ending June 30, 2021. The average monthly bill increased \$1.48 compared to last fiscal year, reflecting higher natural gas prices along with the flow through of under recovered purchased gas costs from fiscal year 2020.

Knoxville Utilities Board Gas Division

Management's Discussion and Analysis

June 30, 2021 and 2020

KUB's natural gas system was named to the American Public Gas Association's (APGA) System Operational Achievement Recognition (SOAR) Program in 2018, reflecting KUB's focus on system integrity, continuous improvement, safety, and employee development. KUB is a Gold level winner and remains a member of the program through 2023. KUB was designated a Safety Contest Winner for calendar year 2019 by APGA, indicating the lowest number of recordable injuries per labor-hours worked.

Century II Infrastructure Program

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

In fiscal year 2015, KUB concluded the smart grid pilot project, of which a portion of the project was funded by a United States Department of Energy Smart Grid Investment Grant (SGIG). This grant was received by KUB in 2009 as part of the American Reinvestment and Recovery Act (ARRA). Based upon the success of that pilot, KUB formed a plan to move forward with a Century II Grid Modernization initiative, which includes advanced metering for all KUB customers, a telecommunication system linking critical KUB infrastructure, and an increased investment in automation technology to help operate KUB's energy and water distribution systems. Over the course of ten years, KUB plans to spend \$124.4 million in this effort, of which the Gas Division's share is \$19.2 million. The deployment is funded in large part by debt issues and system revenues. As of June 30, 2020, KUB completed the final year of the four-year advanced meters deployment, including the installation of network communication devices, spending \$12.8 million. The project was completed on time and under budget.

In May 2017, a new Century II funding resolution was adopted by the KUB Board of Commissioners to express the continued commitment to funding Century II programs for the next ten years. The funding will be achieved through a combination of rate increases and debt issues supplemented by cost savings and new revenue from net customer additions.

In June 2017, the Board approved the next phase of gas rate increases to support the Century II program. The three approved gas rate increases went into effect in October 2017, October 2018, and October 2019, generating \$2.2 million, \$2.3 million, and \$2.3 million in additional annual Gas Division revenue, respectively.

During the fiscal year, KUB replaced 8.9 miles of steel gas main, slightly exceeding the target level of 8 miles, while staying on track with Century II goals and within the Gas Division's total capital budget.

Financial Highlights

Fiscal Year 2021 Compared to Fiscal Year 2020

The Division's net position increased \$17.2 million in fiscal year 2021 compared to a \$15.8 million increase in fiscal year 2020.

Operating revenue increased \$12.9 million or 12.5 percent. The increase is attributable to an 8.7 percent increase in billed volumes and higher natural gas prices compared to the prior year, along with the flow through of prior year under recovered purchased gas costs to KUB's gas customers. KUB flows changes to wholesale gas costs directly through to its retail gas rates via the Purchased Gas Adjustment. Purchased gas expense was \$9.1 million or 21.2 percent higher due to higher customer demand and higher natural gas prices. Margin on gas sales (operating revenue less purchased gas expense) increased \$3.7 million or 6.2 percent, reflecting the increase in gas sales volumes.

Knoxville Utilities Board Gas Division

Management's Discussion and Analysis

June 30, 2021 and 2020

Operating expenses (excluding purchased gas expense) increased \$1.8 million or 4.5 percent. Operating and maintenance (O&M) expenses were \$1 million lower than the prior fiscal year. Depreciation expense was \$2.5 million higher than the prior fiscal year. Taxes and tax equivalents were \$0.3 million higher than the prior year.

Wholesale purchased gas expense represented 46 percent of natural gas sales revenue for the fiscal year ended June 30, 2021.

Interest income decreased \$0.7 million compared to the prior fiscal year. Interest expense decreased \$0.4 million.

Total plant assets (net) increased \$8.2 million or 2.6 percent reflecting capital investment associated with the replacement of key gas system assets and other major system projects.

During fiscal year 2021, KUB took advantage of a lower interest environment to refinance outstanding debt, selling \$41.9 million in gas system revenue refunding bonds in March 2021. KUB will realize a total debt service savings of \$7.9 million over the life of the bonds (\$7.2 million on a net present value basis).

Long-term debt represented 25.5 percent of the Division's capital structure as of June 30, 2021, as compared to 29.7 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. Current year debt coverage for the fiscal year was 4.02. Maximum debt service coverage was 4.23.

Fiscal Year 2020 Compared to Fiscal Year 2019

The Division's net position increased \$15.8 million in fiscal year 2020 compared to a \$15.7 million increase in fiscal year 2019.

Operating revenue decreased \$6 million or 5.5 percent. The decrease is attributable to lower billed volumes of 3.2 percent and lower natural gas prices, along with additional revenue from the 2 percent rate increase effective October 2019 and the flow through of prior year under recovered purchased gas costs to KUB's gas customers. KUB flows changes to wholesale gas costs directly through to its retail gas rates via the Purchased Gas Adjustment. Purchased gas expense was \$6.5 million or 13.2 percent lower due to lower customer demand and lower natural gas prices. Margin on gas sales (operating revenue less purchased gas expense) increased \$0.6 million or one percent, reflecting the decrease in gas sales volumes and additional revenue from the rate increase.

Operating expenses (excluding purchased gas expense) increased \$0.5 million or 1.2 percent. Operating and maintenance (O&M) expenses were \$0.7 million more than the prior fiscal year. Depreciation expense was consistent with the prior fiscal year. Taxes and tax equivalents were \$0.2 million lower than the prior year.

Wholesale purchased gas expense represented 43 percent of natural gas sales revenue for the fiscal year ended June 30, 2020.

Interest income decreased \$0.3 million compared to the prior fiscal year. Interest expense decreased \$0.3 million.

Total plant assets (net) increased \$16.6 million or 5.7 percent reflecting capital investment associated with the replacement of key gas system assets and other major system projects.

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

During fiscal year 2020, KUB sold \$6.8 million in gas system revenue refunding bonds for the purpose of refinancing existing gas system revenue bonds at lower interest rates. KUB will realize a total debt service savings of \$1.8 million over the life of the bonds (\$1.3 million on a net present value basis).

Long-term debt represented 29.7 percent of the Division's capital structure as of June 30, 2020, as compared to 32.9 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. Current year debt coverage for the fiscal year was 3.61. Maximum debt service coverage was 3.73.

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

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, 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 is the net book value of all capital assets less the outstanding balances of debt used to acquire, construct, or improve those assets.

Restricted net position includes assets that have been limited to specific uses by 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. Net position at the beginning of the period are 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, 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, 2021 and 2020**

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>	2021	2020	2019
Current, restricted and other assets	\$ 73,843	\$ 68,686	\$ 73,327
Capital assets, net	316,893	308,722	292,090
Deferred outflows of resources	1,406	3,060	4,244
Total assets and deferred outflows of resources	<u>392,142</u>	<u>380,468</u>	<u>369,661</u>
Current and other liabilities	22,553	23,173	22,022
Long-term debt outstanding	94,619	103,659	112,624
Deferred inflows of resources	7,598	3,497	653
Total liabilities and deferred inflows of resources	<u>124,770</u>	<u>130,329</u>	<u>135,299</u>
Net position			
Net investment in capital assets	214,219	198,777	173,774
Restricted	1,733	2,113	2,174
Unrestricted	51,420	49,249	58,414
Total net position	<u>\$ 267,372</u>	<u>\$ 250,139</u>	<u>\$ 234,362</u>

Normal Impacts on Statement of Net Position

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

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

Knoxville Utilities Board Gas Division

Management's Discussion and Analysis

June 30, 2021 and 2020

Impacts and Analysis

Current, Restricted and Other Assets

Fiscal Year 2021 Compared to Fiscal Year 2020

Current, restricted and other assets increased \$5.2 million or 7.5 percent, primarily due to a \$4.4 million increase in the actuarially determined net pension asset and a \$1 million increase in the actuarially determined OPEB asset.

KUB under recovered \$1.4 million in wholesale gas costs from its customers in fiscal year 2021, as compared to an under recovery of \$1.5 million in fiscal year 2020. This under recovery of costs will be collected from KUB's gas customers during the next fiscal year through adjustments to rates via the Purchased Gas Adjustment.

Gas storage increased \$0.2 million, reflecting eleven percent lower storage volumes compared to the prior fiscal year at a 15 percent higher weighted average cost.

Fiscal Year 2020 Compared to Fiscal Year 2019

Current, restricted and other assets decreased \$4.6 million or 6.3 percent, primarily due to a \$7 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) offset by an increase in the actuarially determined net pension asset of \$3.3 million.

KUB under recovered \$1.5 million in wholesale gas costs from its customers in fiscal year 2020, as compared to an under recovery of \$1.3 million in fiscal year 2019. This under recovery of costs will be collected from KUB's gas customers during the next fiscal year through adjustments to rates via the Purchased Gas Adjustment.

Gas storage decreased \$1 million, reflecting ten percent higher storage volumes compared to the prior fiscal year at a 21.1 percent lower weighted average cost.

Capital Assets

Fiscal Year 2021 Compared to Fiscal Year 2020

Capital assets increased \$8.2 million or 2.6 percent. Spending was slowed this year to allow for greater financial liquidity in response to the pandemic. Major capital expenditures during the year included \$6.5 million for the construction of gas mains, \$6.5 million for the construction of service extensions, \$3.7 million for steel mains and services, and \$2.4 million for the replacement and relocation of gas system assets to accommodate Tennessee Department of Transportation (TDOT) highway improvement projects. The Gas Division retired \$4.6 million of natural gas system assets during the fiscal year.

Fiscal Year 2020 Compared to Fiscal Year 2019

Capital assets increased \$16.6 million or 5.7 percent. Major capital expenditures during the year included \$9.3 million for the construction of gas mains, \$6.5 million for the construction of service extensions, \$4.8 million for steel mains and services, and \$1.3 million for the deployment of advanced metering equipment. The Gas Division retired \$2.3 million of natural gas system assets during the fiscal year.

**Knoxville Utilities Board Gas Division
Management’s Discussion and Analysis
June 30, 2021 and 2020**

Deferred Outflows of Resources

Fiscal Year 2021 Compared to Fiscal Year 2020

Deferred outflows of resources decreased \$1.7 million compared to the prior fiscal year. The decrease is attributable to a \$1 million decrease in unamortized bond refunding costs and a \$0.7 million decrease in OPEB outflow.

Fiscal Year 2020 Compared to Fiscal Year 2019

Deferred outflows of resources decreased \$1.2 million compared to the prior fiscal year. This decrease is attributable to a \$1.6 million decrease in pension outflow partially offset by a \$0.3 million increase in OPEB outflow.



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

	<u>FY21</u>	<u>FY20</u>
Plant	81%	81%
General Fund	6%	6%
Contingency Fund	5%	5%
Other Assets	3%	2%
Accounts Receivable	2%	2%
Gas Storage	2%	2%
Restricted Assets	1%	1%
Deferred Outflows of Resources	<1%	1%

Knoxville Utilities Board Gas Division

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Current and Other Liabilities

Fiscal Year 2021 Compared to Fiscal Year 2020

Current and other liabilities decreased \$0.6 million compared to the prior fiscal year, the net result of a \$1.3 million decrease in net OPEB liability offset by a \$0.4 million increase in accrued expenses and a \$0.4 million increase in accounts payable.

Fiscal Year 2020 Compared to Fiscal Year 2019

Current and other liabilities increased \$1.2 million compared to the prior fiscal year. The current portion of revenue bonds increased \$0.2 million and net OPEB liability increased \$1 million.

Long-Term Debt

Fiscal Year 2021 Compared to Fiscal Year 2020

Long-term debt was \$9 million lower than the prior year. The decrease is due in part to the impact of the scheduled repayment of debt. KUB also sold \$41.9 million of natural gas system revenue refunding bonds in March 2021 with a premium of \$7.2 million to refund \$49.1 million in outstanding debt, resulting in a reduction of principal of \$7.2 million.

Fiscal Year 2020 Compared to Fiscal Year 2019

Long-term debt was \$9 million lower than the prior year. Natural gas system revenue refunding bonds of \$6.8 million, sold in April 2020, along with a \$2 million cash contribution to help retire existing debt were offset by the refunded bonds and the scheduled repayment of debt.

Deferred Inflows of Resources

Fiscal Year 2021 Compared to Fiscal Year 2020

Deferred inflows of resources increased \$4.1 million compared to the prior fiscal year due to a \$2.7 million increase in pension inflow and a \$1.4 million increase in OPEB inflow.

Fiscal Year 2020 Compared to Fiscal Year 2019

Deferred inflows of resources increased \$2.8 million compared to the prior fiscal year due to differences in pension inflow.

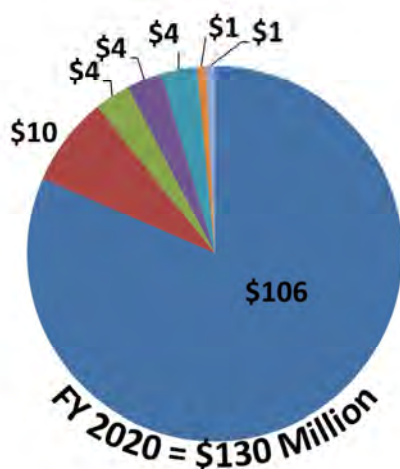
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**Knoxville Utilities Board Gas Division
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**Gas Division Total Liabilities and
Deferred Inflows of Resources
(in Millions)**

	<u>FY21</u>	<u>FY20</u>
Bond Debt	74%	81%
Other Liabilities	11%	8%
Deferred Inflows of Resources	6%	3%
Payables	3%	3%
Customer Deposits	3%	3%
Misc Current	2%	1%
Interest Accrued	1%	1%



Net Position

Fiscal Year 2021 Compared to Fiscal Year 2020

Net position increased \$17.2 million in fiscal year 2021. Unrestricted net position increased \$2.2 million, primarily due to changes in pension and OPEB accruals for the fiscal year. Net investment in capital assets increased \$15.4 million, primarily due to an increase in net plant in service of \$8.2 million and a decrease in the current portion of revenue bonds and total long-term debt of \$9 million. Restricted net position was \$0.4 million lower than the prior fiscal year, due primarily to a decrease in required bond fund reserves.

Fiscal Year 2020 Compared to Fiscal Year 2019

Net position increased \$15.8 million in fiscal year 2020. Unrestricted net position decreased \$9.2 million, partially due to a \$7 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments). Net investment in capital assets increased \$25 million, due to an increase in net plant in service of \$16.6 million along with a decrease of \$8.7 million in the current portion of revenue bonds and total long-term debt. Restricted net position was \$0.1 million lower than the prior fiscal year, due to a decrease in required bond fund reserves.

**Knoxville Utilities Board Gas 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 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>	2021	2020	2019
Operating revenues	\$ 115,416	\$ 102,565	\$ 108,552
Less: Purchased gas expense	<u>52,257</u>	<u>43,117</u>	<u>49,665</u>
Margin from sales	<u>63,159</u>	<u>59,448</u>	<u>58,887</u>
Operating expenses			
Distribution	10,806	10,100	9,757
Customer service	2,388	2,469	2,888
Administrative and general	5,960	7,557	6,805
Depreciation	15,394	12,910	12,878
Taxes and tax equivalents	<u>7,962</u>	<u>7,629</u>	<u>7,863</u>
Total operating expenses	<u>42,510</u>	<u>40,665</u>	<u>40,191</u>
Operating income	<u>20,649</u>	<u>18,783</u>	<u>18,696</u>
Interest income	142	834	1,167
Interest expense	(3,801)	(4,177)	(4,525)
Other income/(expense)	<u>224</u>	<u>337</u>	<u>290</u>
Change in net position before capital contributions	<u>17,214</u>	<u>15,777</u>	<u>15,628</u>
Capital contributions	<u>19</u>	<u>-</u>	<u>30</u>
Change in net position	<u>\$ 17,233</u>	<u>\$ 15,777</u>	<u>\$ 15,658</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.
- Depreciation expense is impacted by plant additions and retirements during the fiscal year.

Knoxville Utilities Board Gas Division

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- 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 2021 Compared to Fiscal Year 2020

The Division's Change in Net Position increased \$17.2 million in fiscal year 2021, reflecting increased operating margin due to an increase in billed sales volumes from a cooler winter. Comparatively, net position increased by \$15.8 million in fiscal year 2020.

Fiscal Year 2020 Compared to Fiscal Year 2019

The Division's Change in Net Position increased \$15.8 million in fiscal year 2020, reflecting decreased operating revenues from a warmer winter along with lower purchased gas expenses. Comparatively, net position increased by \$15.7 million in fiscal year 2019.

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

Margin from Sales

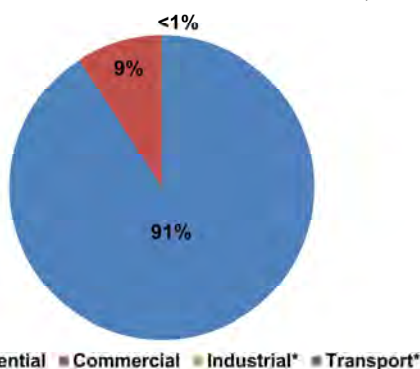
Fiscal Year 2021 Compared to Fiscal Year 2020

Margin on gas sales (operating revenue less purchased gas expense) increased \$3.7 million or 6.2 percent, due to increased revenue from an 8.7 percent increase in billed sales volumes.

Operating revenue increased \$12.9 million or 12.5 percent for the fiscal year ended June 30, 2021. The gas system service territory experienced a more normal winter than the prior fiscal year, as sales were up in all customer classes. Billed sales increased 8.7 percent.

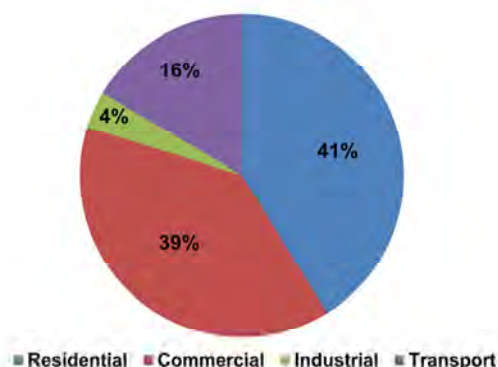
Purchased gas expense increased \$9.1 million or 21.2 percent, due to increased customer demand and higher natural gas prices. Total volumes delivered to KUB's gas distribution system increased 6.6 percent this fiscal year. The Division's weighted average cost of gas purchased for fiscal year 2021 was \$2.68 per dekatherm, as compared to \$2.34 per dekatherm the prior fiscal year.

FY 2021 Total Gas Customers = 106,010



*Industrial and Transport customers represent less than 1% of the total.

FY 2021 Gas Sales = 13.2 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 41 percent of total volumes sold during the year.

Residential sales volumes increased 10.8 percent, commercial sales volumes increased 4.6 percent, industrial sales volumes increased 35 percent, and transport sales volumes increased 8.9 percent. The large increase in industrial sales was partially due to the addition of a new location for Duracap, a local asphalt paving company.

KUB's ten largest gas customers accounted for 25 percent of KUB's billed gas volumes. Those ten customers represent five industrial and five commercial customers, including three governmental and two hospital customers.

KUB has added 3,811 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 18 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, 2021 and 2020

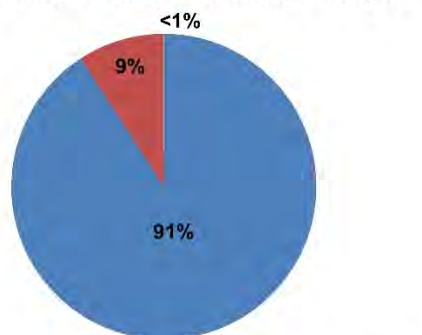
Fiscal Year 2020 Compared to Fiscal Year 2019

Margin on gas sales (operating revenue less purchased gas expense) increased \$0.6 million, or one percent, due to revenue from the 2 percent rate increase effective October 2019 offset by a 3.2 percent decrease in billed sales volumes.

Operating revenue decreased \$6 million or 5.5 percent for the fiscal year ended June 30, 2020. The gas system service territory experienced a warmer winter than the prior fiscal year. Billed sales were down 3.2 percent. The decrease in operating revenue reflected the net impact of decreased customer demand and additional revenue from the October 2019 rate increase.

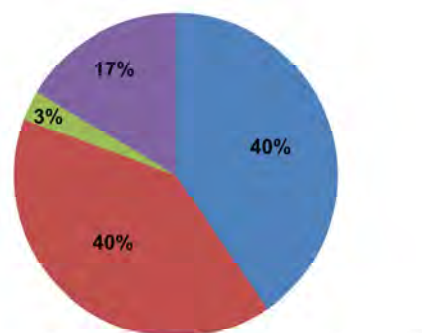
Purchased gas expense decreased \$6.5 million or 13.2 percent, due to decreased customer demand and lower natural gas prices. Total volumes delivered to KUB's gas distribution system decreased four percent this fiscal year. The Division's weighted average cost of gas purchased for fiscal year 2020 was \$2.34 per dekatherm, as compared to \$3.33 per dekatherm last year.

FY 2020 Total Gas Customers = 104,433



■ Residential ■ Commercial ■ Industrial* ■ Transport*
*Industrial and Transport customers represent less than 1% of the total.

FY 2020 Gas Sales = 12.1 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 40 percent of total volumes sold during the year.

Residential sales volumes decreased 3.3 percent, commercial sales volumes decreased 1.3 percent, industrial sales volumes decreased 5.5 percent, and transport sales volumes decreased 6.8 percent.

KUB's ten largest gas customers accounted for 27 percent of KUB's billed gas volumes. Those ten customers represent six industrial and four commercial customers, including three governmental customers.

KUB has added 3,410 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.

KUB has 16 transport customers who purchase gas directly from a supplier other than KUB. KUB provides transportation service on its gas distribution system to those customers.

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Knoxville Utilities Board Gas Division

Management's Discussion and Analysis

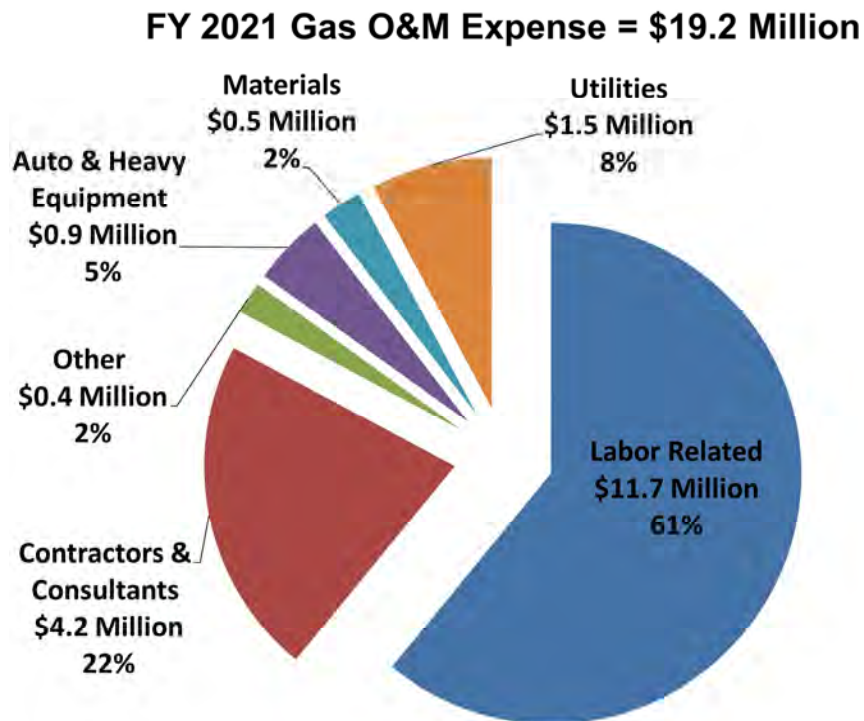
June 30, 2021 and 2020

Operating Expenses

Fiscal Year 2021 Compared to Fiscal Year 2020

Operating expenses (excluding purchased gas expense) increased \$1.8 million or 4.5 percent compared to fiscal year 2020. Operating expenses include operations and maintenance (O&M) expense, depreciation, and taxes/tax equivalents. O&M expenses can be further classified as distribution, customer service, and administrative and general.

- Distribution system O&M expenses were \$0.7 million higher than the prior fiscal year due to an increase in outside contractor and consultant costs.
- Customer service expenses were \$0.1 million lower than the prior fiscal year.
- Administrative and general expenses decreased \$1.6 million, primarily due to labor related expenses, including lower pension and OPEB expenses.



- Depreciation expense was \$2.5 million higher than the prior year. KUB added \$32.6 million in assets during fiscal year 2021, including \$4.1 million of multi-year projects being held in Construction Work in Progress. A partial year of depreciation was recorded on these capital improvements and a full year of depreciation expense was incurred on \$18.8 million in gas system assets placed in service during fiscal year 2020. In addition, \$4.6 million of assets were retired during the fiscal year.
- Taxes and tax equivalents were \$0.3 million higher than the prior fiscal year.

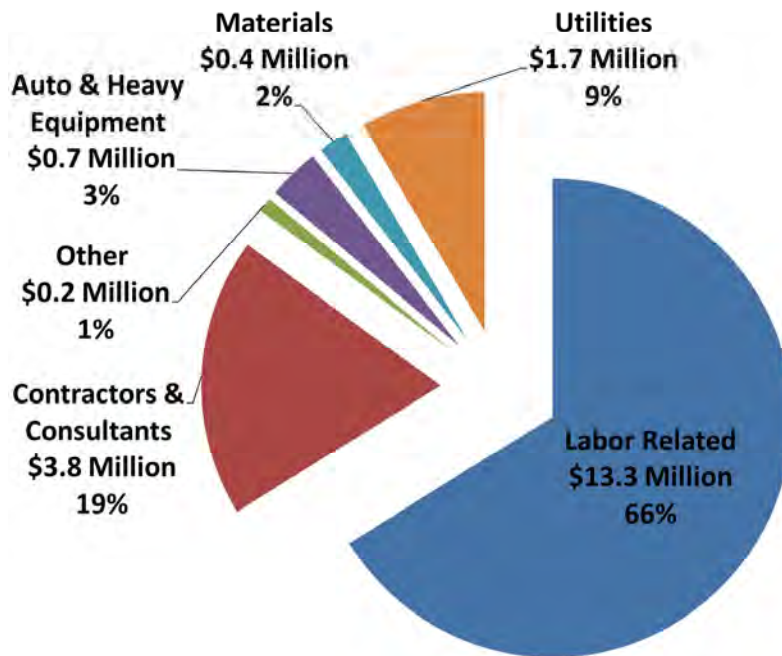
Knoxville Utilities Board Gas Division Management's Discussion and Analysis June 30, 2021 and 2020

Fiscal Year 2020 Compared to Fiscal Year 2019

Operating expenses (excluding purchased gas expense) increased \$0.5 million or 1.2 percent compared to fiscal year 2019. Operating expenses include operations and maintenance (O&M) expense, depreciation, and taxes/tax equivalents. O&M expenses can be further classified as distribution, customer service, and administrative and general.

- Distribution system O&M expenses were \$0.3 million higher than the prior fiscal year due to an increase in labor related expenses.
- Customer service expenses were \$0.4 million lower than the prior fiscal year due to a decrease in outside contractors.
- Administrative and general expenses increased \$0.8 million, primarily due to labor related expenses including higher OPEB costs.

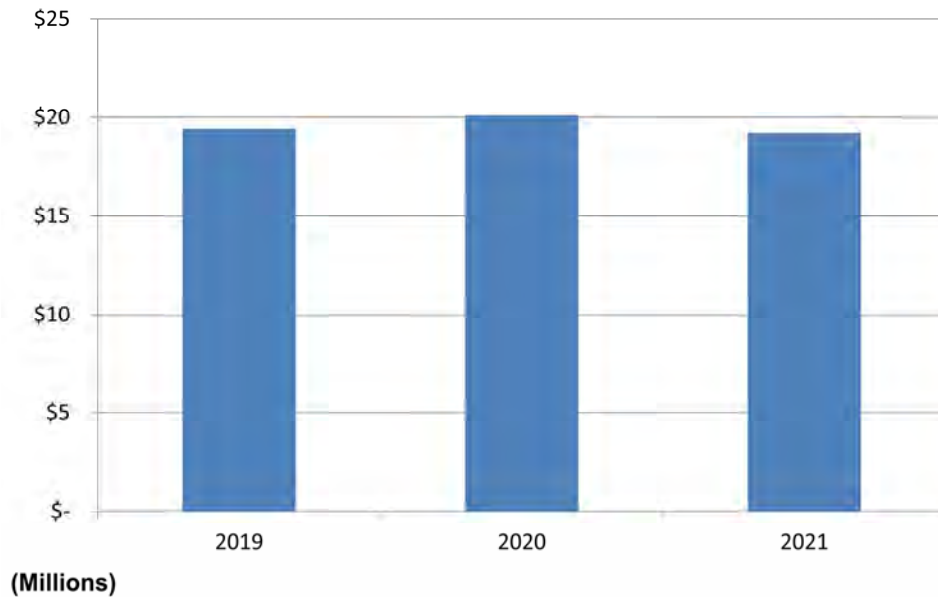
FY 2020 Gas O&M Expense = \$20.1 Million



- Depreciation expense was consistent with the prior year.
- Taxes and tax equivalents were \$0.2 million lower than the prior fiscal year.

**Knoxville Utilities Board Gas Division
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Gas Division Operation & Maintenance Expense



Other Income and Expense

Fiscal Year 2021 Compared to Fiscal Year 2020

Interest income was \$0.7 million lower than the prior fiscal year, primarily due to lower short-term interest rates.

Interest expense decreased \$0.4 million compared with the prior year, reflecting a lower amount of outstanding bonds.

Other income (net) was \$0.1 million lower than the prior fiscal year.

Fiscal Year 2020 Compared to Fiscal Year 2019

Interest income was \$0.3 million lower than the prior fiscal year, primarily due to lower short-term interest rates.

Interest expense decreased \$0.3 million compared with the prior year, partially reflecting savings on refunding of outstanding bonds.

Other income (net) was consistent with the prior fiscal year.

Knoxville Utilities Board Gas Division
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Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

<i>(in thousands of dollars)</i>	2021	2020	2019
Distribution Plant			
Mains	\$ 195,451	\$ 183,967	\$ 184,081
Services and Meters/Regulators	80,545	77,745	74,076
Other Accounts	975	910	917
Total Distribution Plant	<u>276,971</u>	<u>262,622</u>	<u>259,074</u>
Total General Plant	\$ 12,992	\$ 10,591	\$ 9,174
Total Plant Assets	289,963	273,213	268,248
Work In Progress	26,930	35,509	23,842
Total Net Plant	<u>\$ 316,893</u>	<u>\$ 308,722</u>	<u>\$ 292,090</u>

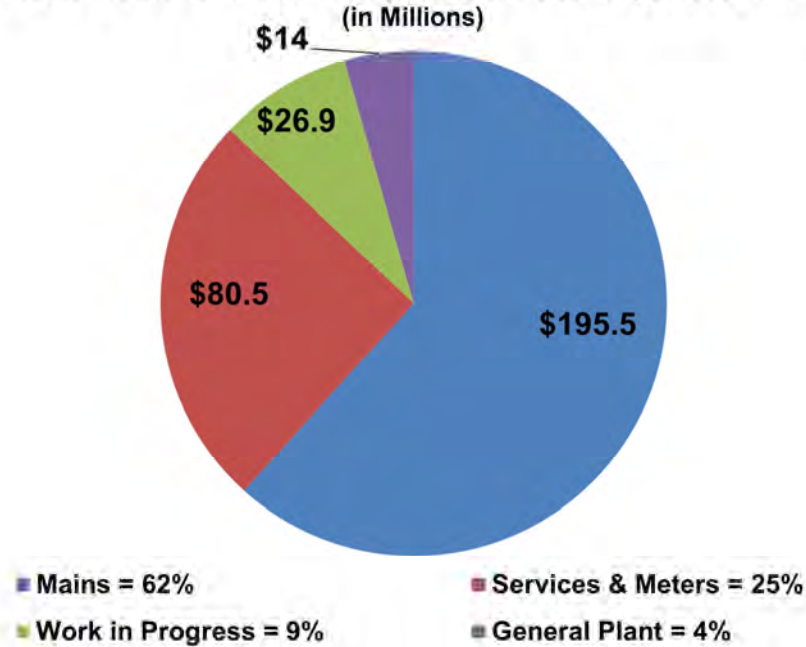
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**Knoxville Utilities Board Gas Division
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Fiscal Year 2021 Compared to Fiscal Year 2020

As of June 30, 2021, the Division had \$316.9 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 \$8.2 million or 2.6 percent over the end of last fiscal year. Spending on capital assets was slowed this year to allow for greater financial liquidity in response to the pandemic.

FY 2021 Gas Division Capital Assets = \$316.9 Million



Major capital asset expenditures during the year were as follows:

- \$6.5 million for the construction of gas mains
- \$6.5 million for service extensions
- \$3.7 million for steel mains and services
- \$2.4 million for replacement and relocation of gas system assets to accommodate TDOT highway improvement projects

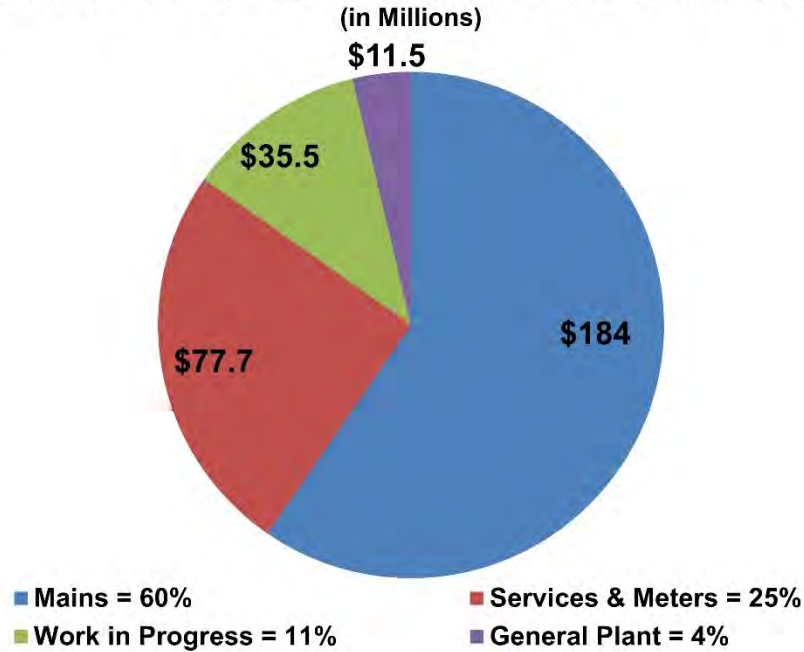
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Knoxville Utilities Board Gas Division Management's Discussion and Analysis June 30, 2021 and 2020

Fiscal Year 2020 Compared to Fiscal Year 2019

As of June 30, 2020, the Division had \$308.7 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 \$16.6 million or 5.7 percent over the end of last fiscal year.

FY 2020 Gas Division Capital Assets = \$308.7 Million



Major capital asset expenditures during the year were as follows:

- \$9.3 million for the construction of gas mains
- \$6.5 million for service extensions
- \$4.8 million for steel mains and services
- \$1.3 million for deployment of advanced metering equipment

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Knoxville Utilities Board Gas Division Management’s Discussion and Analysis June 30, 2021 and 2020

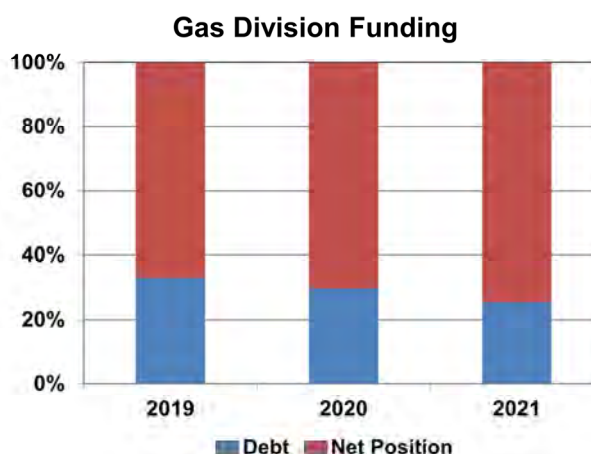
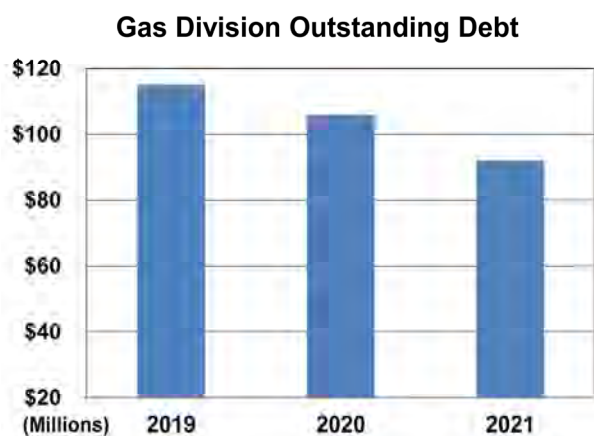
Debt Administration

As of June 30, 2021, the Gas Division had \$91.6 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 25.5 percent in 2021, 29.7 percent in 2020, and 32.9 percent at the end of fiscal year 2019. KUB’s Debt Management Policy limits the Division’s debt ratio to 60 percent or less.

Outstanding Debt As of June 30

(in thousands of dollars)

	2021	2020	2019
Revenue bonds	\$ 91,595	\$ 105,510	\$ 114,940
Total outstanding debt	\$ 91,595	\$ 105,510	\$ 114,940



The Division will pay \$63.8 million in principal payments over the next ten years, representing 69.6 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 2021 Compared to Fiscal Year 2020

As of June 30, 2021, the Division had \$91.6 million in outstanding debt (including current portions of revenue bonds), compared to \$105.5 million last year, representing a decrease of \$13.9 million or 13.2 percent. The Division’s weighted average cost of debt as of June 30, 2021, was 4.05 percent.

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

The Division’s outstanding debt is rated by Standard & Poor’s and Moody’s Investors Service. As of June 30, 2021, the Division’s revenue bonds were rated AA by Standard & Poor’s and Aa2 by Moody’s Investors Service.

Knoxville Utilities Board Gas Division

Management's Discussion and Analysis

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Fiscal Year 2020 Compared to Fiscal Year 2019

As of June 30, 2020, the Division had \$105.5 million in outstanding debt (including current portions of revenue bonds), compared to \$114.9 million last year, representing a decrease of \$9.4 million or 8.2 percent. The decrease is attributable to gas system revenue refunding bonds issued during the fiscal year, which included a \$2 million cash contribution offset by the refunded bonds and the scheduled repayment of debt. The Division's weighted average cost of debt as of June 30, 2020, was 3.67 percent.

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

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2020, the Division's revenue bonds were rated AA by Standard & Poor's and Aa2 by Moody's Investors Service.

Impacts on Future Financial Position

KUB expects to add 1,200 new gas customers in fiscal year 2022.

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

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

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

The Pension Plan actuarial valuation resulted in an actuarially determined contribution of \$3,665,168 for the fiscal year ending June 30, 2022, based on the Plan's current funding policy. The Gas Division's portion of this contribution is \$623,078. Subsequent to June 30, 2021, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$2,624,373 for the fiscal year ending June 30, 2023, based on the Plan's current funding policy. The Gas Division's portion of this contribution is \$446,143. For the Plan year beginning January 1, 2021, the Plan's actuarial funded ratio is 105.56 percent, and the market value funded ratio is 120.37 percent.

The OPEB Plan actuarial valuation resulted in an actuarially determined contribution of \$489,066 for the fiscal year ending June 30, 2022, based on the Plan's current funding policy. The Gas Division's portion of this contribution is \$83,141. Subsequent to June 30, 2021, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$1,413,392 for the fiscal year ending June 30, 2023, based on the Plan's current funding policy. The Gas Division's portion of this contribution is \$240,277. The Plan's actuarial funded ratio is 89.85 percent, and the market value funded ratio is 95.93 percent.

GASB Statement No. 87, *Leases*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, is effective for fiscal years beginning after December 15, 2020. GASB Statement No. 91, *Conduit Debt Obligations*, is effective for fiscal years beginning after December 15, 2021. GASB Statement No. 92, *Omnibus 2020*, is

Knoxville Utilities Board Gas Division

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effective for fiscal years beginning after June 15, 2021. GASB Statement No. 93, *Replacement of Interbank Offered Rates*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, is effective for fiscal years beginning after June 15, 2021. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on the Division's financial position or results of operations during fiscal year 2021.

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, 2021 and 2020. If you have questions about the statements or need additional financial information, contact KUB's Chief Financial Officer at 445 South Gay Street, Knoxville, Tennessee 37902.

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

	2021	2020
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	\$ 23,998,681	\$ 24,154,798
Short-term contingency fund investments	11,690,710	18,035,654
Other current assets	1,035,716	1,123,260
Accrued interest receivable	880	1,041
Accounts receivable, less allowance of uncollectible accounts of \$40,608 in 2021 and \$30,424 in 2020	6,846,828	6,090,065
Inventories	888,744	890,890
Gas storage	6,459,730	6,296,386
Prepaid expenses	53,522	53,533
Total current assets	<u>50,974,811</u>	<u>56,645,627</u>
Restricted assets:		
Gas bond fund	2,711,544	3,332,601
Other funds	258	257
Total restricted assets	<u>2,711,802</u>	<u>3,332,858</u>
Gas plant in service	455,883,165	427,853,251
Less accumulated depreciation	<u>(165,921,094)</u>	<u>(154,640,730)</u>
	289,962,071	273,212,521
Retirement in progress	811,890	483,050
Construction in progress	26,118,621	35,026,235
Net plant in service	<u>316,892,582</u>	<u>308,721,806</u>
Other assets:		
Net pension asset	7,666,879	3,250,634
Net OPEB asset	1,008,411	-
Long-term contingency fund investments	9,005,911	2,286,094
Under recovered purchased gas costs	1,371,776	1,513,434
Other	1,103,017	1,657,551
Total other assets	<u>20,155,994</u>	<u>8,707,713</u>
Total assets	<u>390,735,189</u>	<u>377,408,004</u>
Deferred outflows of resources:		
Pension outflow	1,402,775	1,380,924
OPEB outflow	3,638	710,381
Unamortized bond refunding costs	-	968,434
Total deferred outflows of resources	<u>1,406,413</u>	<u>3,059,739</u>
Total assets and deferred outflows of resources	<u>\$ 392,141,602</u>	<u>\$ 380,467,743</u>

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

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

	2021	2020
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	\$ 6,800,000	\$ 6,745,000
Sales tax collections payable	109,087	92,249
Accounts payable	4,398,732	4,042,961
Accrued expenses	1,759,383	1,384,492
Customer deposits plus accrued interest	4,302,501	4,315,982
Accrued interest on revenue bonds	<u>978,777</u>	<u>1,219,723</u>
Total current liabilities	<u>18,348,480</u>	<u>17,800,407</u>
Other liabilities:		
Accrued compensated absences	1,962,725	1,923,437
Customer advances for construction	2,175,420	2,112,184
Net pension liability	3,181	3,440
Net OPEB liability	-	1,290,206
Other	<u>63,495</u>	<u>43,461</u>
Total other liabilities	<u>4,204,821</u>	<u>5,372,728</u>
Long-term debt:		
Gas revenue bonds	84,795,000	98,765,000
Unamortized premiums/discounts	<u>9,823,668</u>	<u>4,893,568</u>
Total long-term debt	<u>94,618,668</u>	<u>103,658,568</u>
Total liabilities	<u>117,171,969</u>	<u>126,831,703</u>
Deferred inflows of resources:		
Pension inflow	6,150,971	3,496,660
Unamortized bond refunding costs	93,605	-
OPEB inflow	<u>1,352,963</u>	<u>-</u>
Total deferred inflows of resources	<u>7,597,539</u>	<u>3,496,660</u>
Total liabilities and deferred inflows of resources	<u>124,769,508</u>	<u>130,328,363</u>
Net position		
Net investment in capital assets	214,218,766	198,777,130
Restricted for:		
Debt service	1,732,767	2,112,878
Other	258	257
Unrestricted	<u>51,420,303</u>	<u>49,249,115</u>
Total net position	<u>267,372,094</u>	<u>250,139,380</u>
Total liabilities, deferred inflows, and net position	<u>\$ 392,141,602</u>	<u>\$ 380,467,743</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, 2021 and 2020

	2021	2020
Operating revenues	\$ 115,415,560	\$ 102,565,268
Operating expenses		
Purchased gas	52,256,609	43,117,323
Distribution	10,806,162	10,099,893
Customer service	2,388,355	2,468,491
Administrative and general	5,959,946	7,556,812
Provision for depreciation	15,394,291	12,910,308
Taxes and tax equivalents	7,962,216	7,629,000
Total operating expenses	<u>94,767,579</u>	<u>83,781,827</u>
Operating income	<u>20,647,981</u>	<u>18,783,441</u>
Non-operating revenues (expenses)		
Contributions in aid of construction	837,796	610,598
Interest income	142,386	834,141
Interest expense	(3,799,960)	(4,177,200)
Amortization of debt costs	349,009	164,557
Write-down of plant for costs recovered through contributions	(837,796)	(610,598)
Other	(125,284)	172,705
Total non-operating revenues (expenses)	<u>(3,433,849)</u>	<u>(3,005,797)</u>
Change in net position before capital contributions	17,214,132	15,777,644
Capital contributions	<u>18,582</u>	<u>-</u>
Change in net position	17,232,714	15,777,644
Net position, beginning of year	250,139,380	234,361,736
Net position, end of year	<u>\$ 267,372,094</u>	<u>\$ 250,139,380</u>

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

Knoxville Utilities Board Gas Division
Statements of Cash Flows
June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash receipts from customers	\$ 114,103,803	\$ 101,938,139
Cash receipts from other operations	1,075,276	711,726
Cash payments to suppliers of goods or services	(62,330,951)	(51,036,805)
Cash payments to employees for services	(11,054,844)	(9,438,485)
Payment in lieu of taxes	(7,166,619)	(6,828,101)
Net cash provided by operating activities	<u>34,626,665</u>	<u>35,346,474</u>
Cash flows from capital and related financing activities:		
Principal paid on revenue bonds	(6,745,000)	(8,510,000)
Interest paid on revenue bonds	(4,280,993)	(4,421,780)
Acquisition and construction of gas plant	(25,095,974)	(30,667,633)
Changes in gas bond fund, restricted	621,057	301,802
Customer advances for construction	172,818	324,185
Proceeds received on disposal of plant	65,123	140
Cash received from developers and individuals for capital purposes	837,796	610,598
Net cash used in capital and related financing activities	<u>(34,425,173)</u>	<u>(42,362,688)</u>
Cash flows from investing activities:		
Purchase of investment securities	(9,963,165)	(15,814,376)
Maturities of investment securities	9,463,374	14,811,150
Interest received	179,146	880,433
Other property and investments	(36,964)	105,858
Net cash used in investing activities	<u>(357,609)</u>	<u>(16,935)</u>
Net decrease in cash and cash equivalents	(156,117)	(7,033,149)
Cash and cash equivalents, beginning of year	<u>24,154,798</u>	<u>31,187,947</u>
Cash and cash equivalents, end of year	<u>\$ 23,998,681</u>	<u>\$ 24,154,798</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 20,647,981	\$ 18,783,441
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	15,931,279	13,402,969
Changes in operating assets and liabilities:		
Accounts receivable	(756,763)	(151,930)
Inventories	2,146	1,182,309
Prepaid expenses	(163,333)	959,107
Other assets	53,311	(372,224)
Sales tax collections payable	16,838	(5,370)
Accounts payable and accrued expenses	(1,253,005)	1,650,656
Underrecovered gas costs	141,658	(174,012)
Customer deposits plus accrued interest	(13,481)	99,880
Other liabilities	20,034	(28,352)
Net cash provided by operating activities	<u>\$ 34,626,665</u>	<u>\$ 35,346,474</u>
Noncash capital activities:		
Acquisition of plant assets through developer contributions	\$ 18,582	\$ -

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

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2021 and 2020

1. Description of Business

Knoxville Utilities Board (KUB), comprised of Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions, including setting rates. 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 at June 30, 2021 and 2020, 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 January 2017, the GASB issued GASB Statement No. 84 (Statement No. 84), *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 is effective for fiscal years beginning after December 15, 2019. Adoption of this Statement did not have a significant impact on the Division's financial statements.

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2021 and 2020

In August 2018, the GASB issued GASB Statement No. 90 (Statement No. 90), *Major Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Statement No. 90 is effective for fiscal years beginning after December 15, 2019. Adoption of this Statement did not have a significant impact on the Division'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 "Provision for depreciation" in the Statements of Revenues, Expenses and Changes in Net Position does not include depreciation for transportation equipment of \$536,988 in fiscal year 2021 and \$492,661 in fiscal year 2020. Under regulatory accounting, interest costs are expensed as incurred with construction of plant assets.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of 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 \$173,057 in fiscal year 2021 and \$126,228 in fiscal year 2020.

Non-operating Revenue

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

Expense

When an expense is incurred for purposes for which there are both restricted and unrestricted 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, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2021 and 2020

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

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

Inventories

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

OPEB Plan

KUB's employees hired prior to July 1, 1999, who are retired and who (prior to retirement) qualified for retiree medical insurance by meeting the Rule of 80 (age plus years of service) with a minimum of 20 years of service and were enrolled in medical coverage on their last day, are eligible for post-employment health care. KUB's OPEB Trust was established by KUB's Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. KUB's policy is to fully fund the annual actuarially determined contributions, which are determined by actuarial valuation. As required by GASB Statement No. 75, KUB measures net OPEB liability as total OPEB liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2021 and 2020 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a June 30, 2021 and 2020 measurement date, respectively. The net OPEB asset is \$5,931,828 (Division's share \$1,008,411) as of June 30, 2021 and the net OPEB liability is \$7,589,447 (Division's share \$1,290,206) as of June 30, 2020.

Pension Plan and Qualified Excess Benefit Arrangement

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 10). KUB's policy is to fully fund the annual actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2021 and 2020 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a December 31, 2020 and 2019 measurement date, respectively. The net pension asset is \$45,099,288 (Division's share \$7,666,879) as of June 30, 2021, and \$19,121,375 (Division's share \$3,250,634) as of June 30, 2020.

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2021 and 2020

KUB implemented a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). The QEBA is a single-employer defined benefit pension plan administered by KUB (Note 11). As required by GASB Statement No. 73, KUB measures the total pension liability of the QEBA. The amounts reported as of June 30, 2021 and 2020 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a December 31, 2020 and 2019 measurement date, respectively. The total pension liability of the QEBA is \$18,714 (Division's share \$3,181) as of June 30, 2021 and \$20,236 (Division's share \$3,440) as of June 30, 2020.

Investments

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

Self-Insurance

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

Estimates

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

Restricted and Designated Assets

Certain assets are restricted by bond resolutions for the construction of utility plant and debt repayment. Certain additional assets are designated by management for contingency purposes and economic development.

Cash Equivalents

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

Deferred Outflows and Inflows of Resources

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

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2021 and 2020

on pension plan investments and OPEB plan investments, differences between expected and actual experience, and changes in assumptions in accordance with Statements No. 68, 73, and 75.

Debt Premium/Discount

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

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.

Subsequent Events

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

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

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

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2021 and 2020

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

Recently Issued Accounting Pronouncements

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

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

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

In January 2020, the GASB issued GASB Statement No. 92 (Statement No. 92), *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain provision of Statement No. 92 were effective immediately. Paragraphs 6, 7, 8, 9, and 12 are effective for fiscal years beginning after June 15, 2021.

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

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

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

In June 2020, the GASB issued GASB Statement No. 97 (Statement No. 97), *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The objectives of this Statement are to (a) increase consistency and

Knoxville Utilities Board Gas Division

Notes to Financial Statements

June 30, 2021 and 2020

comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (b) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (c) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Statement No. 97 is effective for fiscal years beginning after June 15, 2021.

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

3. Deposits and Investments

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

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

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

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

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

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

Classification of deposits and investments per Statement of Net Position:

	2021	2020
Current assets		
Cash and cash equivalents	\$ 23,998,681	\$ 24,154,798
Short-term contingency fund investments	11,690,632	18,033,524
Other assets		
Long-term contingency fund investments	8,987,070	2,230,654
Restricted assets		
Gas bond fund	2,711,544	3,332,601
Other funds	258	257
	<u>\$ 47,388,185</u>	<u>\$ 47,751,834</u>

The above amounts do not include accrued interest of \$18,919 in fiscal year 2021 and \$57,570 in fiscal year 2020. Interest income is recorded on an accrual basis.

Investments and maturities of KUB's deposits and investments as held by financial institutions as of June 30, 2021:

	Deposit and Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	\$ 25,036,122	\$ 25,036,122	\$ -
State Treasurer's Investment Pool	12,198,048	12,198,048	-
Agency Bonds	11,191,098	2,204,028	8,987,070
	<u>\$ 48,425,268</u>	<u>\$ 39,438,198</u>	<u>\$ 8,987,070</u>

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

KUB has the following recurring fair value measurements as of June 30, 2021:

- U.S. Agency bonds of \$8,987,070, 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.

Knoxville Utilities Board Gas Division
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4. Accounts Receivable

Accounts receivable consists of the following:

	2021	2020
Wholesale and retail customers		
Billed services	\$ 5,048,670	\$ 4,305,138
Unbilled services	1,679,598	1,495,765
Other	159,168	319,586
Allowance for uncollectible accounts	<u>(40,608)</u>	<u>(30,424)</u>
	<u>\$ 6,846,828</u>	<u>\$ 6,090,065</u>

5. Accounts Payable and Accruals

Accounts payable and accruals were composed of the following:

	2021	2020
Trade accounts	\$ 4,398,732	\$ 4,042,961
Salaries and wages	699,371	681,052
Self-insurance liabilities	329,162	292,505
Other current liabilities	<u>730,850</u>	<u>410,935</u>
	<u>\$ 6,158,115</u>	<u>\$ 5,427,453</u>

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Knoxville Utilities Board Gas Division
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6. Long-Term Obligations

Long-term debt consists of the following:

	Balance				Balance	Amounts
	June 30,				June 30,	Due
	2020	Additions	Payments	Defeased	2021	Within
						One Year
Q-2012 - 2.0 - 4.0%	\$ 14,005,000	\$ -	\$ 2,350,000	\$ 11,655,000	\$ -	\$ -
R-2012 - 2.0 - 4.0%	7,700,000	-	475,000	7,225,000	-	-
S-2013 - 2.0 - 4.0%	9,005,000	-	695,000	8,310,000	-	-
T-2013 - 2.0 - 4.6%	22,400,000	-	500,000	21,900,000	-	-
U-2015 - 2.0 - 5.0%	9,625,000	-	710,000	-	8,915,000	740,000
V-2016 - 2.125 - 5.0%	11,050,000	-	250,000	-	10,800,000	275,000
W-2017 - 5.0%	6,015,000	-	735,000	-	5,280,000	780,000
X-2017 - 2.0 - 5.0%	11,320,000	-	260,000	-	11,060,000	270,000
Y-2018 - 3.0 - 5.0%	7,635,000	-	160,000	-	7,475,000	170,000
Z-2020 - 4.0 - 5.0%	6,755,000	-	610,000	-	6,145,000	560,000
AA-2021 - 4.0 - 5.0%	-	41,920,000	-	-	41,920,000	4,005,000
Total bonds	\$ 105,510,000	\$ 41,920,000	\$ 6,745,000	\$ 49,090,000	\$ 91,595,000	\$ 6,800,000
Unamortized Premium	4,893,568	7,207,533	571,736	1,705,698	9,823,667	-
Total long term debt	\$ 110,403,568	\$ 49,127,533	\$ 7,316,736	\$ 50,795,698	\$ 101,418,667	\$ 6,800,000

	Balance				Balance	Amounts
	June 30,				June 30,	Due
	2019	Additions	Payments	Defeased	2020	Within
						One Year
P-2010 - 3.3 - 6.2%	\$ 10,295,000	\$ -	\$ 620,000	\$ 9,675,000	\$ -	\$ -
Q-2012 - 2.0 - 4.0%	16,265,000	-	2,260,000	-	14,005,000	2,350,000
R-2012 - 2.0 - 4.0%	8,150,000	-	450,000	-	7,700,000	475,000
S-2013 - 2.0 - 4.0%	9,650,000	-	645,000	-	9,005,000	695,000
T-2013 - 2.0 - 4.6%	22,900,000	-	500,000	-	22,400,000	500,000
U-2015 - 2.0 - 5.0%	10,305,000	-	680,000	-	9,625,000	710,000
V-2016 - 2.125 - 5.0%	11,300,000	-	250,000	-	11,050,000	250,000
W-2017 - 5.0%	6,720,000	-	705,000	-	6,015,000	735,000
X-2017 - 2.0 - 5.0%	11,565,000	-	245,000	-	11,320,000	260,000
Y-2018 - 3.0 - 5.0%	7,790,000	-	155,000	-	7,635,000	160,000
Z-2020 - 4.0 - 5.0%	-	6,755,000	-	-	6,755,000	610,000
Total bonds	\$ 114,940,000	\$ 6,755,000	\$ 6,510,000	\$ 9,675,000	\$ 105,510,000	\$ 6,745,000
Unamortized Premium	4,193,696	1,164,700	397,369	67,459	4,893,568	-
Total long term debt	\$ 119,133,696	\$ 7,919,700	\$ 6,907,369	\$ 9,742,459	\$ 110,403,568	\$ 6,745,000

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

Fiscal Year	Total		Grand Total
	Principal	Interest	
2022	\$ 6,800,000	\$ 3,449,331	\$ 10,249,331
2023	6,690,000	3,371,432	10,061,432
2024	6,670,000	3,060,594	9,730,594
2025	6,620,000	2,748,294	9,368,294
2026	6,595,000	2,439,393	9,034,393
2027 - 2031	30,390,000	7,982,916	38,372,916
2032 - 2036	12,720,000	3,292,061	16,012,061
2037 - 2041	6,325,000	2,015,757	8,340,757
2042 - 2046	7,365,000	969,027	8,334,027
2047 - 2048	1,420,000	64,250	1,484,250
Total	<u>\$ 91,595,000</u>	<u>\$ 29,393,055</u>	<u>\$ 120,988,055</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 Gas Bond Fund, as required by the bond covenants. As of June 30, 2021, these bond covenant requirements had been satisfied.

During fiscal year 2020, KUB's Gas Division issued Series Z 2020 bonds to retire a portion of outstanding Series P 2010 bonds. On May 22, 2020, \$6.8 million in revenue refunding bonds with an average interest rate of 4.7 percent were issued to currently refund \$9.7 million of outstanding bonds with an average interest rate of 6.1 percent. The net proceeds of \$9.8 million (after payment of \$0.1 million in issuance costs plus premium of \$1.1 million and an additional issuer equity contribution of \$2 million) were used to refund the bonds. As a result, the bonds are considered to be refunded and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 12 years by \$1.8 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1.3 million.

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

Knoxville Utilities Board Gas Division
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Other liabilities consist of the following:

	Balance June 30, 2020	Increase	Decrease	Balance June 30, 2021
Accrued compensated absences	\$ 1,923,437	\$ 2,911,631	(2,872,343)	\$ 1,962,725
Customer advances for construction	2,112,184	932,315	(869,079)	2,175,420
Other	43,461	66,241	(46,207)	63,495
	<u>\$ 4,079,082</u>	<u>\$ 3,910,187</u>	<u>\$ (3,787,629)</u>	<u>\$ 4,201,640</u>

	Balance June 30, 2019	Increase	Decrease	Balance June 30, 2020
Accrued compensated absences	\$ 1,731,060	\$ 2,727,640	(2,535,263)	\$ 1,923,437
Customer advances for construction	1,809,840	1,193,128	(890,784)	2,112,184
Other	71,813	70,734	(99,086)	43,461
	<u>\$ 3,612,713</u>	<u>\$ 3,991,502</u>	<u>\$ (3,525,133)</u>	<u>\$ 4,079,082</u>

7. Lease Commitments

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

2022	\$ 56,142
2023	10,474
2024	9,012
2025	9,012
2026	6,681
Total operating minimum lease payments	<u>\$ 91,321</u>

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Knoxville Utilities Board Gas Division
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8. Capital Assets

Capital asset activity was as follows:

	Balance June 30, 2020	Increase	Decrease	Balance June 30, 2021
Production Plant	\$ 14,640	\$ -	\$ -	\$ 14,640
Distribution Plant				
Mains	281,397,722	20,325,348	(2,369,375)	299,353,695
Services and Meters/Regulators	108,471,392	6,630,489	(2,061,978)	113,039,903
Other Accounts	1,636,967	121,328	(50,000)	1,708,295
Total Distribution Plant	<u>\$ 391,506,081</u>	<u>\$ 27,077,165</u>	<u>\$ (4,481,353)</u>	<u>\$ 414,101,893</u>
Total General Plant	36,332,530	5,540,377	(106,275)	41,766,632
Total Plant Assets	<u>\$ 427,853,251</u>	<u>\$ 32,617,542</u>	<u>\$ (4,587,628)</u>	<u>\$ 455,883,165</u>
Less Accumulated Depreciation	(154,640,730)	(15,940,032)	4,659,668	(165,921,094)
Net Plant Assets	<u>\$ 273,212,521</u>	<u>\$ 16,677,510</u>	<u>\$ 72,040</u>	<u>\$ 289,962,071</u>
Work In Progress	35,509,285	23,869,772	(32,448,546)	26,930,511
Total Net Plant	<u><u>\$ 308,721,806</u></u>	<u><u>\$ 40,547,282</u></u>	<u><u>\$ (32,376,506)</u></u>	<u><u>\$ 316,892,582</u></u>

	Balance June 30, 2019	Increase	Decrease	Balance June 30, 2020
Production Plant	\$ 14,640	\$ -	\$ -	\$ 14,640
Distribution Plant				
Mains	274,494,508	8,221,680	(1,318,466)	281,397,722
Services and Meters/Regulators	102,041,728	7,233,015	(803,351)	108,471,392
Other Accounts	1,616,728	25,239	(5,000)	1,636,967
Total Distribution Plant	<u>\$ 378,152,964</u>	<u>\$ 15,479,934</u>	<u>\$ (2,126,817)</u>	<u>\$ 391,506,081</u>
Total General Plant	33,229,338	3,304,534	(201,342)	36,332,530
Total Plant Assets	<u>\$ 411,396,942</u>	<u>\$ 18,784,468</u>	<u>\$ (2,328,159)</u>	<u>\$ 427,853,251</u>
Less Accumulated Depreciation	(143,148,925)	(13,959,978)	2,468,173	(154,640,730)
Net Plant Assets	<u>\$ 268,248,017</u>	<u>\$ 4,824,490</u>	<u>\$ 140,014</u>	<u>\$ 273,212,521</u>
Work In Progress	23,841,704	29,756,261	(18,088,680)	35,509,285
Total Net Plant	<u><u>\$ 292,089,721</u></u>	<u><u>\$ 34,580,751</u></u>	<u><u>\$ (17,948,666)</u></u>	<u><u>\$ 308,721,806</u></u>

9. Risk Management

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

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These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. At June 30, 2021 and June 30, 2020, the amount of these liabilities was \$329,162 and \$292,505, respectively, resulting from the following changes:

	2021	2020
Balance, beginning of year	\$ 292,505	\$ 324,957
Current year claims and changes in estimates	2,631,705	2,536,475
Claims payments	<u>(2,595,048)</u>	<u>(2,568,927)</u>
Balance, end of year	<u>\$ 329,162</u>	<u>\$ 292,505</u>

10. Pension Plan

Description of Plan

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

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

Knoxville Utilities Board Gas Division

Notes to Financial Statements

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Retirement Benefits

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

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

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

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

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

Contributions

Participation in Plan A requires employee contributions of 3% of the first \$4,800 of annual earnings and 5% of annual earnings in excess of \$4,800. KUB contributions are determined by the enrolled actuary of the Plan and equal the amount necessary to provide the benefits under the Plan determined by the application of accepted actuarial methods and assumptions. The method of funding shall be consistent with Plan objectives.

Plan Funding

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

Investments

The Plan’s investments are held by State Street Bank and Trust Company (the “Trustee”). The Plan’s policy in regard to the allocation of invested assets is established by the Retirement System Investment Committee and approved by the KUB Board of Commissioners and may only be amended by the KUB Board of Commissioners. It is the policy of the Retirement System Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Plan’s adopted asset allocation policy as of December 31, 2020:

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

Contributions of \$3,167,680 and \$2,585,824 for 2019 and 2018, respectively, were made during the Plan sponsor's fiscal years ended June 30, 2021 and 2020, respectively. Of these amounts, \$538,506 and \$439,590 are attributable to the Gas Division. The fiscal year 2021 contribution was determined as part of the January 1, 2019 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability or death.

Net Pension Liability (Asset)

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB 68"), which requires measurement of the net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 will be based on the December 31, 2020 and 2019 measurement date, respectively. The Division's share of the net pension asset at June 30, 2021 is \$7,666,879 and the net pension asset at June 30, 2020 is \$3,250,634.

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

	2020	2019
Total pension liability	\$ 234,363,021	\$ 226,818,557
Plan fiduciary net position	<u>(279,462,309)</u>	<u>(245,939,932)</u>
Plan's net pension liability (asset)	<u>\$ (45,099,288)</u>	<u>\$ (19,121,375)</u>
Plan fiduciary net position as a percentage of the total pension liability	119.24%	108.43%

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Knoxville Utilities Board Gas Division
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Changes in Net Pension Liability (Asset) are as follows:

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

Actuarial Assumptions

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

Valuation dates	January 1, 2020, rolled forward to December 31, 2020; January 1, 2019, rolled forward to December 31, 2019
Discount rate	7.25% as of December 31, 2020 and 2019
Salary increases	From 2.50% to 5.65%, based on years of service as of December 31, 2020 and 2019
Mortality	115% and 110% of the PubG-2010 table, for males and females respectively, using the Public Sector General Employee Table for ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of December 31, 2020 and 2019
Inflation	2.5% as of December 31, 2020 and 2019

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

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2020 and 2019 are

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summarized in the following table. The real rate of return reported for fixed income is for aggregate fixed income. The Plan has both aggregate and long duration fixed income.

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

Discount rate

The discount rate used to measure the total pension liability was 7.25 percent as of December 31, 2020 and 2019. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

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

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Knoxville Utilities Board Gas 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, 2021, KUB recognized pension expense of (\$7,325,254), Division's share (\$1,245,293).

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2019, this average was 5.00 years. During the measurement year, there was a liability experience loss of \$1,930,170 with \$386,034 of that recognized in the current year and in each of the next four years, resulting in a deferred outflow of \$1,544,136 (Division's share \$262,503). Unrecognized liability experience gains from prior periods were \$2,088,302, of which \$996,139 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$1,092,163 (Division's share \$185,668).

During the measurement year, there were no benefit changes or assumption changes. Unrecognized assumption change losses from prior periods were \$6,778,528, of which \$1,694,632 was recognized as an increase in pension expense in the current year and resulted in a deferred outflow of \$5,083,896 (Division's share \$864,262). Unrecognized assumption change decreases from prior periods were \$729,629, of which \$658,104 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$71,525 (Division's share \$12,159).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$27,394,477, of which \$5,478,895 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment gains from prior periods were \$17,715,210, of which \$4,635,928 was recognized as a decrease in pension expense in the current year. The combination of unrecognized investment gains this year along with the net unrecognized investment gains from prior periods results in a net difference between projected and actual earnings on pension plan investments as of December 31, 2020 of \$34,994,864 (Division's share \$5,949,127). The following table summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years. In addition, KUB recorded a deferred outflow of resources of \$1,583,842 at June 30, 2021 for employer contributions made between December 31, 2020 and June 30, 2021 (Division's share \$269,254).

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,544,136	\$ 1,092,163
Changes in assumptions	5,083,896	71,525
Net difference between projected and actual earnings on pension plan investments	-	34,994,864
Contributions subsequent to measurement date	1,583,842	-
Total	<u>\$ 8,211,874</u>	<u>\$ 36,158,552</u>
Division's share	<u>\$ 1,396,019</u>	<u>\$ 6,146,954</u>

\$1,583,842 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

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

For the year ended June 30, 2020, KUB recognized pension expense of \$2,673,376 (Division's share \$454,474).

The impact of experience gains or losses and assumption changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2018, this average was 5.00 years. During the measurement year, there was an experience gain of \$1,054,117, with \$210,822 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of \$843,295 (Division's share \$143,360). Unrecognized experience gains from prior periods were \$2,408,388, of which \$1,163,381 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$1,245,007 (Division's share \$211,651).

During the measurement year, there was an assumption change loss of \$8,473,160, with \$1,694,632 of that recognized in the current year and each of the next four years, resulting in a deferred outflow of \$6,778,528 (Division's share \$1,152,350). Unrecognized assumption change decreases from prior periods were \$1,387,733, of which \$658,104 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$729,629 (Division's share \$124,037).

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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 gain of \$34,889,331, of which \$6,977,866 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were \$15,614,774, of which \$5,418,519 was recognized as an increase in pension expense in the current year. The combination of unrecognized investment gains this year along with the net unrecognized investment losses from prior periods results in a net difference between projected and actual earnings on pension plan investments as of December 31, 2019 of \$17,715,210 (Division's share \$3,011,586). The following table summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years. In addition, KUB recorded a deferred outflow of resources of \$1,292,915 (Division's share \$219,795) at June 30, 2020 for employer contributions made between December 31, 2019 and June 30, 2020.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,088,302
Changes in assumptions	6,778,528	729,629
Net difference between projected and actual earnings on pension plan investments	-	17,715,210
Contributions subsequent to measurement date	1,292,915	-
Total	<u>\$ 8,071,443</u>	<u>\$ 20,533,141</u>
Division's share	<u>\$ 1,372,145</u>	<u>\$ 3,490,634</u>

11. Qualified Excess Benefit Arrangement

Description

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

As of June 30, 2021, there are 487 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. There is currently one member receiving benefits under the QEBA. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the KUB Pension Plan. The KUB Pension Plan was amended to include the provision of QEBA benefits; therefore, amendments to the QEBA require the same authority as amendments to the KUB Pension Plan. As required by federal tax law, the QEBA is unfunded within the meaning of the federal tax laws. KUB may not pre-fund the QEBA to cover future liabilities beyond the current year. KUB has established procedures to pay for these benefits on a pay-as-you-go basis, funded by KUB. There are no assets accumulated in a trust that meets the GASB's criteria.

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Total Pension Liability of the QEBA

The below summarizes the disclosures of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"). GASB 73 extends a similar approach of financial reporting to plans meeting specific criteria that are not administered through trusts that GASB 68 established for pension plans. GASB 73 requires measurement of the total pension liability of the QEBA. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a December 31, 2020 and 2019 measurement date, respectively. The Division's share of the total pension liability was \$3,181 at June 30, 2021, and \$3,440 at June 30, 2020.

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

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

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

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

Actuarial Assumptions

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

Valuation dates	December 31, 2020 and December 31, 2019
Actuarial cost method	Individual entry age
Salary increase	From 2.50% to 5.65%, based on years of service as of December 31, 2020 and 2019

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Mortality	115% and 110% of the Public Sector General Healthy Annuitant Mortality Table (PubG-2010), for males and females, respectively, using the Public Sector General Employee Table for ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of December 31, 2020 and 2019
Inflation	2.5% as of December 31, 2020 and 2019

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

Discount rate

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

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

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

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

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

For the year ended June 30, 2021, KUB recognized pension expense of \$21,436 for the QEBA (Division's share \$3,644). This amount is not expected to be the same as KUB's contribution to the QEBA (\$22,874), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [\$8,684 - \$10,122 + \$22,874].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2019, this average was 5 years. During the measurement year, there was an experience loss of \$10,165, with \$2,033 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$8,132 (Division's share \$1,382). There was a deferred inflow at the end of the measurement year of \$14,450 (Division's share \$2,457) from experience gains in prior years and a deferred outflow of \$2,756 (Division's share \$469) from experience losses in prior years.

During the measurement year, there was an assumption change loss of \$91, with \$18 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$73 (Division's share \$12). There was a deferred inflow at the end of the measurement year of \$9,180 (Division's share \$1,560) and a deferred outflow of \$22,699 (Division's share \$3,859) from assumption changes in prior years. In addition, KUB recorded a deferred outflow of resources of \$6,084 at June 30, 2021 for contributions between December 31, 2020 and June 30, 2021 (Division's share \$1,034).

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 10,888	\$ 14,450
Changes in assumptions	22,772	9,180
Contributions subsequent to measurement date	6,084	-
Total	<u>\$ 39,744</u>	<u>\$ 23,630</u>
 Division's share	 <u>\$ 6,756</u>	 <u>\$ 4,017</u>

\$6,084 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total pension liability in the year ending June 30, 2022 (Division's share \$1,034). Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

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

For the year ended June 30, 2020, KUB recognized pension expense of (\$199,098) for the QEBA (Division's share \$33,847). This amount is not expected to be the same as KUB's contribution to the QEBA (\$17,636), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [\$10,122 - \$226,856 + \$17,636].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2018, this average was 5 years. During the measurement year, there was an experience loss of \$34, with \$7 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$27 (Division's share \$5). There was a deferred inflow at the end of the measurement year of \$21,675 (Division's share \$3,685) from experience gains in prior years and a deferred outflow of \$5,473 (Division's share \$930) from experience losses in prior years.

During the measurement year, the Plan was amended to provide automatic increases to retirees for benefits limited under Code §415(d), resulting in a change in benefits of \$218,272 that was recognized in the current year (Division's share \$37,106). There was an increase in the total pension liability due to assumption changes of \$13,342, with \$2,668 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$10,674 (Division's share \$1,815). There was a deferred inflow at the end of the measurement year of \$13,770 (Division's share \$2,341) and a deferred outflow of \$29,385 (Division's share \$4,995) from assumption changes in

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prior years. In addition, KUB recorded a deferred outflow of resources of \$6,083 at June 30, 2020 for contributions between December 31, 2019 and June 30, 2020 (Division's share \$1,034).

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,500	\$ 21,675
Changes in assumptions	40,059	13,770
Contributions subsequent to measurement date	6,083	-
Total	\$ 51,642	\$ 35,445
Division's share	\$ 8,779	\$ 6,026

12. Defined Contribution Plan

The KUB Asset Accumulation 401(k) Plan (the "401(k) Plan") is a defined contribution 401(k) employee retirement savings plan covering eligible KUB employees established by the KUB Board of Commissioners in accordance with the Charter of the City of Knoxville, Tennessee. The 401 (k) Plan's assets are held in trust under an agreement between KUB and Fidelity Management Trust Company. Employees hired prior to January 1, 2011 may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. Employees hired on or after January 1, 2011 have an enhanced 401(k) due to the closure of the Defined Benefit Pension Plan. They may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. They also receive a nonelective KUB contribution of 3 percent to 6 percent, depending on years of service, whether they contribute or not.

KUB funded 401(k) matching contributions and nonelective contributions of \$2,984,314 (Division's share \$507,333) and \$2,469,273 (Division's share \$419,776), respectively, for the years ended June 30, 2021 and 2020.

13. Other Post-Employment Benefits (OPEB)

Description of Trust

The Knoxville Utilities Board Other Post Employment Benefits Trust (the Trust) is a single-employer trust established by the KUB Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. The Trust along with the KUB Health Plan make up a Voluntary Employee Beneficiary Association ("VEBA") and are intended to be tax-exempt pursuant to Code §501(c)(9). The purpose of the Trust is to fund KUB's post-employment health care plan (the "Plan"), which provides certain medical benefits for qualifying KUB retirees and beneficiaries. The applicable documentation was submitted to the State Funding Board and, in December 2007, the State Funding Board approved the Trust. The Trust was also approved by the Internal Revenue Service in June 2008. KUB administers the Trust through a Board of Trustees consisting of seven KUB employees that are appointed by KUB's President and CEO. Any amendments to the Trust involving costs not approved in the operating budget must be approved by KUB's Board of

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

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

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

Benefits

Other post-employment benefits may include, but shall not be limited to, medical, prescription drugs, dental, vision, hearing, Medicare Part B or Part D premiums, life insurance, long-term care, and long-term disability. Only medical and pharmacy are currently provided to eligible retirees.

Contributions and Plan Funding

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

Contributions are authorized by the terms of the Trust as established by KUB Resolution No. 1168, as amended, as approved by the Tennessee State Funding Board. KUB shall have the right at any time to amend, in whole or in part, the provisions of this Trust; however, no such amendment shall 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.

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Based on the date of retirement, certain retired plan members are required to contribute specified amounts monthly to maintain health insurance. Those who retired prior to July 1983 have no required monthly premiums for themselves or dependents. The retirees, or their surviving dependents, who retired between August 1983 and January 1998 are required to pay \$262.50 per month for pre-Medicare family health insurance. For individuals who retired after January 1998, the required monthly premium for pre-Medicare health insurance is \$262.50 for single coverage and \$525 for family coverage. There is currently no premium for Medicare eligible retirees or dependents. KUB is responsible for determining the level of retired plan member contributions on an annual basis, as part of its review of healthcare cost sharing.

Investments

The Trust holds investments in a balanced fund, which invests in passively managed common trust index funds, managed and sponsored by State Street Global Advisors (SSgA), with an asset allocation mirroring the asset allocation of the Trust and rebalanced monthly. The Trust's Investment Policy was established and may only be amended by the KUB Board of Commissioners. The Trust's Investment Policy is to invest in a manner that will provide sufficient investment return to meet current and future retiree health benefits, while conforming to all governing State and Federal statutes. It allows investment of Trust assets in any type of security instrument allowed for in T.C.A 8-50-1203. The following was the Trust's adopted investment target allocations as set forth in the Trust's Investment Policy as of June 30, 2021:

<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 of \$757,226 and \$311,324 were made to the OPEB Trust in fiscal years ended June 30, 2021 and 2020, (Division's share \$128,728 and \$52,925), respectively. These were based on the OPEB Plan's actuarial valuations as of January 1, 2019, and 2018.

Net OPEB Liability (Asset)

The below summarizes the disclosures of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"), which requires measurement of the net OPEB liability as total OPEB liability less the amount of the Trust's fiduciary net position. The amounts reported as of June 30 are based on the reporting date for the KUB Other Post-Employment Benefits Plan which is June 30. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2021 and 2020 and the Total OPEB Liability as of the valuation date, January 1, 2020 updated to June 30, 2021, and January 1, 2019 updated to June 30, 2020, respectively. The Division's share of the total net OPEB (asset) liability was (\$1,008,411) at June 30, 2021 and \$1,290,206 at June 30, 2020.

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

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

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

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

Actuarial assumptions

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

Valuation dates:	January 1, 2020, rolled forward to June 30, 2021; January 1, 2019, rolled forward to June 30, 2020
Discount rate:	7.25% as of January 1, 2020 and 2019
Healthcare cost trend rates:	Pre-Medicare: 6.75% grading down to 4.04% over 20 years as of January 1, 2020; 7.83% grading down to 4.50% over 19 years as of January 1, 2019 Medicare: 6.30% grading down to 4.04% over 20 years as of January 1, 2020; 6.88% grading down to 4.50% over 19 years as of January 1, 2019 Administrative expenses: 3.0% per year
Salary increases:	From 2.50% to 5.65%, based on years of service as of January 1, 2020 and 2019

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Mortality:	115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Healthy Annuitant Mortality Table, both projected using scale MP2018 fully generational as of January 1, 2020 and 2019
Inflation:	2.50% as of January 1, 2020 and 2019

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

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

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

Discount rate

The discount rate used to measure the total OPEB liability was 7.25 percent as of June 30, 2021 and 2020. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

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

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

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

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

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

For the year ended June 30, 2021, KUB recognized OPEB expense of (\$648,134) (Division's share (\$110,183)).

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was 2.0 years. During the measurement year, there was an experience loss of \$42,802, with \$21,401 of that recognized in the current year and the remaining amount will be recognized in the next year, resulting in a deferred outflow of resources of \$21,401 (Division's share \$3,638). Unrecognized experience losses from prior periods were \$21,951, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there was a decrease in the Total OPEB Liability due to assumption changes of \$4,105,835, with \$2,052,918 of that recognized in the current year and in the next year, resulting in a deferred inflow of \$2,052,917 (Division's share \$348,996). Unrecognized assumption changes from prior periods were \$1,802,421, of which the entire amount is recognized as an increase in OPEB expense in the current year.

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$9,571,802, of which \$1,914,360 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were \$2,354,338, of which \$602,585 was recognized as an increase in OPEB expense in the current year. The combination of unrecognized gains this year along with the net unrecognized investment losses from prior periods results in a net difference between projected and actual earnings on OPEB plan investments as of June 30, 2021 of \$5,905,689 (Division's share \$1,003,967). The following table summarizes the current balances of deferred outflows and deferred inflows of resources.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 21,401	\$ -
Changes in assumptions	-	2,052,917
Net difference between projected and actual earnings on OPEB plan investments	-	5,905,689
Total	<u>\$ 21,401</u>	<u>\$ 7,958,606</u>
Division's share	<u>\$ 3,638</u>	<u>\$ 1,352,963</u>

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

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

For the year ended June 30, 2020, KUB recognized OPEB expense of \$4,767,499 (Division's share \$810,475).

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was 2.0 years. During the measurement year, there was an experience loss of \$43,902, with \$21,951 of that recognized in the current year and the remaining amount will be recognized in the next year, resulting in a deferred outflow of resources of \$21,951 (Division's share \$3,732). Unrecognized experience losses from prior periods were \$499,549, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there were benefit changes that decreased the expense by \$202,408. There was an increase in the Total OPEB Liability due to assumption changes of \$3,604,843, with \$1,802,422 of that recognized in the current year and in the next year, resulting in a deferred outflow of \$1,802,421 (Division's share \$306,412). Unrecognized assumption changes from prior periods were \$1,615,800, of which the entire amount is recognized as an increase in OPEB expense in the current year.

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment loss of \$2,579,092, of which \$515,818 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred outflow of resources as of June 30, 2020 of \$2,063,274 (Division's share \$350,757). Net unrecognized investment losses from prior periods were \$377,831, of which \$86,767 was recognized as an increase in OPEB expense in the current year and resulting in a net deferred outflow of \$291,064 (Division's share \$49,480). The following table summarizes the current balances of deferred outflows and deferred inflows of resources.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 21,951	\$ -
Changes in assumptions	1,802,421	-
Net difference between projected and actual earnings on OPEB plan investments	2,354,338	-
Total	<u>\$ 4,178,710</u>	<u>\$ -</u>
Division's share	<u>\$ 710,381</u>	<u>\$ -</u>

14. 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, 2021 and 2020 are summarized as follows:

	2021	2020
City of Knoxville		
Amounts billed by the Division for utilities and related services	\$ 780,057	\$ 724,773
Payments by the Division in lieu of property tax	3,998,446	3,818,100
Payments by the Division for services provided	695,466	27,439
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	332,832	300,025
Interdivisional rental expense	943,696	1,126,977
Interdivisional rental income	33,346	-
Amounts billed to the Division by other divisions for utilities services provided	305,389	330,854

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

	2021	2020
Accounts receivable	\$ 15,650	\$ 9,726

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

15. Natural Gas Supply Contract Commitments

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

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

Firm obligations related to purchased gas - demand

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

Firm obligations related to purchased gas - commodity

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

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

16. Other Commitments and Contingencies

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

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

17. Risks and Uncertainties

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

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

	*Year ended December 31						
	2020	2019	2018	2017	2016	2015	2014
Total pension liability							
Service cost	\$ 5,227,657	\$ 6,142,213	\$ 5,095,488	\$ 4,607,486	\$ 4,226,985	\$ 4,157,062	\$ 4,092,808
Interest	16,393,202	16,030,626	15,344,193	15,015,282	14,966,559	14,812,784	14,698,657
Changes of benefit terms	-	163,199	-	-	-	-	-
Differences between expected and actual experience	1,930,170	(1,054,117)	(605,649)	(1,087,161)	(2,233,762)	(1,890,334)	-
Changes of assumptions	-	8,473,160	-	(357,633)	(2,932,883)	-	-
Benefit payments, including refunds of member contributions	(16,006,565)	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)	(15,533,167)
Net change in total pension liability	7,544,464	14,660,606	4,559,218	3,207,995	(111,612)	1,728,586	3,258,298
Total pension liability - beginning	226,818,557	212,157,951	207,598,733	204,390,738	204,502,350	202,773,764	199,515,466
Total pension liability - ending (a)	\$ 234,363,021	\$ 226,818,557	\$ 212,157,951	\$ 207,598,733	\$ 204,390,738	\$ 204,502,350	\$ 202,773,764
Plan fiduciary net position							
Contributions - employer	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541
Contributions - participants	2,284,727	3,170,825	2,081,125	1,488,632	555,075	487,546	475,854
Net investment income	44,814,914	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)	22,292,369
Other additions	7,740	13,579	62,616	82,239	45,848	30,879	29,733
Benefit payments, including refunds of member contributions	(15,962,565)	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)	(15,405,167)
Administrative expense	(455,191)	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)	(378,085)
Death benefits	(44,000)	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)	(128,000)
Net change in plan fiduciary net position**	33,522,377	40,431,737	(21,868,910)	22,862,426	5,052,489	(9,333,204)	12,795,245
Plan fiduciary net position - beginning**	245,939,932	205,508,195	227,377,105	204,514,679	199,462,190	208,795,394	196,000,149
Plan fiduciary net position - ending (b)**	\$ 279,462,309	\$ 245,939,932	\$ 205,508,195	\$ 227,377,105	\$ 204,514,679	\$ 199,462,190	\$ 208,795,394
Plan's net pension liability - ending (a) - (b)	\$ (45,099,288)	\$ (19,121,375)	\$ 6,649,756	\$ (19,778,372)	\$ (123,941)	\$ 5,040,160	\$ (6,021,630)
Plan fiduciary net position as a percentage of the total pension liability	119.24%	108.43%	96.87%	109.53%	100.06%	97.54%	102.97%
Covered payroll	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743	\$ 44,076,351
Plan's net pension liability as a percentage of covered payroll	(108.61%)	(47.48%)	15.78%	(45.67%)	(0.28%)	11.34%	(13.66%)

Notes to Schedule:

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

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Required Supplementary Information – Schedule of Employer Pension Contributions
June 30, 2021

	*Year ended December 31						
	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541
Contribution in relation to the actuarially determined contribution	2,876,752	2,871,241	3,456,475	4,286,597	5,243,146	5,991,887	5,908,541
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743	\$ 44,076,351
Contributions as a percentage of covered payroll	6.93%	7.13%	8.20%	9.90%	11.80%	13.48%	13.41%

Notes to Schedule:

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

Valuation Dates: January 1, 2019 and January 1, 2018

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Individual entry age

Asset valuation method: 5-year smoothed market

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

Discount rate: 7.5%

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

Mortality: As of January 1, 2019: 115% and 110% of the benefits-weighted Public Sector General Healthy Annuitant Mortality Table (PubG-2010), respectively, for males and females, using the Public Sector General Employee Table while in active employment and for annuitant ages prior to the start of the Healthy Annuitant Mortality Table, both projected from the 2010 base rates using scale MP2018 fully generational
As of January 1, 2018: Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA

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

* Schedule of Employer Contribution information is not reflected prior to 2014 due to changes in actuary methodologies required under GASB 67, which was implemented 2014. Please refer to prior year's audited financial statements for prior methods and assumptions.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division

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

June 30, 2021

	*Year ended June 30			
	2021	2020	2019	2018
Total OPEB liability				
Service cost	\$ 283,786	\$ 256,270	\$ 270,515	\$ 202,603
Interest	3,861,304	3,672,291	3,624,737	3,295,240
Change of benefit terms	-	(202,408)	-	-
Differences between expected and actual experience	42,802	43,902	999,098	1,324,769
Changes of assumptions	(4,105,835)	3,604,843	3,231,601	(397,180)
Benefit payments	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Net change in total OPEB liability	(3,029,122)	4,346,302	4,593,507	1,126,693
Total OPEB liability - beginning	54,544,240	50,197,938	45,604,431	44,477,738
Total OPEB liability - ending (a)	<u>\$ 51,515,118</u>	<u>\$ 54,544,240</u>	<u>\$ 50,197,938</u>	<u>\$ 45,604,431</u>
Plan fiduciary net position				
Contributions - employer	\$ 757,226	\$ 311,324	\$ -	\$ -
Net investment income	12,890,602	975,155	2,981,928	3,705,473
Benefit payments	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	(44,496)	(53,286)	(54,787)	(51,668)
Net change in plan fiduciary net position	10,492,153	(1,795,403)	(605,303)	355,066
Plan fiduciary net position - beginning	46,954,793	48,750,196	49,355,499	49,000,433
Plan fiduciary net position - ending (b)	<u>\$ 57,446,946</u>	<u>\$ 46,954,793</u>	<u>\$ 48,750,196</u>	<u>\$ 49,355,499</u>
Net OPEB liability (asset) - ending (a) - (b)	<u>\$ (5,931,828)</u>	<u>\$ 7,589,447</u>	<u>\$ 1,447,742</u>	<u>\$ (3,751,068)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	111.51%	86.09%	97.12%	108.23%
Covered employee payroll	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	(27.49%)	32.48%	5.95%	(15.84%)

Notes to Schedule:

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

See accompanying Independent Auditor's Report

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

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

Notes to Schedule:

Valuation Date: January 1, 2019 and January 1, 2018
Timing: Actuarially determined contribution rates are calculated based on the actuarial valuation completed 18 months before the beginning of the fiscal year.

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age normal
Asset valuation method: 5-year smoothed market
Amortization method: Level dollar, 30-year closed period with 17 years remaining as of January 1, 2019 (18 years as of January 1, 2018), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2019, the unfunded liability was positive and negative as of January 1, 2018
Discount rate: 7.5%
Healthcare cost trend rate: Pre-Medicare: 7.83% grading down to 4.50% over 19 years as of January 1, 2019; 8.00% grading down to 4.50% over 20 years as of January 1, 2018
Medicare: 6.88% grading down to 4.50% over 19 years as of January 1, 2019; 7.00% grading down to 4.50% over 20 years as of January 1, 2018
Administrative expenses: 3.0% per year
Salary increases: From 2.50% to 5.65%, based on years of service as of January 1, 2019; From 2.80% to 5.15%, based on years of service as of January 1, 2018
Mortality: 115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational as of January 1, 2019; Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA as of January 1, 2018
Inflation: 2.5% as of January 1, 2019; 2.8% as of January 1, 2018
Investment rate of return: 7.5%
Retirement age: 2% at ages 50-57 at January 1, 2019 and January 1, 2018, grading up to 100% at age 70

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement
Schedule of Changes in Total Pension Liability and Related Ratios
June 30, 2021

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

Notes to Schedule:

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Federal Awards and State
Financial Assistance
June 30, 2021

Federal Grantor/ Pass-Through Grantor	Program Name	CFDA Number	Pass-Through Entity Identifying Number	Expenditures
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	PA-04-TN-4427-PW-00563	\$ <u>2,237</u>
		Total Program 97.036		\$ <u>2,237</u>
		Total Federal Awards		\$ <u>2,237</u>

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards and State Financial Assistance includes the federal award related grant activity of Knoxville Utilities Board and is presented on the accrual basis of accounting. The expenditures reported in the Schedule of Expenditures and State Financial Assistance were incurred in fiscal years 2019 and 2020. In accordance with the requirements of CFDA 97.036, the expenditures have been reported in fiscal year 2021 when the grant was approved by the Federal Emergency Management Association. KUB did not elect to use 10% de minimis indirect cost rate.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2021

FY	U-2015		V-2016		W-2017		X-2017		Y-2018		Z-2020		AA-2021		Totals		Grand Total (P + I)
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
21-22	740,000	287,887	275,000	322,594	780,000	264,000	270,000	354,669	170,000	259,531	560,000	293,400	4,005,000	1,667,250	6,800,000	3,449,331	10,249,331
22-23	795,000	250,888	300,000	308,844	815,000	225,000	285,000	341,169	180,000	251,031	585,000	271,000	3,730,000	1,723,500	6,690,000	3,371,432	10,061,432
23-24	805,000	233,000	325,000	293,844	850,000	184,250	300,000	326,919	185,000	243,831	615,000	241,750	3,590,000	1,537,000	6,670,000	3,060,594	9,730,594
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	\$ 8,915,000	\$ 1,622,748	\$ 10,800,000	\$ 4,436,720	\$ 5,280,000	\$ 961,500	\$ 11,060,000	\$ 5,220,206	\$ 7,475,000	\$ 4,138,231	\$ 6,145,000	\$ 1,555,650	\$ 41,920,000	\$ 11,458,000	\$ 91,595,000	\$ 29,393,055	\$ 120,988,055

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, 2021

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding Balance 7/1/2020	Issued During Period	Paid/Matured During Period	Refunded During Period	Outstanding Balance 6/30/2021
Business-Type Activities									
BONDS PAYABLE									
<u>Payable through Gas Fund</u>									
Revenue Bond Refunding, Series Q-2012	24,920,000	2.0-4.0	04/20/12	03/01/29	\$ 14,005,000	\$	\$ 2,350,000	\$ 11,655,000	\$ -
Revenue Bond, Series R-2012	10,000,000	2.0-4.0	12/18/12	03/01/33	7,700,000		475,000	7,225,000	-
Revenue Bond Refunding, Series S-2013	11,580,000	2.0-4.0	03/15/13	03/01/31	9,005,000		695,000	8,310,000	-
Revenue Bond, Series T-2013	25,000,000	2.0-4.6	10/01/13	03/01/35	22,400,000		500,000	21,900,000	-
Revenue Bond Refunding, Series U-2015	11,780,000	2.0-5.0	05/01/15	03/01/31	9,625,000		710,000		8,915,000
Revenue Bond, Series V-2016	12,000,000	2.125-5.0	08/05/16	03/01/46	11,050,000		250,000		10,800,000
Revenue Bond Refunding, Series W-2017	8,065,000	5.0	04/07/17	03/01/27	6,015,000		735,000		5,280,000
Revenue Bond, Series X-2017	12,000,000	2.0-5.0	09/15/17	03/01/47	11,320,000		260,000		11,060,000
Revenue Bond, Series Y-2018	8,000,000	3.0-5.0	09/14/18	03/01/48	7,635,000		160,000		7,475,000
Revenue Bond Refunding, Series Z-2020	6,755,000	4.0-5.0	05/22/20	03/01/30	6,755,000		610,000		6,145,000
Revenue Bond Refunding, Series AA-2021	41,920,000	4.0-5.0	04/19/21	03/01/33	-	41,920,000	-		41,920,000
					<u>\$ 105,510,000</u>	<u>\$ 41,920,000</u>	<u>\$ 6,745,000</u>	<u>\$ 49,090,000</u>	<u>\$ 91,595,000</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Statistical Information - Schedule of Insurance in Force
June 30, 2021
(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.

Pollution Legal Liability

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

Property Insurance

This coverage provides protection of KUB's property for fire, extended coverage, vandalism and malicious mischief, and coverage on boilers and machinery. Also included are flood and earthquake damage and mechanical failure. Limits of coverage - \$250,000,000 per occurrence (subject to certain sublimits); \$2,500,000 deductible per occurrence.

Travel Accident

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

Excess Insurance for General Liability

As a governmental entity, KUB's liability is limited under the Tennessee Governmental Tort Liability Act (TCA §29-20-403). KUB is self-insured for the first \$700,000 of any accident and has insurance of \$1,000,000 above this retention.

Excess Insurance for Workers' Compensation

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

Employee Health Plan Stop Loss Coverage

KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses in excess of \$600,000 per individual participant.

Cyber Security Liability

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2021
(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 First 30 therms per month at \$1.1646 per therm Excess over 30 therms per month at \$0.9524 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 First 50 therms per month \$0.9859 per therm Excess over 50 therms per month at \$0.8673 per therm</p>	96,353
Commercial (G-4)	<p>Available to any commercial or industrial customer:</p> <p>Customer charge per month \$31.00 First 250 therms per month at \$1.1397 per therm Excess over 250 therms per month at \$1.0206 per therm</p>	9,413
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 Demand charge: \$2.05 per therm of demand Commodity charge: First 30,000 therms per month at \$0.7773 per therm Excess over 30,000 therms per month at \$0.6793 per therm</p>	216
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>	10

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2021
(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 - \$6.793 per dekatherm	
	(b) Interruptible Gas - (i) First 3,000 dekatherms per month at \$5.550 per dekatherm; excess of 3,000 to 20,000 dekatherms per month at \$4.927 per dekatherm; plus excess over 20,000 to 50,000 dekatherms per month at \$4.096 per dekatherm; excess over 50,000 dekatherms per month at \$3.816 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 \$.995 per dekatherm for each dekatherm from 20,000 to and including 50,000 dekatherms of gas Redelivered plus Unauthorized Gas; plus \$.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, 2021
(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: \$6.793 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 \$.995 per dekatherm for each dekatherm from 20,000 to and including 50,000 dekatherms of non-Firm gas delivered to Customer; plus \$.715 per dekatherm for the excess over 50,000 dekatherms of non-Firm gas delivered to Customer. 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. 	15

See accompanying Independent Auditor's Report

Knoxville Utilities Board Gas Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2021
(Unaudited)

Rate Class	Base Charge	Number of Customers
G-12	<p>Service under Rate Schedule G-12 shall be available to any customer when the following conditions are met:</p> <ul style="list-style-type: none"> (a) Customer's annual gas usage, on an actual or projected basis, shall not be less than 12,500 dekatherms; (b) KUB must determine that its existing distribution system facilities are adequate and available for the requested service; (c) Customer must execute a Transportation Service Agreement for firm transportation gas service; and (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. <p>The net rate is the sum of the following charges:</p> <ul style="list-style-type: none"> Customer charge: \$750.00 Demand charge: \$6.60 per dekatherm of demand Transportation charge: \$2.768 per dekatherm for the first 3,000 dekatherms of gas delivered to Customer; plus \$1.977 per dekatherm for each dekatherm from 3,000 to and including 20,000 dekatherms of gas delivered to Customer; plus \$1.057 per dekatherm for each dekatherm from 20,000 to and including 50,000 dekatherms of gas delivered to Customer; plus \$.956 per dekatherm for the excess over 50,000 dekatherms of gas delivered to Customer. 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. 	3

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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2021, 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 25, 2021.

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 may exist that have not been identified.

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

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 25, 2021

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

Section I -- Summary of Auditor's Results

Financial Statements

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

Section II -- Financial Statement Findings

None reported.

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

None reported.

Section IV -- Summary Schedule of Prior Year Audit Findings

Not applicable as there were no prior year findings reported.



Water Division

Financial Statements and Supplemental Information June 30, 2021 and 2020

KUB Board of Commissioners

Dr. Jerry W. Askew, Chair
John Worden, Vice Chair

Claudia Caballero
Kathy Hamilton

Celeste Herbert
Adrienne Simpson-Brown

Tyvi Small

Management

Gabriel Bolas II
President and Chief Executive Officer

Mark Walker
Senior Vice President and Chief Financial Officer

Susan Edwards
Senior Vice President and Chief Administrative Officer

Derwin Hagood
Senior Vice President of Operations

Eddie Black
Senior Vice President and Chief Technology Officer

John Williams
Senior Vice President of Engineering & Construction

Tiffany Martin
Vice President and Chief Customer Officer

Mike Bolin
Vice President of Utility Advancement

John Gresham
Vice President of Operations

Jamie Davis
Vice President and Assistant to Chief Technology Officer

Julie Childers
Vice President and Century II Administrator

Knoxville Utilities Board Water Division

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June 30, 2021 and 2020

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Independent Auditor's Report

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

We have audited the accompanying 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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the index.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Division's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 3 through 25 and the required supplementary information on pages 61 through 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise 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.

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

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, 2021 and 2020, 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 25, 2021, 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 25, 2021

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

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. 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 at June 30, 2021 and 2020, 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, 2021 activities, resulting changes and current known facts, and should be read in conjunction with the Division's financial statements.

Water Division Highlights

System Highlights

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

KUB serves 81,506 water system customers over a 188 square mile service area. KUB maintains 1,415 miles of service mains, 28 storage facilities, 26 booster pump stations, and one treatment plant, which provided 12.2 billion gallons of water to KUB's water customers in fiscal year 2021. The average daily flow for fiscal year 2021 was 33.3 million gallons.

The water system has added 1,583 customers over the past three years representing annual growth of less than one percent. In fiscal year 2021, 545 customers were added.

The typical residential water customer's average monthly bill was \$27.95 as of June 30, 2021 (based on monthly use of 500 cubic feet or 3,740 gallons). The average monthly bill remained unchanged compared to the prior fiscal year.

Water sales volumes have been impacted by more efficient appliances and the conservation efforts of customers. Based on historical trends, water sales volumes are anticipated to have an annual decline of one percent per year for both residential and non-residential customers.

Knoxville Utilities Board Water Division

Management's Discussion and Analysis

June 30, 2021 and 2020

Century II Infrastructure Program

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

In fiscal year 2015, KUB concluded the smart grid pilot project, of which a portion of the project was funded by a United States Department of Energy Smart Grid Investment Grant (SGIG). This grant was received by KUB in 2009 as part of the American Reinvestment and Recovery Act (ARRA). Based upon the success of that pilot, KUB formed a plan to move forward with a Century II Grid Modernization initiative, which includes advanced metering for all KUB customers, a telecommunication system linking critical KUB infrastructure, and an increased investment in automation technology to help operate KUB's energy and water distribution systems. Over the course of ten years, KUB plans to spend \$124.4 million in this effort, of which the Water Division's share is \$25.1 million. The deployment is funded in large part by debt issues and system revenues. In fiscal year 2020, KUB completed the final year of the four-year advanced meter deployment, spending \$20.9 million. The project was completed on time and under budget.

In May 2017, a new Century II funding resolution was adopted by the KUB Board to express the continued commitment to funding Century II programs for the next ten years. The funding will be achieved through a combination of rate increases and debt issues supplemented by cost savings and new revenue from net customer additions.

In June 2017, the Board approved the next phase of water rate increases to support the Century II program. The three approved water rate increases went into effect July 2017, July 2018, and July 2019 generating \$3.1 million, \$3.1 million, and \$3.3 million in additional annual Water Division revenue, respectively.

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

KUB remains on track with its Century II water system infrastructure program. In fiscal year 2021, KUB replaced 8.1 miles of galvanized water main and 6.3 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 \$173 million in various redundant facilities at the site of its existing Mark B. Whitaker Water Treatment Plant over a 16-year period that began in fiscal year 2017. Construction of a new generator building with three 2,500 kW diesel generators and associated switchgear was completed at the Mark B. Whitaker Water Treatment Plant. Design has been completed on a new filter building at the plant.

Knoxville Utilities Board Water Division

Management's Discussion and Analysis

June 30, 2021 and 2020

Financial Highlights

Fiscal Year 2021 Compared to Fiscal Year 2020

The Division's net position increased \$8.9 million in fiscal year 2021, which was \$5.4 million lower than the prior fiscal year. Comparatively, net position increased \$14.3 million in fiscal year 2020.

Operating revenues decreased \$0.7 million or 1.1 percent. This reflects an increase in billed sales of \$0.2 million and a decrease in other operating revenue of \$0.4 million. Billed water sales volumes were up 0.3 percent.

Operating expenses increased \$1.3 million or 3.2 percent. Operating and maintenance expenses (O&M) decreased \$0.3 million compared to the prior year. Depreciation expense was \$1.5 million higher than the prior year. Taxes and tax equivalents were \$0.2 million higher than the prior year.

Interest income was \$0.7 million lower than the prior fiscal year. Interest expense was up slightly from the prior year.

Capital contributions were \$0.3 million higher than the prior fiscal year, the result of an increase in assets contributed by developers.

Total plant assets (net) increased \$7.7 million or 2.1 percent due to water main replacements, treatment plant improvements, and system improvements.

During fiscal year 2021, KUB sold \$9 million in water system revenue bonds for the purpose of funding water system capital improvements. KUB also took advantage of a lower interest environment to refinance outstanding debt, selling \$33.2 million in water system revenue refunding bonds in March 2021. KUB will realize a total debt service savings of \$10.2 million over the life of the bonds (\$9.1 million on a net present value basis).

Long-term debt represented 48.5 percent of the Division's capital structure as of June 30, 2021, as compared to 50.3 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. Current year debt coverage for the fiscal year was 2.35. Maximum debt service coverage was 2.48.

Fiscal Year 2020 Compared to Fiscal Year 2019

The Division's net position increased \$14.3 million in fiscal year 2020, which was \$4.1 million higher than the prior fiscal year. Comparatively, net position increased \$10.2 million in fiscal year 2019.

Operating revenue increased \$4.4 million or 7.6 percent, the result of additional revenue from the water rate increase effective July 2019.

Operating expenses decreased \$1.4 million or 3.3 percent. Operating and maintenance expenses (O&M) decreased \$1 million compared to the prior year. Depreciation expense was \$0.3 million lower than the prior year. Taxes and tax equivalents were \$0.1 million lower than the prior year.

Interest income was consistent with the prior fiscal year. Interest expense was \$0.3 million higher than the prior year, due to interest expense on new revenue bonds sold during the fiscal year.

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

Capital contributions were \$0.5 million lower than the prior fiscal year, the result of a decrease in assets contributed by developers.

Total plant assets (net) increased \$22.6 million or 6.6 percent due to treatment plant improvements, water main replacements, and system improvements.

During fiscal year 2020, KUB sold \$20 million in water system revenue bonds for the purpose of funding water system capital improvements and also sold \$19.5 million in water system revenue refunding bonds for the purpose of refinancing existing water system revenue bonds at lower interest rates. KUB will realize a total debt service savings of \$3.9 million over the life of the bonds (\$3.1 million on a net present value basis).

Long-term debt represented 50.3 percent of the Division's capital structure as of June 30, 2020, as compared to 50.6 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. Current year debt coverage for the fiscal year was 2.53. Maximum debt service coverage was 2.48.

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

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, 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 less 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, 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, 2021 and 2020**

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>	2021	2020	2019
Current, restricted and other assets	\$ 64,461	\$ 59,102	\$ 49,922
Capital assets, net	370,925	363,225	340,619
Deferred outflows of resources	<u>3,602</u>	<u>4,534</u>	<u>5,538</u>
Total assets and deferred outflows of resources	<u>438,988</u>	<u>426,861</u>	<u>396,079</u>
Current and other liabilities	14,552	16,191	15,346
Long-term debt outstanding	207,473	205,659	192,222
Deferred inflows of resources	<u>5,738</u>	<u>2,674</u>	<u>500</u>
Total liabilities and deferred inflows of resources	<u>227,763</u>	<u>224,524</u>	<u>208,068</u>
Net position			
Net investment in capital assets	161,248	155,729	147,252
Restricted	2,145	2,240	2,151
Unrestricted	<u>47,832</u>	<u>44,368</u>	<u>38,608</u>
Total net position	\$ <u>211,225</u>	\$ <u>202,337</u>	\$ <u>188,011</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 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, 2021 and 2020

Impacts and Analysis

Current, Restricted and Other Assets

Fiscal Year 2021 Compared to Fiscal Year 2020

Current, restricted and other assets increased \$5.4 million or 9.1 percent. This reflects a \$2.3 million increase in the Division's general fund cash (consisting of cash and cash equivalents, short-term investments, and long-term investments) and an increase in the actuarially determined net pension asset of \$3.4 million.

Fiscal Year 2020 Compared to Fiscal Year 2019

Current, restricted and other assets increased \$9.2 million or 18.4 percent. This reflects a \$7.5 million increase in the Division's general fund cash (consisting of cash and cash equivalents, short-term investments, and long-term investments) and an increase in the actuarially determined net pension asset of \$2.5 million.

Capital Assets

Fiscal Year 2021 Compared to Fiscal Year 2020

Capital assets, net of depreciation, increased \$7.7 million or 2.1 percent. Spending was slowed this year to allow for greater financial liquidity in response to the pandemic. Capital expenditures included \$10.3 million for water main replacement, \$5 million for system improvements, \$2.3 million for water plant redundancy, and \$1.1 million for building improvements. During the fiscal year, \$6.8 million of water system assets were retired.

Fiscal Year 2020 Compared to Fiscal Year 2019

Capital assets, net of depreciation, increased \$22.6 million or 6.6 percent. Capital expenditures included \$9.6 million for water main replacement, \$8 million for water plant redundancy, \$5.3 million for system improvements, \$3.3 million for building improvements, and \$1.9 million for deployment of advanced metering equipment. During the fiscal year, \$11.1 million of water system assets were retired.

Deferred Outflows of Resources

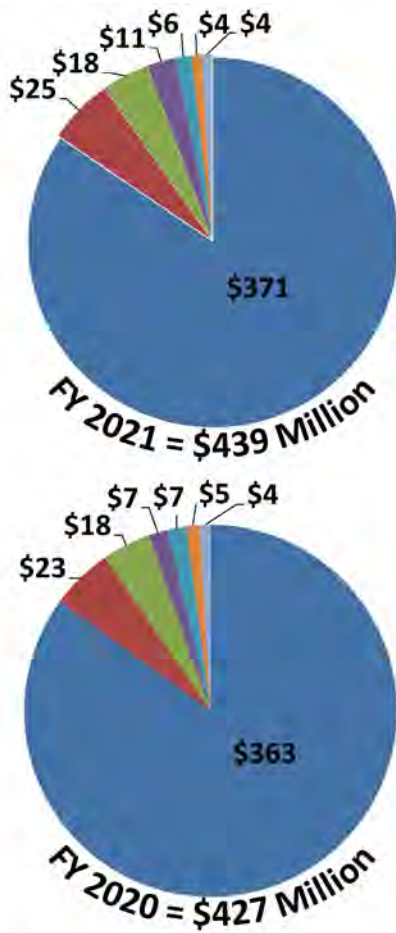
Fiscal Year 2021 Compared to Fiscal Year 2020

Deferred outflows of resources decreased \$0.9 million compared to the prior fiscal year due to a \$0.5 million decrease in OPEB outflow and a \$0.4 million decrease in unamortized bond refunding costs.

Fiscal Year 2020 Compared to Fiscal Year 2019

Deferred outflows of resources decreased \$1 million compared to the prior fiscal year due to a decrease in pension outflow.

**Knoxville Utilities Board Water Division
Management’s Discussion and Analysis
June 30, 2021 and 2020**



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

	<u>FY21</u>	<u>FY20</u>
Plant	85%	85%
General Fund	6%	5%
Contingency Fund	4%	4%
Other Assets	2%	2%
Accounts Receivable	1%	2%
Deferred Outflows of Resources	1%	1%
Restricted Assets	1%	1%

Current and Other Liabilities

Fiscal Year 2021 Compared to Fiscal Year 2020

Current and other liabilities decreased \$1.6 million compared to the prior fiscal year. This decrease reflects a \$1 million decrease in net OPEB liability, a \$0.4 million decrease in payables, and a \$0.2 million decrease in the current portion of revenue bonds.

Fiscal Year 2020 Compared to Fiscal Year 2019

Current and other liabilities increased \$0.8 million compared to the prior fiscal year. This increase reflects a \$0.7 million increase in the current portion of revenue bonds, a \$0.8 million increase in net OPEB liability, and a \$0.2 million increase in accrued compensated absences offset by a \$0.9 million decrease in net pension liability.

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

Long-Term Debt

Fiscal Year 2021 Compared to Fiscal Year 2020

Long-term debt increased \$1.8 million or 0.9 percent. This increase is due in part to the net impact of the scheduled repayment of debt and \$9 million in water system revenue bonds sold in October 2020. KUB also sold \$33.2 million of water system revenue refunding bonds in March 2021 with a premium of \$8.1 million to refund \$41.2 million in outstanding debt, resulting in a reduction of principal of \$8 million.

Fiscal Year 2020 Compared to Fiscal Year 2019

Long-term debt increased \$13.4 million or 7 percent. This increase is due to \$20 million in water system revenue bonds, sold in July 2019, and water system revenue refunding bonds of \$19.5 million, sold in April 2020, offset by the refunded bonds and the scheduled repayment of debt.

Deferred Inflows of Resources

Fiscal Year 2021 Compared to Fiscal Year 2020

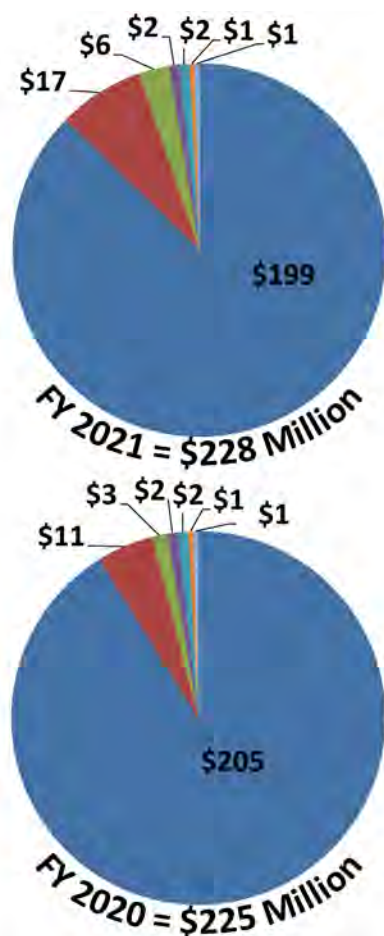
Deferred inflows increased \$3.1 million compared to the prior fiscal year due to a \$2 million increase in pension inflow and a \$1 million increase in OPEB inflow.

Fiscal Year 2020 Compared to Fiscal Year 2019

Deferred inflows increased \$2.2 million compared to the prior fiscal year due to differences in pension inflow.

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**Knoxville Utilities Board Water Division
Management’s Discussion and Analysis
June 30, 2021 and 2020**



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

	<u>FY21</u>	<u>FY20</u>
■ Bond Debt	87%	91%
■ Other Liabilities	7%	5%
■ Deferred Inflows of Resources	3%	1%
■ Payables	1%	1%
■ Interest Accrued	1%	1%
■ Customer Deposits	<1%	<1%
■ Misc Current	<1%	<1%

Net Position

Fiscal Year 2021 Compared to Fiscal Year 2020

Net position increased \$8.9 million in fiscal year 2021. Unrestricted net position increased \$3.5 million, primarily due to a \$2.3 million increase in the Division’s general fund cash (consisting of cash and cash equivalents, short-term investments, and long-term investments). Net investment in capital assets increased \$5.5 million, the result of \$7.7 million in net plant additions offset by an increase in current portion of revenue bonds and total long-term debt of \$1.6 million. Restricted assets decreased \$0.1 million due to a decrease in required bond fund reserves.

Fiscal Year 2020 Compared to Fiscal Year 2019

Net position increased \$14.3 million in fiscal year 2020. Unrestricted net position increased \$5.8 million, primarily due to a \$7.5 million increase in the Division’s general fund cash (consisting of cash and cash equivalents, short-term investments, and long-term investments). Net investment in capital assets increased \$8.5 million, the result of \$22.6 million in net plant additions offset by an increase in current portion of revenue bonds and total long-term debt of \$14.1 million. Restricted assets increased \$0.1 million due to an increase in required bond fund reserves.

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

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>	2021	2020	2019
Operating revenues	\$ 61,801	\$ 62,474	\$ 58,073
Operating expenses			
Treatment	4,444	3,644	3,984
Distribution	15,493	15,176	15,418
Customer service	1,720	1,659	1,887
Administrative and general	4,874	6,397	6,633
Depreciation	11,548	10,040	10,315
Taxes and tax equivalents	4,494	4,327	4,418
Total operating expenses	<u>42,573</u>	<u>41,243</u>	<u>42,655</u>
Operating income	<u>19,228</u>	<u>21,231</u>	<u>15,418</u>
Interest income	143	842	886
Interest expense	(7,194)	(7,132)	(6,840)
Other income/(expense)	<u>(3,610)</u>	<u>(671)</u>	<u>143</u>
Change in net position before capital contributions	<u>8,567</u>	<u>14,270</u>	<u>9,607</u>
Capital Contributions	<u>321</u>	<u>56</u>	<u>564</u>
Change in net position	<u>\$ 8,888</u>	<u>\$ 14,326</u>	<u>\$ 10,171</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 expense is impacted by 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 expense is impacted by the level of interest rates and investments.

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

- 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 2021 Compared to Fiscal Year 2020

The Division's Change in Net Position increased \$8.9 million in fiscal year 2021. Comparatively, net position increased by \$14.3 million in fiscal year 2020.

Fiscal Year 2020 Compared to Fiscal Year 2019

The Division's Change in Net Position increased \$14.3 million in fiscal year 2020. Comparatively, net position increased by \$10.2 million in fiscal year 2019.

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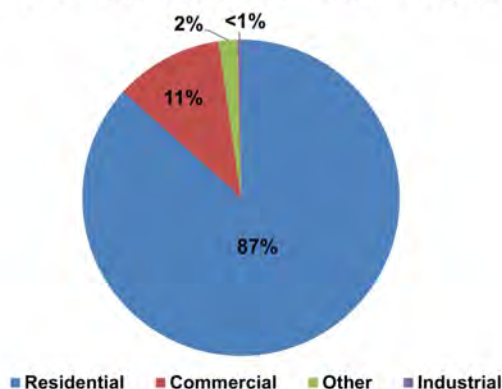
Knoxville Utilities Board Water Division Management's Discussion and Analysis June 30, 2021 and 2020

Margin from Sales

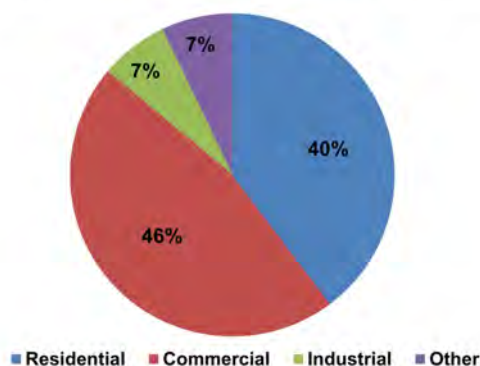
Fiscal Year 2021 Compared to Fiscal Year 2020

Operating revenues decreased \$0.7 million or 1.1 percent. This reflects an increase in billed sales of \$0.2 million and a decrease in other operating revenue of \$0.4 million. Billed water sales volumes were up 0.3 percent.

FY 2021 Total Water Customers = 81,506



FY 2021 Water Sales = 8 Billion Gallons



Residential customers represented 87 percent of water customers and accounted for 40 percent of water sales volumes for the year. Commercial and industrial customers accounted for the largest portion (53 percent) of total sales volumes during the year.

KUB's ten largest water customers accounted for 24 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 1,583 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 0.9 percent compared to the prior fiscal year.

Commercial water sales volumes decreased 0.6 percent compared to the prior year, as many small businesses were impacted by the pandemic. Industrial sales volumes increased 2.1 percent compared to the prior year.

Other water sales volumes (i.e. utility districts) were 1.4 percent higher than the prior year.

Water consumption for the fiscal year was affected by higher than normal rainfall. Precipitation for the fiscal year was 4.2 percent higher than normal but 23.3 percent lower than the prior fiscal year.

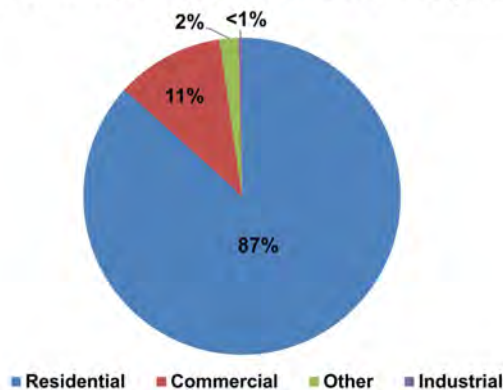
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Knoxville Utilities Board Water Division Management's Discussion and Analysis June 30, 2021 and 2020

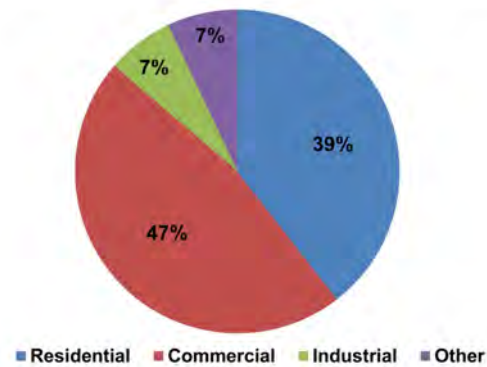
Fiscal Year 2020 Compared to Fiscal Year 2019

Operating revenues increased \$4.4 million or 7.6 percent. This reflects additional revenue from the 6.5 percent water rate increase effective July 2019 offset by a 1.2 percent decline in billed water sales volumes, as commercial and industrial sales volumes were lower.

FY 2020 Total Water Customers = 80,961



FY 2020 Water Sales = 8 Billion Gallons



Residential customers represented 87 percent of water customers and accounted for 39 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 24 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 1,519 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 2.7 percent compared to the prior fiscal year.

Commercial water sales volumes decreased 3.4 percent compared to the prior year. Industrial sales volumes decreased 13.2 percent compared to the prior year, due to the closure of a large industrial customer late in the prior fiscal year.

Other water sales volumes (i.e. utility districts) were 6 percent higher than the prior year.

Water consumption for the fiscal year was affected by higher than normal rainfall. Precipitation for the fiscal year was 36 percent higher than normal but 10.9 percent lower than the prior fiscal year.

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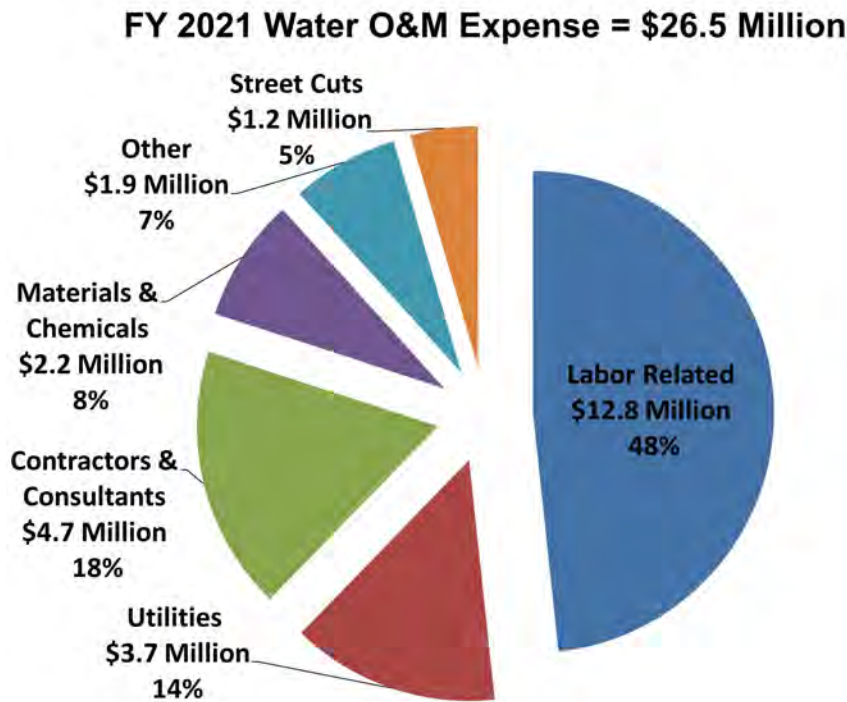
**Knoxville Utilities Board Water Division
Management’s Discussion and Analysis
June 30, 2021 and 2020**

Operating Expenses

Fiscal Year 2021 Compared to Fiscal Year 2020

Operating expenses increased \$1.3 million or 3.2 percent. Operating expenses include operations and maintenance (O&M) expense, depreciation, and taxes/tax equivalents. O&M expenses can be further classified as treatment, distribution, customer service, and administrative and general.

- Treatment expenses were \$0.8 million or 22 percent higher than the prior fiscal year due to an increase in outside contractor and consultant costs.
- Distribution expenses were \$0.3 million or 2.1 percent higher than the prior fiscal year due to an increase in outside contractor and consultant costs.
- Customer service expenses were consistent with the prior fiscal year.
- Administrative and general expenses were \$1.5 million lower than the prior fiscal year, primarily due to a decrease in labor related expenses, including lower pension and OPEB expenses.



- Depreciation expense increased \$1.5 million. KUB added \$22.9 million in assets during fiscal year 2021, including \$3.3 million of multi-year projects being held in Construction Work in Progress. A partial year of depreciation expense was recorded on these capital investments and a full year of depreciation expense was incurred on \$30.9 million in assets placed in service during fiscal year 2020. In addition, \$6.8 million of assets were retired in fiscal year 2021.
- Taxes and tax equivalents were \$0.2 million higher than the prior fiscal year.

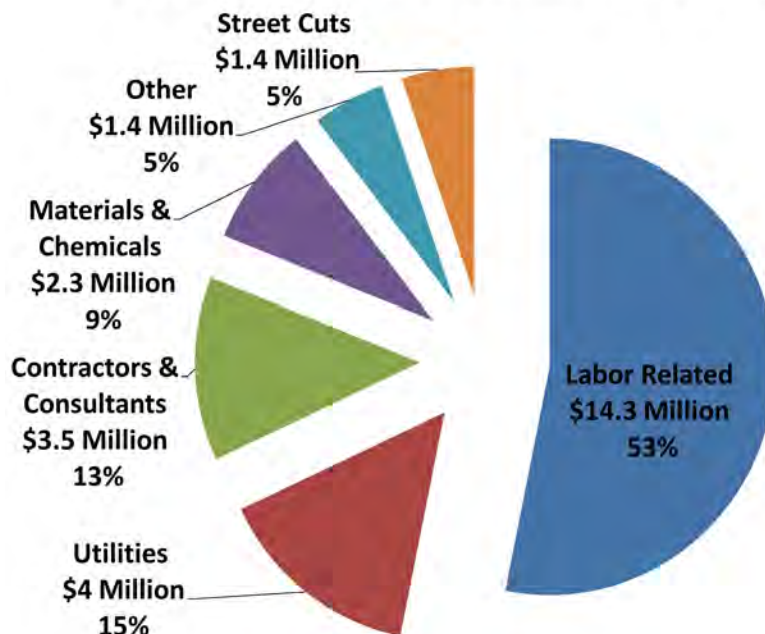
Knoxville Utilities Board Water Division Management's Discussion and Analysis June 30, 2021 and 2020

Fiscal Year 2020 Compared to Fiscal Year 2019

Operating expenses decreased \$1.4 million or 3.3 percent. Operating expenses include operations and maintenance (O&M) expense, depreciation, 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 8.5 percent lower than the prior fiscal year due to a decrease in outside contractor costs.
- Distribution expenses were \$0.2 million or 1.6 percent lower than the prior fiscal year due to a decrease in outside contractor and consultant costs offset by higher labor related expenses.
- Customer service expenses were \$0.2 million lower than the prior fiscal year due to a decrease in outside contractor costs.
- Administrative and general expenses were \$0.2 million lower than the prior fiscal year, primarily due to a decrease in insurance and consultant costs offset by higher labor related expenses.

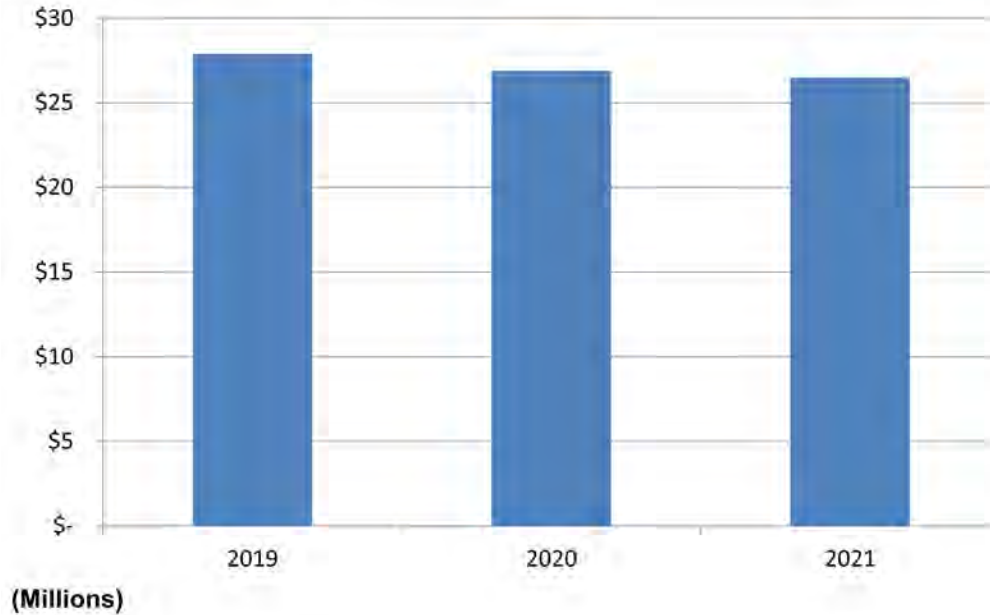
FY 2020 Water O&M Expense = \$26.9 Million



- Depreciation expense was down \$0.3 million, as the accelerated depreciation of existing meters replaced as part of KUB's system wide deployment of advanced metering equipment came to a close this year and \$11.1 million of assets were retired.
- Taxes and tax equivalents were \$0.1 million lower than the prior fiscal year.

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

Water Division Operation & Maintenance Expense



Other Income and Expense

Fiscal Year 2021 Compared to Fiscal Year 2020

Interest income decreased \$0.7 million compared with the prior fiscal year, primarily due to lower short-term interest rates.

Interest expense was up slightly from the prior fiscal year.

Other expense (net) was \$2.9 million higher than the prior fiscal year, primarily due to losses on disposal of property.

Capital contributions increased \$0.3 million, the result of an increase in donated utility assets from developers compared to the previous fiscal year.

Fiscal Year 2020 Compared to Fiscal Year 2019

Interest income was consistent with the prior fiscal year.

Interest expense increased \$0.3 million, reflecting the net impact of interest expense from new revenue bonds sold during the fiscal year and savings on refunding of outstanding bonds.

Other income (net) was \$0.8 million lower than the prior fiscal year, primarily due to losses on disposal of property.

Capital contributions decreased \$0.5 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, 2021 and 2020

Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

<i>(in thousands of dollars)</i>	2021	2020	2019
Production Plant	\$ 7	\$ 7	\$ 7
Pumping & Treatment Plant	53,200	53,491	53,079
Distribution Plant			
Distribution Mains	\$ 177,805	\$ 174,196	\$ 165,540
Transmission Mains	35,924	33,668	26,237
Services & Meters	37,244	40,570	36,813
Other Accounts	13,287	13,741	13,676
Total Distribution Plant	<u>264,260</u>	<u>262,175</u>	<u>242,266</u>
Total General Plant	\$ <u>14,811</u>	\$ <u>8,961</u>	\$ <u>9,265</u>
Total Water Plant	332,278	324,634	304,617
Work In Progress	<u>38,647</u>	<u>38,591</u>	<u>36,002</u>
Total Net Plant	<u>\$ 370,925</u>	<u>\$ 363,225</u>	<u>\$ 340,619</u>

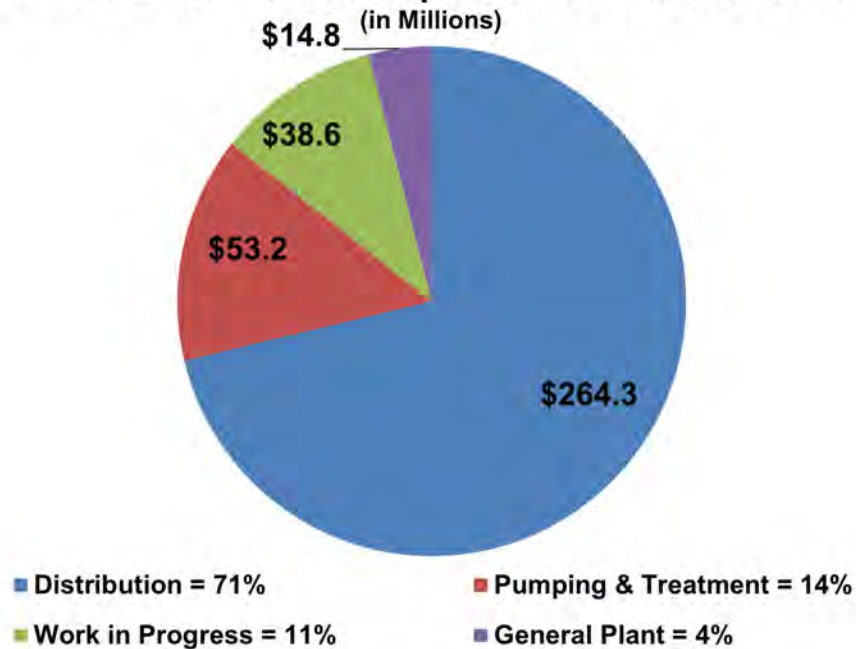
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Knoxville Utilities Board Water Division Management's Discussion and Analysis June 30, 2021 and 2020

Fiscal Year 2021 Compared to Fiscal Year 2020

As of June 30, 2021, the Division had \$370.9 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 \$7.7 million or 2.1 percent over the end of the last fiscal year. Spending on capital assets was slowed this year to allow for greater financial liquidity in response to the pandemic.

FY 2021 Water Division Capital Assets = \$370.9 Million



Major capital asset expenditures during the year were as follows:

- \$10.3 million for galvanized and cast-iron water main replacement
- \$5 million for system improvements
- \$2.3 million for water plant redundancy
- \$1.1 million for building improvements

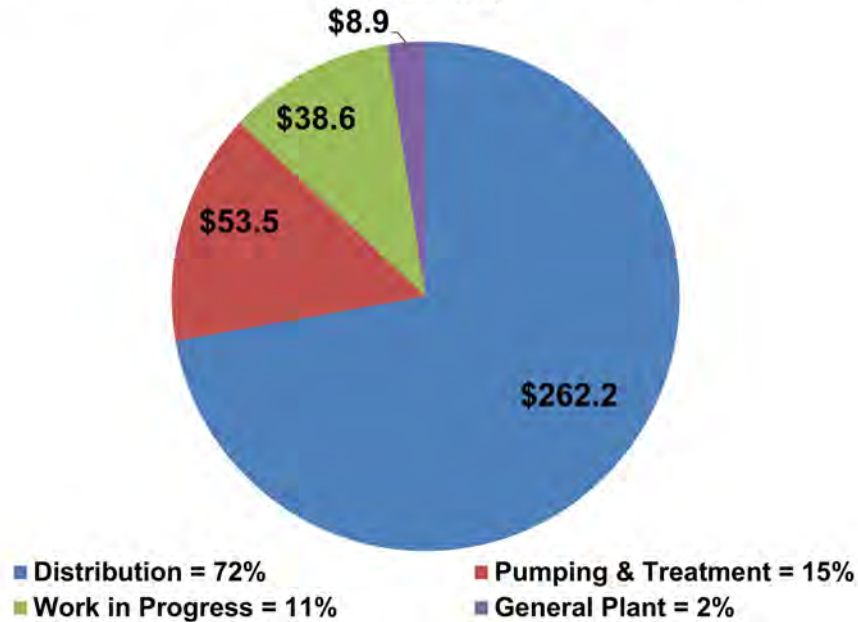
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Knoxville Utilities Board Water Division Management's Discussion and Analysis June 30, 2021 and 2020

Fiscal Year 2020 Compared to Fiscal Year 2019

As of June 30, 2020, the Division had \$363.2 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 \$22.6 million or 6.6 percent over the end of the last fiscal year.

FY 2020 Water Division Capital Assets = \$363.2 Million (in Millions)



Major capital asset expenditures during the year were as follows:

- \$9.6 million for galvanized and cast-iron water main replacement
- \$8 million for water plant redundancy
- \$5.3 million for system improvements
- \$3.3 million for building improvements including a new Engineering Building
- \$1.9 million for deployment of advanced metering equipment

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

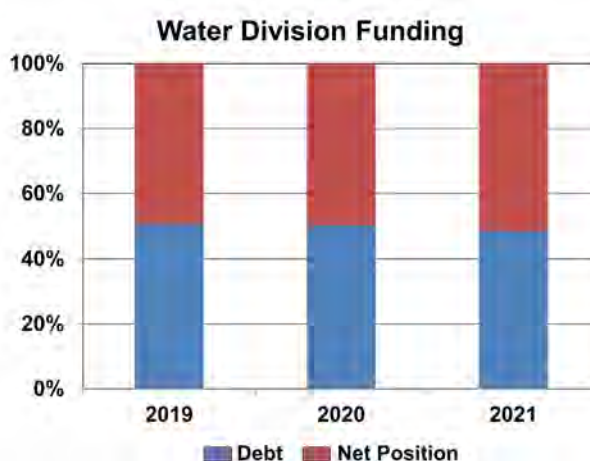
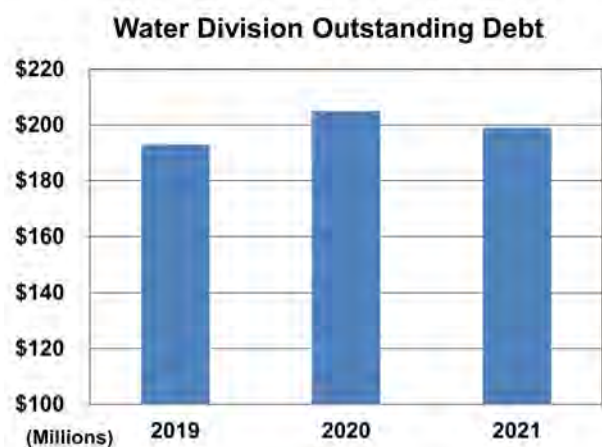
Debt Administration

As of June 30, 2021, the Water Division had \$198.6 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 48.5 percent in 2021, 50.3 percent in 2020, and 50.6 percent at the end of fiscal year 2019. KUB's Debt Management Policy limits the Division's debt ratio to 60 percent or less.

Outstanding Debt As of June 30

(in thousands of dollars)

	2021	2020	2019
Revenue bonds	\$ 198,600	\$ 204,890	\$ 192,820
Total outstanding debt	\$ 198,600	\$ 204,890	\$ 192,820



The Division will pay \$82.3 million in principal payments over the next ten years, representing 41.4 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 2021 Compared to Fiscal Year 2020

As of June 30, 2021, the Division had \$198.6 million in outstanding debt (including the current portion of revenue bonds), compared to \$204.9 million last year, a decrease of \$6.3 million or 3.1 percent. As of June 30, 2021, the Division's weighted average cost of debt was 3.54 percent.

KUB sold \$9 million in water system revenue bonds in October 2020 for the purpose of funding water system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.36 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2050.

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

Knoxville Utilities Board Water Division

Management's Discussion and Analysis

June 30, 2021 and 2020

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2021, the Division's revenue bonds were rated AAA by Standard & Poor's and Aa1 by Moody's Investors Service. The Standard and Poor's water rating represents the highest credit rating available from Standard and Poor's.

Fiscal Year 2020 Compared to Fiscal Year 2019

As of June 30, 2020, the Division had \$204.9 million in outstanding debt (including the current portion of revenue bonds), compared to \$192.8 million last year, an increase of \$12.1 million or 6.3 percent. The increase is attributable to new revenue and refunding bonds issued during the fiscal year offset by refunded bonds and the scheduled repayment of debt. As of June 30, 2020, the Division's weighted average cost of debt was 3.47 percent.

KUB sold \$20 million in water system revenue bonds in July 2019 for the purpose of funding water system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.79 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2049.

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

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2020, the Division's revenue bonds were rated AAA by Standard & Poor's and Aa1 by Moody's Investors Service. The Standard and Poor's water rating represents the highest credit rating available from Standard and Poor's.

Impacts on Future Financial Position

KUB anticipates adding 375 additional water system customers during fiscal year 2022.

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

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

The Pension Plan actuarial valuation resulted in an actuarially determined contribution of \$3,665,168 for the fiscal year ending June 30, 2022, based on the Plan's current funding policy. The Water Division's portion of this contribution is \$476,472. Subsequent to June 30, 2021, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$2,624,373 for the fiscal year ending June 30, 2023, based on the Plan's current funding policy. The Water Division's portion of this contribution is \$341,168. For the Plan year beginning January 1, 2021, the Plan's actuarial funded ratio is 105.56 percent, and the market value funded ratio is 120.37 percent.

The OPEB Plan actuarial valuation resulted in an actuarially determined contribution of \$489,066 for the fiscal year ending June 30, 2022, based on the Plan's current funding policy. The Water Division's portion of this contribution is \$63,579. Subsequent to June 30, 2021, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$1,413,392 for the fiscal year ending June 30, 2023,

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

based on the Plan's current funding policy. The Water Division's portion of this contribution is \$183,741. The Plan's actuarial funded ratio is 89.85 percent, and the market value funded ratio is 95.93 percent.

GASB Statement No. 87, *Leases*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, is effective for fiscal years beginning after December 15, 2020. GASB Statement No. 91, *Conduit Debt Obligations*, is effective for fiscal years beginning after December 15, 2021. GASB Statement No. 92, *Omnibus 2020*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 93, *Replacement of Interbank Offered Rates*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, is effective for fiscal years beginning after June 15, 2021. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on the Division's financial position or results of operations during fiscal year 2021.

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, 2021 and 2020. If you have questions about the statements or need additional financial information, contact KUB's Chief Financial Officer at 445 South Gay Street, Knoxville, Tennessee 37902.

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

	2021	2020
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	\$ 25,024,961	\$ 20,235,168
Short-term investments	-	2,520,675
Short-term contingency fund investments	6,793,691	15,185,165
Other current assets	260,600	260,228
Accrued interest receivable	995	15,248
Accounts receivable, less allowance of uncollectible accounts of \$58,701 in 2021 and \$50,465 in 2020	6,412,730	6,882,121
Inventories	1,729,740	1,875,987
Prepaid expenses	40,929	40,937
Total current assets	<u>40,263,646</u>	<u>47,015,529</u>
Restricted assets:		
Water bond fund	4,287,603	4,461,568
Other funds	197	197
Total restricted assets	<u>4,287,800</u>	<u>4,461,765</u>
Water plant in service	467,645,256	451,529,712
Less accumulated depreciation	<u>(135,366,921)</u>	<u>(126,895,480)</u>
	332,278,335	324,634,232
Retirement in progress	11,223	454,552
Construction in progress	38,635,676	38,136,374
Net plant in service	<u>370,925,234</u>	<u>363,225,158</u>
Other assets:		
Net pension asset	5,862,907	2,485,779
Net OPEB asset	771,138	-
Long-term contingency fund investments	10,996,562	2,712,435
Other	2,279,249	2,426,652
Total other assets	<u>19,909,856</u>	<u>7,624,866</u>
Total assets	<u>435,386,536</u>	<u>422,327,318</u>
Deferred outflows of resources:		
Pension outflow	1,072,710	1,056,001
OPEB outflow	2,782	543,232
Unamortized bond refunding costs	2,526,127	2,935,130
Total deferred outflows of resources	<u>3,601,619</u>	<u>4,534,363</u>
Total assets and deferred outflows of resources	<u>\$ 438,988,155</u>	<u>\$ 426,861,681</u>

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

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

	2021	2020
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	\$ 6,925,000	\$ 7,140,000
Sales tax collections payable	363,478	363,281
Accounts payable	1,467,601	1,862,562
Accrued expenses	873,055	822,056
Customer deposits plus accrued interest	976,961	1,003,304
Accrued interest on revenue bonds	2,142,503	2,221,468
Total current liabilities	<u>12,748,598</u>	<u>13,412,671</u>
Other liabilities:		
Accrued compensated absences	1,759,025	1,753,547
Net pension liability	2,433	2,631
Net OPEB liability	-	986,628
Other	41,758	35,842
Total other liabilities	<u>1,803,216</u>	<u>2,778,648</u>
Long-term debt:		
Water revenue bonds	191,675,000	197,750,000
Unamortized premiums/discounts	15,798,371	7,909,293
Total long-term debt	<u>207,473,371</u>	<u>205,659,293</u>
Total liabilities	<u>222,025,185</u>	<u>221,850,612</u>
Deferred inflows of resources:		
Pension inflow	4,703,684	2,673,916
OPEB inflow	1,034,619	-
Total deferred inflows of resources	<u>5,738,303</u>	<u>2,673,916</u>
Total liabilities and deferred inflows of resources	<u>227,763,488</u>	<u>224,524,528</u>
Net position		
Net investment in capital assets	161,247,461	155,728,467
Restricted for:		
Debt service	2,145,100	2,240,100
Other	197	197
Unrestricted	47,831,909	44,368,389
Total net position	<u>211,224,667</u>	<u>202,337,153</u>
Total liabilities, deferred inflows, and net position	<u>\$ 438,988,155</u>	<u>\$ 426,861,681</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, 2021 and 2020

	2021	2020
Operating revenues	\$ 61,800,494	\$ 62,473,524
Operating expenses		
Treatment	4,444,493	3,644,360
Distribution	15,492,694	15,175,452
Customer service	1,720,370	1,659,209
Administrative and general	4,873,745	6,397,245
Provision for depreciation	11,547,547	10,039,955
Taxes and tax equivalents	4,494,108	4,327,074
Total operating expenses	<u>42,572,957</u>	<u>41,243,295</u>
Operating income	<u>19,227,537</u>	<u>21,230,229</u>
Non-operating revenues (expenses)		
Contributions in aid of construction	957,719	1,298,668
Interest income	142,876	841,842
Interest expense	(7,193,959)	(7,132,413)
Amortization of debt costs	177,049	47,518
Write-down of plant for costs recovered through contributions	(957,719)	(1,298,668)
Other	<u>(3,787,397)</u>	<u>(717,993)</u>
Total non-operating revenues (expenses)	<u>(10,661,431)</u>	<u>(6,961,046)</u>
Change in net position before capital contributions	8,566,106	14,269,183
Capital contributions	<u>321,408</u>	<u>56,388</u>
Change in net position	8,887,514	14,325,571
Net position, beginning of year	202,337,153	188,011,582
Net position, end of year	<u>\$ 211,224,667</u>	<u>\$ 202,337,153</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, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash receipts from customers	\$ 60,973,366	\$ 60,603,965
Cash receipts from other operations	2,177,019	2,393,209
Cash payments to suppliers of goods or services	(17,364,667)	(15,101,087)
Cash payments to employees for services	(12,195,167)	(10,911,023)
Payment in lieu of taxes	(3,528,135)	(3,378,895)
Net cash provided by operating activities	<u>30,062,416</u>	<u>33,606,169</u>
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	9,920,634	21,021,438
Principal paid on revenue bonds	(7,350,000)	(6,845,000)
Interest paid on revenue bonds	(7,485,427)	(7,178,460)
Acquisition and construction of water plant	(24,225,990)	(35,341,943)
Changes in water bond fund, restricted	173,965	(45,620)
Proceeds received on disposal of plant	4,864	36,112
Cash received from developers and individuals for capital purposes	957,719	1,298,668
Net cash used in capital and related financing activities	<u>(28,004,235)</u>	<u>(27,054,805)</u>
Cash flows from investing activities:		
Purchase of investment securities	(10,999,095)	(16,862,541)
Maturities of investment securities	13,499,115	16,836,873
Interest received	187,504	884,709
Other property and investments	44,088	63,419
Net cash provided by investing activities	<u>2,731,612</u>	<u>922,460</u>
Net increase in cash and cash equivalents	4,789,793	7,473,824
Cash and cash equivalents, beginning of year	<u>20,235,168</u>	<u>12,761,344</u>
Cash and cash equivalents, end of year	<u>\$ 25,024,961</u>	<u>\$ 20,235,168</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 19,227,537	\$ 21,230,229
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	12,150,880	10,588,166
Changes in operating assets and liabilities:		
Accounts receivable	469,391	(399,398)
Inventories	146,247	1,323,530
Prepaid expenses	8	3,065
Other assets	(25,969)	7,526
Sales tax collections payable	197	19,662
Accounts payable and accrued expenses	(1,885,448)	809,541
Customer deposits plus accrued interest	(26,343)	37,891
Other liabilities	5,916	(14,043)
Net cash provided by operating activities	<u>\$ 30,062,416</u>	<u>\$ 33,606,169</u>
Noncash capital activities:		
Acquisition of plant assets through developer contributions	\$ 321,408	\$ 56,388

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

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2021 and 2020

1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions, including setting rates. 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 at June 30, 2021 and 2020, 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 January 2017, the GASB issued GASB Statement No. 84 (Statement No. 84), *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 is effective for fiscal years beginning after December 15, 2019. Adoption of this Statement did not have a significant impact on the Division’s financial statements.

Knoxville Utilities Board Water Division

Notes to Financial Statements

June 30, 2021 and 2020

In August 2018, the GASB issued GASB Statement No. 90 (Statement No. 90), *Major Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Statement No. 90 is effective for fiscal years beginning after December 15, 2019. Adoption of this Statement did not have a significant impact on the Division'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 "Provision for depreciation" in the Statements of Revenues, Expenses and Changes in Net Position does not include depreciation for transportation equipment of \$603,333 in fiscal year 2021 and \$548,211 in fiscal year 2020. Under regulatory accounting, interest costs are expensed as incurred with construction of plant assets.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of 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 \$268,428 in fiscal year 2021 and \$121,068 in fiscal year 2020.

Non-operating Revenue

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

Expense

When an expense is incurred for purposes for which there are both restricted and unrestricted 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, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

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

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

OPEB Plan

KUB's employees hired prior to July 1, 1999, who are retired and who (prior to retirement) qualified for retiree medical insurance by meeting the Rule of 80 (age plus years of service) with a minimum of 20 years of service and were enrolled in medical coverage on their last day, are eligible for post-employment health care. KUB's OPEB Trust was established by KUB's Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. KUB's policy is to fully fund the annual actuarially determined contributions, which are determined by actuarial valuation. As required by GASB Statement No. 75, KUB measures net OPEB liability as total OPEB liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2021 and 2020 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a June 30, 2021 and 2020 measurement date, respectively. The net OPEB asset is \$5,931,828 (Division's share \$771,138) as of June 30, 2021 and the net OPEB liability is \$7,589,447 (Division's share \$986,628) as of June 30, 2020.

Pension Plan and Qualified Excess Benefit Arrangement

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 10). KUB's policy is to fully fund the annual actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2021 and 2020 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a December 31, 2020 and 2019 measurement date, respectively. The net pension asset is \$45,099,288 (Division's share \$5,862,907) as of June 30, 2021, and \$19,121,375 (Division's share \$2,485,779) as of June 30, 2020.

KUB implemented a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of pension benefits that exceed the

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IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). The QEBA is a single-employer defined benefit pension plan, administered by KUB (Note 11). As required by GASB Statement No. 73, KUB measures the total pension liability of the QEBA. The amounts reported as of June 30, 2021 and 2020 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a December 31, 2020 and 2019 measurement date, respectively. The total pension liability of the QEBA is \$18,714 (Division's share \$2,433) as of June 30, 2021 and \$20,236 (Division's share \$2,631) as of June 30, 2020.

Investments

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

Self-Insurance

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

Estimates

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

Restricted and Designated Assets

Certain assets are restricted by bond resolutions for the construction of utility plant and debt repayment. Certain additional assets are designated by management for contingency purposes and economic development.

Cash Equivalents

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

Deferred Outflows and Inflows of Resources

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

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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. 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.

Subsequent Events

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

Recently Issued Accounting Pronouncements

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

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

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

In January 2020, the GASB issued GASB Statement No. 92 (Statement No. 92), *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain

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provisions of Statement No. 92 were effective immediately. Paragraphs 6, 7, 8, 9, and 12 are effective for fiscal years beginning after June 15, 2021.

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

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

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

In June 2020, the GASB issued GASB Statement No. 97 (Statement No. 97), *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The objectives of this Statement are to (a) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (b) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (c) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Statement No. 97 is effective for fiscal years beginning after June 15, 2021.

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

3. Deposits and Investments

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

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

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

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

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

Classification of deposits and investments per Statement of Net Position:

	2021	2020
Current assets		
Cash and cash equivalents	\$ 25,024,961	\$ 20,235,168
Short-term investments	-	2,520,675
Short-term contingency fund investments	6,793,657	15,182,861
Other assets		
Long-term contingency fund investments	10,974,600	2,660,098
Restricted assets		
Water bond fund	4,287,603	4,461,568
Other funds	197	197
	<u>\$ 47,081,018</u>	<u>\$ 45,060,567</u>

The above amounts do not include accrued interest of \$21,996 in fiscal year 2021 and \$54,641 in fiscal year 2020. 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, 2021:

	Deposit and Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	\$ 25,960,676	\$ 25,960,676	\$ -
State Treasurer's Investment Pool	8,454,314	8,454,314	-
Agency Bonds	13,601,446	2,626,846	10,974,600
	<u>\$ 48,016,436</u>	<u>\$ 37,041,836</u>	<u>\$ 10,974,600</u>

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

KUB has the following recurring fair value measurements as of June 30, 2021:

- U.S. Agency bonds of \$10,974,600, 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:

	2021	2020
Wholesale and retail customers		
Billed services	\$ 4,115,563	\$ 4,449,302
Unbilled services	2,209,083	2,305,223
Other	146,785	178,061
Allowance for uncollectible accounts	(58,701)	(50,465)
	<u>\$ 6,412,730</u>	<u>\$ 6,882,121</u>

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5. Accounts Payable and Accruals

Accounts payable and accruals were composed of the following:

	2021	2020
Trade accounts	\$ 1,467,601	\$ 1,862,562
Salaries and wages	621,343	598,375
Self-insurance liabilities	<u>251,712</u>	<u>223,681</u>
	<u>\$ 2,340,656</u>	<u>\$ 2,684,618</u>

6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2020	Additions	Payments	Defeased	Balance June 30, 2021	Amounts Due Within One Year
X-2012 - 3.0 - 5.0%	\$ 6,460,000	\$ -	\$ 625,000	\$ 5,835,000	\$ -	\$ -
Y-2013 - 3.0 - 4.0%	7,730,000	-	350,000	7,380,000	-	-
Z-2013 - 2.0 - 5.0%	21,600,000	-	575,000	21,025,000	-	-
AA-2014 - 2.0 - 4.0%	7,100,000	-	175,000	6,925,000	-	-
BB-2015 - 2.0 - 5.0%	20,035,000	-	960,000	-	19,075,000	1,000,000
CC-2015 - 2.0 - 4.0%	18,025,000	-	450,000	-	17,575,000	475,000
DD-2016 - 3.0 - 5.0%	23,225,000	-	550,000	-	22,675,000	575,000
EE-2016 - 2.0 - 5.0%	19,585,000	-	1,155,000	-	18,430,000	1,245,000
FF-2017 - 3.0 - 5.0%	3,900,000	-	495,000	-	3,405,000	510,000
GG-2017 - 2.125 - 5.0%	19,025,000	-	415,000	-	18,610,000	440,000
HH-2018 - 3.0 - 5.0%	19,090,000	-	395,000	-	18,695,000	410,000
II-2019 - 3.0 - 5.0%	19,595,000	-	365,000	-	19,230,000	380,000
JJ-2020 - 3.0 - 5.0%	19,520,000	-	630,000	-	18,890,000	495,000
KK-2020 - 3.0 - 5.0%	-	9,045,000	210,000	-	8,835,000	170,000
LL-2021 - 4.0 - 5.0%	-	33,180,000	-	-	33,180,000	1,225,000
Total bonds	<u>\$ 204,890,000</u>	<u>\$ 42,225,000</u>	<u>\$ 7,350,000</u>	<u>\$ 41,165,000</u>	<u>\$ 198,600,000</u>	<u>\$ 6,925,000</u>
Unamortized Premium	7,909,293	9,021,325	537,209	595,038	15,798,371	-
Total long term debt	<u>\$ 212,799,293</u>	<u>\$ 51,246,325</u>	<u>\$ 7,887,209</u>	<u>\$ 41,760,038</u>	<u>\$ 214,398,371</u>	<u>\$ 6,925,000</u>

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	Balance				Amounts	
	June 30,	Additions	Payments	Deceased	Balance	Due
	2019				June 30,	Within
					2020	One Year
W-2011 - 2.0 - 5.0%	\$ 21,150,000	\$ -	\$ 550,000	\$ 20,600,000	\$ -	\$ -
X-2012 - 3.0 - 5.0%	7,050,000	-	590,000	-	6,460,000	625,000
Y-2013 - 3.0 - 4.0%	8,070,000	-	340,000	-	7,730,000	350,000
Z-2013 - 2.0 - 5.0%	22,150,000	-	550,000	-	21,600,000	575,000
AA-2014 - 2.0 - 4.0%	7,275,000	-	175,000	-	7,100,000	175,000
BB-2015 - 2.0 - 5.0%	20,985,000	-	950,000	-	20,035,000	960,000
CC-2015 - 2.0 - 4.0%	18,450,000	-	425,000	-	18,025,000	450,000
DD-2016 - 3.0 - 5.0%	23,750,000	-	525,000	-	23,225,000	550,000
EE-2016 - 2.0 - 5.0%	20,675,000	-	1,090,000	-	19,585,000	1,155,000
FF-2017 - 3.0 - 5.0%	4,375,000	-	475,000	-	3,900,000	495,000
GG-2017 - 2.125 - 5.0%	19,420,000	-	395,000	-	19,025,000	415,000
HH-2018 - 3.0 - 5.0%	19,470,000	-	380,000	-	19,090,000	395,000
II-2019 - 3.0 - 5.0%	-	19,995,000	400,000	-	19,595,000	365,000
JJ-2020 - 3.0 - 5.0%	-	19,520,000	-	-	19,520,000	630,000
Total bonds	\$ 192,820,000	\$ 39,515,000	\$ 6,845,000	\$ 20,600,000	\$ 204,890,000	\$ 7,140,000
Unamortized Premium	5,847,325	2,660,942	402,958	196,016	7,909,293	-
Total long term debt	\$ 198,667,325	\$ 42,175,942	\$ 7,247,958	\$ 20,796,016	\$ 212,799,293	\$ 7,140,000

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

Fiscal Year	Total		Grand Total
	Principal	Interest	
2022	\$ 6,925,000	\$ 6,827,215	\$ 13,752,215
2023	7,175,000	6,700,569	13,875,569
2024	7,475,000	6,374,118	13,849,118
2025	7,785,000	6,055,519	13,840,519
2026	8,070,000	5,759,345	13,829,345
2027 - 2031	44,875,000	24,094,003	68,969,003
2032 - 2036	41,230,000	16,372,012	57,602,012
2037 - 2041	37,070,000	10,095,874	47,165,874
2042 - 2046	30,185,000	4,106,482	34,291,482
2047 - 2050	7,810,000	455,176	8,265,176
Total	\$ 198,600,000	\$ 86,840,313	\$ 285,440,313

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, 2021, these bond covenants had been satisfied.

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

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20 years by \$3.9 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$3.1 million.

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

Other liabilities consist of the following:

	Balance June 30, 2020	Increase	Decrease	Balance June 30, 2021
Accrued compensated absences	\$ 1,753,547	\$ 2,775,693	\$ (2,770,215)	\$ 1,759,025
Other	35,842	51,068	(45,152)	41,758
	<u>\$ 1,789,389</u>	<u>\$ 2,826,761</u>	<u>\$ (2,815,367)</u>	<u>\$ 1,800,783</u>

	Balance June 30, 2019	Increase	Decrease	Balance June 30, 2020
Accrued compensated absences	\$ 1,559,945	\$ 2,480,441	\$ (2,286,839)	\$ 1,753,547
Other	49,885	74,105	(88,148)	35,842
	<u>\$ 1,609,830</u>	<u>\$ 2,554,546</u>	<u>\$ (2,374,987)</u>	<u>\$ 1,789,389</u>

7. Lease Commitments

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

2022	\$ 42,932
2023	8,010
2024	6,892
2025	6,892
2026	5,109
Total operating minimum lease payments	<u>\$ 69,835</u>

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8. Capital Assets

Capital asset activity was as follows:

	Balance June 30, 2020	Increase	Decrease	Balance June 30, 2021
Production Plant	\$ 727,863	\$ -	\$ -	727,863
Pumping & Treatment Plant	90,179,412	2,421,845	(1,027,003)	91,574,254
Distribution Plant				
Distribution Mains	212,035,209	6,797,731	(1,708,979)	217,123,961
Transmission Mains	43,115,795	3,008,312	(53,278)	46,070,829
Services & Meters	48,566,610	1,655,545	(3,190,862)	47,031,293
Other Accounts	27,410,724	552,763	(768,935)	27,194,552
Total Distribution Plant	<u>\$ 331,128,338</u>	<u>\$ 12,014,351</u>	<u>\$ (5,722,054)</u>	<u>\$ 337,420,635</u>
Total General Plant	29,494,099	8,489,398	(60,993)	37,922,504
Total Water Plant	<u>\$ 451,529,712</u>	<u>\$ 22,925,594</u>	<u>\$ (6,810,050)</u>	<u>\$ 467,645,256</u>
Less Accumulated Depreciation	(126,895,480)	(15,133,466)	6,662,025	(135,366,921)
Net Plant Assets	<u>\$ 324,634,232</u>	<u>\$ 7,792,128</u>	<u>\$ (148,025)</u>	<u>\$ 332,278,335</u>
Work In Progress	38,590,926	22,986,993	(22,931,020)	38,646,899
Total Net Plant	<u><u>\$ 363,225,158</u></u>	<u><u>\$ 30,779,121</u></u>	<u><u>\$ (23,079,045)</u></u>	<u><u>\$ 370,925,234</u></u>

	Balance June 30, 2019	Increase	Decrease	Balance June 30, 2020
Production Plant	\$ 727,863	\$ -	\$ -	727,863
Pumping & Treatment Plant	87,716,345	3,211,555	(748,488)	90,179,412
Distribution Plant				
Distribution Mains	202,473,173	12,223,598	(2,661,562)	212,035,209
Transmission Mains	35,242,896	8,154,901	(282,002)	43,115,795
Services & Meters	49,554,143	5,362,127	(6,349,660)	48,566,610
Other Accounts	27,075,049	886,655	(550,980)	27,410,724
Total Distribution Plant	<u>\$ 314,345,261</u>	<u>\$ 26,627,281</u>	<u>\$ (9,844,204)</u>	<u>\$ 331,128,338</u>
Total General Plant	28,856,452	1,101,522	(463,875)	29,494,099
Total Water Plant	<u>\$ 431,645,921</u>	<u>\$ 30,940,358</u>	<u>\$ (11,056,567)</u>	<u>\$ 451,529,712</u>
Less Accumulated Depreciation	(127,028,444)	(10,596,213)	10,729,177	(126,895,480)
Net Plant Assets	<u>\$ 304,617,477</u>	<u>\$ 20,344,145</u>	<u>\$ (327,390)</u>	<u>\$ 324,634,232</u>
Work In Progress	36,001,900	34,212,147	(31,623,121)	38,590,926
Total Net Plant	<u><u>\$ 340,619,377</u></u>	<u><u>\$ 54,556,292</u></u>	<u><u>\$ (31,950,511)</u></u>	<u><u>\$ 363,225,158</u></u>

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9. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. At June 30, 2021 and June 30, 2020, the amount of these liabilities was \$251,712 and \$223,681, respectively, resulting from the following changes:

	2021	2020
Balance, beginning of year	\$ 223,681	\$ 248,496
Current year claims and changes in estimates	2,012,480	1,939,659
Claims payments	<u>(1,984,449)</u>	<u>(1,964,474)</u>
Balance, end of year	<u>\$ 251,712</u>	<u>\$ 223,681</u>

10. Pension Plan

Description of Plan

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

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

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

Retirement Benefits

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

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

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

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

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

Contributions

Participation in Plan A requires employee contributions of 3% of the first \$4,800 of annual earnings and 5% of annual earnings in excess of \$4,800. KUB contributions are determined by the enrolled actuary of the Plan and equal the amount necessary to provide the benefits under the Plan determined by the application of accepted actuarial methods and assumptions. The method of funding shall be consistent with Plan objectives.

Plan Funding

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

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Investments

The Plan's investments are held by State Street Bank and Trust Company (the "Trustee"). The Plan's policy in regard to the allocation of invested assets is established by the Retirement System Investment Committee and approved by the KUB Board of Commissioners and may only be amended by the KUB Board of Commissioners. It is the policy of the Retirement System Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Plan's adopted asset allocation policy as of December 31, 2020:

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

Contributions of \$3,167,680 and \$2,585,824 for 2019 and 2018, respectively, were made during the Plan sponsor's fiscal years ended June 30, 2021 and 2020, respectively. Of these amounts, \$411,798 and \$336,157 are attributable to the Water Division. The fiscal year 2021 contribution was determined as part of the January 1, 2019 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability or death.

Net Pension Liability (Asset)

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB 68"), which requires measurement of the net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 will be based on the December 31, 2020 and 2019 measurement date, respectively. The Division's share of the net pension asset at June 30, 2021 is \$5,862,907 and the net pension asset at June 30, 2020 is \$2,485,779.

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

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

Plan fiduciary net position as a percentage of the total pension liability	119.24%	108.43%
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Changes in Net Pension Liability (Asset) are as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2019	\$ 226,818,557	\$ 245,939,932	\$ (19,121,375)
Changes for the year:			
Service cost	5,227,657	-	5,227,657
Interest	16,393,202	-	16,393,202
Changes of Benefits	-	-	-
Differences between Expected and Actual Experience	1,930,170	-	1,930,170
Changes of Assumptions	-	-	-
Contributions - employer	-	2,876,752	(2,876,752)
Contributions - rollovers	-	2,281,793	(2,281,793)
Contributions - member	-	2,934	(2,934)
Net investment income	-	44,822,654	(44,822,654)
Benefit payments	(16,006,565)	(16,006,565)	-
Administrative expense	-	(455,191)	455,191
Net changes	<u>7,544,464</u>	<u>33,522,377</u>	<u>(25,977,913)</u>
Balances at December 31, 2020	<u>\$ 234,363,021</u>	<u>\$ 279,462,309</u>	<u>\$ (45,099,288)</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, 2020, rolled forward to December 31, 2020; January 1, 2019, rolled forward to December 31, 2019
Discount rate	7.25% as of December 31, 2020 and 2019
Salary increases	From 2.50% to 5.65%, based on years of service as of December 31, 2020 and 2019
Mortality	115% and 110% of the PubG-2010 table, for males and females respectively, using the Public Sector General Employee Table for

Knoxville Utilities Board Water Division

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Inflation ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of December 31, 2020 and 2019 2.5% as of December 31, 2020 and 2019

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

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2020 and 2019 are 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.

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

Discount rate

The discount rate used to measure the total pension liability was 7.25 percent as of December 31, 2020 and 2019. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

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

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

For the year ended June 30, 2021, KUB recognized pension expense of (\$7,325,254), Division's share (\$952,283).

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2019, this average was 5.00 years. During the measurement year, there was a liability experience loss of \$1,930,170 with \$386,034 of that recognized in the current year and in each of the next four years, resulting in a deferred outflow of \$1,544,136 (Division's share \$200,738). Unrecognized liability experience gains from prior periods were \$2,088,302 of which \$996,139 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$1,092,163 (Division's share \$141,982).

During the measurement year, there were no benefit changes or assumption changes. Unrecognized assumption change losses from prior periods were \$6,778,528, of which \$1,694,632 was recognized as an increase in pension expense in the current year and resulted in a deferred outflow of \$5,083,896 (Division's share \$660,906). Unrecognized assumption change decreases from prior periods were \$729,629, of which \$658,104 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$71,525 (Division's share \$9,298).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$27,394,477. \$5,478,895 of that was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment gains from prior periods were \$17,715,210 of which \$4,635,928 was recognized as a decrease in pension expense in the current year. The combination of unrecognized investment gains this year along with the net unrecognized investment gains from prior periods results in a net difference between projected and actual earnings on pension plan investments as of December 31, 2020 of \$34,994,864 (Division's share \$4,549,332). The following table summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years. In addition, KUB recorded a deferred outflow of resources of \$1,583,842 at June 30, 2021 for employer contributions made between December 31, 2020 and June 30, 2021 (Division's share \$205,900).

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,544,136	\$ 1,092,163
Changes in assumptions	5,083,896	71,525
Net difference between projected and actual earnings on pension plan investments	-	34,994,864
Contributions subsequent to measurement date	1,583,842	-
Total	\$ 8,211,874	\$ 36,158,552
Division's share	\$ 1,067,544	\$ 4,700,612

\$1,583,842 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

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

For the year ended June 30, 2020, KUB recognized pension expense of \$2,673,376 (Division's share \$347,539).

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2018, this average was 5.00 years. During the measurement year, there was an experience gain of \$1,054,117 with \$210,822 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of \$843,295 (Division's share \$109,628). Unrecognized experience gains from prior periods were \$2,408,388 of which \$1,163,381 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$1,245,007 (Division's share \$161,851).

During the measurement year, there was an assumption change loss of \$8,473,160 with \$1,694,632 of that recognized in the current year and each of the next four years, resulting in a deferred outflow of \$6,778,528 (Division's share \$881,209). Unrecognized assumption change decreases from prior periods were \$1,387,733 of which \$658,104 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$729,629 (Division's share \$94,852).

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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 gain of \$34,889,331. \$6,977,866 of that was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were \$15,614,774 of which \$5,418,519 was recognized as an increase in pension expense in the current year. The combination of unrecognized investment gains this year along with the net unrecognized investment losses from prior periods results in a net difference between projected and actual earnings on pension plan investments as of December 31, 2019 of \$17,715,210 (Division's share \$2,302,977). The following table summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years. In addition, KUB recorded a deferred outflow of resources of \$1,292,915 (Division's share \$168,079) at June 30, 2020 for employer contributions made between December 31, 2019 and June 30, 2020.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,088,302
Changes in assumptions	6,778,528	729,629
Net difference between projected and actual earnings on pension plan investments	-	17,715,210
Contributions subsequent to measurement date	1,292,915	-
Total	\$ 8,071,443	\$ 20,533,141
Division's share	\$ 1,049,288	\$ 2,669,308

11. Qualified Excess Benefit Arrangement

Description

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

As of June 30, 2021, there are 487 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. There is currently one member receiving benefits under the QEBA. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the KUB Pension Plan. The KUB Pension Plan was amended to include the provision of QEBA benefits; therefore, amendments to the QEBA require the same authority as amendments to the KUB Pension Plan. As required by federal tax law, the QEBA is unfunded within the meaning of the federal tax laws. KUB may not pre-fund the QEBA to cover future liabilities beyond the current year. KUB has established procedures to pay for these benefits on a pay-as-you-go basis, funded by KUB. There are no assets accumulated in a trust that meets the GASB's criteria.

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Total Pension Liability of the QEBA

The below summarizes the disclosures of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"). GASB 73 extends a similar approach of financial reporting to plans meeting specific criteria that are not administered through trusts that GASB 68 established for pension plans. GASB 73 requires measurement of the total pension liability of the QEBA. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a December 31, 2020 and 2019 measurement date, respectively. The Division's share of the total pension liability was \$2,433 at June 30, 2021, and \$2,631 at June 30, 2020.

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

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

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

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

Actuarial Assumptions

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

Valuation dates	December 31, 2020 and December 31, 2019
Actuarial cost method	Individual entry age

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Salary increase	From 2.50% to 5.65%, based on years of service as of December 31, 2020 and 2019
Mortality	115% and 110% of the Public Sector General Healthy Annuitant Mortality Table (PubG-2010), for males and females, respectively, using the Public Sector General Employee Table for ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of December 31, 2020 and 2019
Inflation	2.5% as of December 31, 2020 and 2019

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

Discount rate

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

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

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

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

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

For the year ended June 30, 2021, KUB recognized pension expense of \$21,436 for the QEBA (Division's share \$2,787). This amount is not expected to be the same as KUB's contribution to the QEBA (\$22,874), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [\$8,684 - \$10,122 + \$22,874].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2019, this average was 5 years. During the measurement year, there was an experience loss of \$10,165, with \$2,033 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$8,132 (Division's share \$1,057). There was a deferred inflow at the end of the measurement year of \$14,450 (Division's share \$1,879) from experience gains in prior years and a deferred outflow of \$2,756 (Division's share \$358) from experience losses in prior years.

During the measurement year, there was an assumption change loss of \$91, with \$18 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$73 (Division's share \$9). There was a deferred inflow at the end of the measurement year of \$9,180 (Division's share \$1,193) and a deferred outflow of \$22,699 (Division's share \$2,950) from assumption changes in prior years. In addition, KUB recorded a deferred outflow of resources of \$6,084 at June 30, 2021 for contributions between December 31, 2020 and June 30, 2021 (Division's share \$792).

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 10,888	\$ 14,450
Changes in assumptions	22,772	9,180
Contributions subsequent to measurement date	<u>6,084</u>	<u>-</u>
Total	<u>\$ 39,744</u>	<u>\$ 23,630</u>
 Division's share	 <u>\$ 5,166</u>	 <u>\$ 3,072</u>

\$6,084 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total pension liability in the year ending June 30, 2022 (Division's share \$792). Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:

2022	\$	10,340
2023		(7,089)
2024		4,727
2025		2,052
Thereafter		-

For the year ended June 30, 2020, KUB recognized pension expense of (\$199,098) for the QEBA (Division's share \$25,883). This amount is not expected to be the same as KUB's contribution to the QEBA (\$17,636), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [\$10,122 - \$226,856 + \$17,636].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2018, this average was 5 years. During the measurement year, there was an experience loss of \$34, with \$7 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$27 (Division's share \$4). There was a deferred inflow at the end of the measurement year of \$21,675 (Division's share \$2,818) from experience gains in prior years and a deferred outflow of \$5,473 (Division's share \$711) from experience losses in prior years.

During the measurement year, the Plan was amended to provide automatic increases to retirees for benefits limited under Code §415(d), resulting in a change in benefits of \$218,272 that was recognized in the current year (Division's share \$28,375). There was an increase in the total pension liability due to assumption changes of \$13,342, with \$2,668 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$10,674 (Division's share \$1,387). There was a deferred inflow at the end of the measurement year of \$13,770 (Division's share \$1,790) and a deferred outflow of \$29,385 (Division's share \$3,820) from assumption changes in prior years. In addition, KUB recorded a deferred outflow of resources of \$6,083 at June 30, 2020 for contributions between December 31, 2019 and June 30, 2020 (Division's share \$791).

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,500	\$ 21,675
Changes in assumptions	40,059	13,770
Contributions subsequent to measurement date	6,083	-
Total	\$ 51,642	\$ 35,445
Division's share	\$ 6,713	\$ 4,608

12. Defined Contribution Plan

The KUB Asset Accumulation 401(k) Plan (the "401(k) Plan") is a defined contribution 401(k) employee retirement savings plan covering eligible KUB employees established by the KUB Board of Commissioners in accordance with the Charter of the City of Knoxville, Tennessee. The 401(k) plan's assets are held in trust under an agreement between KUB and Fidelity Management Trust Company. Employees hired prior to January 1, 2011 may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. Employees hired on or after January 1, 2011 have an enhanced 401(k) due to the closure of the Defined Benefit Pension Plan. They may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. They also receive a nonelective KUB contribution of 3 percent to 6 percent, depending on years of service, whether they contribute or not.

KUB funded 401(k) matching contributions and nonelective contributions of \$2,984,314 (Division's share \$387,961) and \$2,469,273 (Division's share \$321,006), respectively, for the years ended June 30, 2021 and 2020.

13. Other Post-Employment Benefits (OPEB)

Description of Trust

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

Knoxville Utilities Board Water Division

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

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

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

Benefits

Other post-employment benefits may include, but shall not be limited to, medical, prescription drugs, dental, vision, hearing, Medicare Part B or Part D premiums, life insurance, long-term care, and long-term disability. Only medical and pharmacy are currently provided to eligible retirees.

Contributions and Plan Funding

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

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

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

Based on the date of retirement, certain retired plan members are required to contribute specified amounts monthly to maintain health insurance. Those who retired prior to July 1983 have no required monthly premiums for themselves or dependents. The retirees, or their surviving dependents, who retired between August 1983 and January 1998 are required to pay \$262.50 per month for pre-Medicare family health insurance. For individuals who retired after January 1998, the required monthly premium for pre-Medicare health insurance is \$262.50 for single coverage and \$525 for family coverage. There is currently no premium for Medicare eligible retirees or

Knoxville Utilities Board Water Division
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dependents. KUB is responsible for determining the level of retired plan member contributions on an annual basis, as part of its review of healthcare cost sharing.

Investments

The Trust holds investments in a balanced fund, which invests in passively managed common trust index funds, managed and sponsored by State Street Global Advisors (SSgA), with an asset allocation mirroring the asset allocation of the Trust and rebalanced monthly. The Trust's Investment Policy was established and may only be amended by the KUB Board of Commissioners. The Trust's Investment Policy is to invest in a manner that will provide sufficient investment return to meet current and future retiree health benefits, while conforming to all governing State and Federal statutes. It allows investment of Trust assets in any type of security instrument allowed for in T.C.A 8-50-1203. The following was the Trust's adopted investment target allocations as set forth in the Trust's Investment Policy as of June 30, 2021:

<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 of \$757,226 and \$311,324 were made to the OPEB Trust in fiscal years ended June 30, 2021 and 2020, (Division's share \$98,439 and \$40,472), respectively. These were based on the OPEB Plan's actuarial valuations as of January 1, 2019, and 2018.

Net OPEB Liability (Asset)

The below summarizes the disclosures of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"), which requires measurement of the net OPEB liability as total OPEB liability less the amount of the Trust's fiduciary net position. The amounts reported as of June 30 are based on the reporting date for the KUB Other Post-Employment Benefits Plan which is June 30. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2021 and 2020 and the Total OPEB Liability as of the valuation date, January 1, 2020 updated to June 30, 2021, and January 1, 2019 updated to June 30, 2020, respectively. The Division's share of the total net OPEB (asset) liability was (\$771,138) at June 30, 2021 and \$986,628 at June 30, 2020.

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

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

Plan fiduciary net position as a percentage of the total OPEB liability	111.51%	86.09%
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Knoxville Utilities Board Water Division
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Changes in Net OPEB Liability (Asset) are as follows:

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

Actuarial assumptions

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

Valuation dates:	January 1, 2020, rolled forward to June 30, 2021; January 1, 2019, rolled forward to June 30, 2020
Discount rate:	7.25% as of January 1, 2020 and 2019
Healthcare cost trend rates:	Pre-Medicare: 6.75% grading down to 4.04% over 20 years as of January 1, 2020; 7.83% grading down to 4.50% over 19 years as of January 1, 2019 Medicare: 6.30% grading down to 4.04% over 20 years as of January 1, 2020; 6.88% grading down to 4.50% over 19 years as of January 1, 2019 Administrative expenses: 3.0% per year
Salary increases:	From 2.50% to 5.65%, based on years of service as of January 1, 2020 and 2019
Mortality:	115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Healthy Annuitant Mortality Table, both projected using scale MP2018 fully generational as of January 1, 2020 and 2019
Inflation:	2.50% as of January 1, 2020 and 2019

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

Knoxville Utilities Board Water 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	
	2021	2020
Domestic equity	4.9%	5.4%
International equity	5.9%	6.4%
Emerging Market equity	8.4%	9.3%
Real estate equity	5.4%	5.8%
Debt securities	0.5%	0.2%
Cash and deposits	(0.1%)	(0.2%)

Discount rate

The discount rate used to measure the total OPEB liability was 7.25 percent as of June 30, 2021 and 2020. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

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

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

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

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

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

For the year ended June 30, 2021, KUB recognized OPEB expense of (\$648,134) (Division's share (\$84,257)).

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was 2.0 years. During the measurement year, there was an experience loss of \$42,802, with \$21,401 of that recognized in the current year and the remaining amount will be recognized in the next year, resulting in a deferred outflow of resources of \$21,401 (Division's share \$2,782). Unrecognized experience losses from prior periods were \$21,951, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there was a decrease in the Total OPEB Liability due to assumption changes of \$4,105,835, with \$2,052,918 of that recognized in the current year and in the next year, resulting in a deferred inflow of \$2,052,917 (Division's share \$266,879). Unrecognized assumption changes from prior periods were \$1,802,421, of which the entire amount is recognized as an increase in OPEB expense in the current year.

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$9,571,802, of which \$1,914,360 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were \$2,354,338, of which \$602,585 was recognized as an increase in OPEB expense in the current year. The combination of unrecognized gains this year along with the net unrecognized investment losses from prior periods results in a net difference between projected and actual earnings on OPEB plan investments as of June 30, 2021 of \$5,905,689 (Division's share \$767,740). 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	\$ 21,401	\$ -
Changes in assumptions	-	2,052,917
Net difference between projected and actual earnings on OPEB plan investments	-	5,905,689
Total	<u>\$ 21,401</u>	<u>\$ 7,958,606</u>
Division's share	<u>\$ 2,782</u>	<u>\$ 1,034,619</u>

Knoxville Utilities Board Water Division
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Amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

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

For the year ended June 30, 2020, KUB recognized OPEB expense of \$4,767,499 (Division's share \$619,775).

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was 2.0 years. During the measurement year, there was an experience loss of \$43,902, with \$21,951 of that recognized in the current year and the remaining amount will be recognized in the next year, resulting in a deferred outflow of resources of \$21,951 (Division's share \$2,854). Unrecognized experience losses from prior periods were \$499,549, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there were benefit changes that decreased the expense by \$202,408. There was an increase in the Total OPEB Liability due to assumption changes of \$3,604,843, with \$1,802,422 of that recognized in the current year and in the next year, resulting in a deferred outflow of \$1,802,421 (Division's share \$234,314). Unrecognized assumption changes from prior periods were \$1,615,800, of which the entire amount is recognized as an increase in OPEB expense in the current year.

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment loss of \$2,579,092, of which \$515,818 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred outflow of resources as of June 30, 2020 of \$2,063,274 (Division's share \$268,226). Net unrecognized investment losses from prior periods were \$377,831, of which \$86,767 was recognized as an increase in OPEB expense in the current year and resulting in a net deferred outflow of \$291,064 (Division's share \$37,838). 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	\$ 21,951	\$ -
Changes in assumptions	1,802,421	-
Net difference between projected and actual earnings on OPEB plan investments	<u>2,354,338</u>	<u>-</u>
Total	<u>\$ 4,178,710</u>	<u>\$ -</u>
Division's share	<u>\$ 543,232</u>	<u>\$ -</u>

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

14. 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, 2021 and 2020 are summarized as follows:

	2021	2020
City of Knoxville		
Amounts billed by the Division for utilities and related services	\$ 5,078,623	\$ 5,052,837
Payments by the Division in lieu of property tax	3,528,135	3,378,895
Payments by the Division for services provided	777,645	296,940
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	507,783	432,749
Interdivisional rental expense	436,548	586,708
Interdivisional rental income	111,493	158,605
Amounts billed to the Division by other divisions for utilities services provided	3,082,834	3,404,830

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

	2021	2020
Accounts receivable	\$ 425,428	\$ 397,575

15. 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.

16. Risks and Uncertainties

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

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

	*Year ended December 31						
	2020	2019	2018	2017	2016	2015	2014
Total pension liability							
Service cost	\$ 5,227,657	\$ 6,142,213	\$ 5,095,488	\$ 4,607,486	\$ 4,226,985	\$ 4,157,062	\$ 4,092,808
Interest	16,393,202	16,030,626	15,344,193	15,015,282	14,966,559	14,812,784	14,698,657
Changes of benefit terms	-	163,199	-	-	-	-	-
Differences between expected and actual experience	1,930,170	(1,054,117)	(605,649)	(1,087,161)	(2,233,762)	(1,890,334)	-
Changes of assumptions	-	8,473,160	-	(357,633)	(2,932,883)	-	-
Benefit payments, including refunds of member contributions	(16,006,565)	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)	(15,533,167)
Net change in total pension liability	7,544,464	14,660,606	4,559,218	3,207,995	(111,612)	1,728,586	3,258,298
Total pension liability - beginning	226,818,557	212,157,951	207,598,733	204,390,738	204,502,350	202,773,764	199,515,466
Total pension liability - ending (a)	\$ 234,363,021	\$ 226,818,557	\$ 212,157,951	\$ 207,598,733	\$ 204,390,738	\$ 204,502,350	\$ 202,773,764
Plan fiduciary net position							
Contributions - employer	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541
Contributions - participants	2,284,727	3,170,825	2,081,125	1,488,632	555,075	487,546	475,854
Net investment income	44,814,914	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)	22,292,369
Other additions	7,740	13,579	62,616	82,239	45,848	30,879	29,733
Benefit payments, including refunds of member contributions	(15,962,565)	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)	(15,405,167)
Administrative expense	(455,191)	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)	(378,085)
Death benefits	(44,000)	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)	(128,000)
Net change in plan fiduciary net position**	33,522,377	40,431,737	(21,868,910)	22,862,426	5,052,489	(9,333,204)	12,795,245
Plan fiduciary net position - beginning**	245,939,932	205,508,195	227,377,105	204,514,679	199,462,190	208,795,394	196,000,149
Plan fiduciary net position - ending (b)**	\$ 279,462,309	\$ 245,939,932	\$ 205,508,195	\$ 227,377,105	\$ 204,514,679	\$ 199,462,190	\$ 208,795,394
Plan's net pension liability - ending (a) - (b)	\$ (45,099,288)	\$ (19,121,375)	\$ 6,649,756	\$ (19,778,372)	\$ (123,941)	\$ 5,040,160	\$ (6,021,630)
Plan fiduciary net position as a percentage of the total pension liability	119.24%	108.43%	96.87%	109.53%	100.06%	97.54%	102.97%
Covered payroll	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743	\$ 44,076,351
Plan's net pension liability as a percentage of covered payroll	(108.61%)	(47.48%)	15.78%	(45.67%)	(0.28%)	11.34%	(13.66%)

Notes to Schedule:

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

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Required Supplementary Information – Schedule of Employer Pension Contributions
June 30, 2021

	*Year ended December 31						
	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541
Contribution in relation to the actuarially determined contribution	2,876,752	2,871,241	3,456,475	4,286,597	5,243,146	5,991,887	5,908,541
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743	\$ 44,076,351
Contributions as a percentage of covered payroll	6.93%	7.13%	8.20%	9.90%	11.80%	13.48%	13.41%

Notes to Schedule:

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

Valuation Dates: January 1, 2019 and January 1, 2018

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Individual entry age

Asset valuation method: 5-year smoothed market

Amortization method: Level dollar, 30-year closed period with 22 years remaining (23 years as of January 1, 2018), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2019 and 2018, the unfunded liability was negative.

Discount rate: 7.5%

Salary increases: As of January 1, 2019: 2.50% to 5.65%, based on years of service
As of January 1, 2018: 2.80% to 5.15%, based on years of service

Mortality: As of January 1, 2019: 115% and 110% of the benefits-weighted Public Sector General Healthy Annuitant Mortality Table (PubG-2010), respectively, for males and females, using the Public Sector General Employee Table while in active employment and for annuitant ages prior to the start of the Healthy Annuitant Mortality Table, both projected from the 2010 base rates using scale MP2018 fully generational
As of January 1, 2018: Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA

Inflation: 2.5% as of January 1, 2019 and 2.8% as of January 1, 2018

* Schedule of Employer Contribution information is not reflected prior to 2014 due to changes in actuary methodologies required under GASB 67, which was implemented 2014. Please refer to prior year's audited financial statements for prior methods and assumptions.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division

Required Supplementary Information – Schedule of Changes in Net OPEB Liability and Related Ratios

June 30, 2021

	*Year ended June 30			
	2021	2020	2019	2018
Total OPEB liability				
Service cost	\$ 283,786	\$ 256,270	\$ 270,515	\$ 202,603
Interest	3,861,304	3,672,291	3,624,737	3,295,240
Change of benefit terms	-	(202,408)	-	-
Differences between expected and actual experience	42,802	43,902	999,098	1,324,769
Changes of assumptions	(4,105,835)	3,604,843	3,231,601	(397,180)
Benefit payments	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Net change in total OPEB liability	<u>(3,029,122)</u>	<u>4,346,302</u>	<u>4,593,507</u>	<u>1,126,693</u>
Total OPEB liability - beginning	54,544,240	50,197,938	45,604,431	44,477,738
Total OPEB liability - ending (a)	<u>\$ 51,515,118</u>	<u>\$ 54,544,240</u>	<u>\$ 50,197,938</u>	<u>\$ 45,604,431</u>
Plan fiduciary net position				
Contributions - employer	\$ 757,226	\$ 311,324	\$ -	\$ -
Net investment income	12,890,602	975,155	2,981,928	3,705,473
Benefit payments	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	(44,496)	(53,286)	(54,787)	(51,668)
Net change in plan fiduciary net position	<u>10,492,153</u>	<u>(1,795,403)</u>	<u>(605,303)</u>	<u>355,066</u>
Plan fiduciary net position - beginning	46,954,793	48,750,196	49,355,499	49,000,433
Plan fiduciary net position - ending (b)	<u>\$ 57,446,946</u>	<u>\$ 46,954,793</u>	<u>\$ 48,750,196</u>	<u>\$ 49,355,499</u>
Net OPEB liability (asset) - ending (a) - (b)	<u>\$ (5,931,828)</u>	<u>\$ 7,589,447</u>	<u>\$ 1,447,742</u>	<u>\$ (3,751,068)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	111.51%	86.09%	97.12%	108.23%
Covered employee payroll	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	(27.49%)	32.48%	5.95%	(15.84%)

Notes to Schedule:

* Information not reflected prior to 2018 due to changes in actuary methodologies required under GASB 75, which was implemented in 2018.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Required Supplementary Information – Schedule of Employer OPEB Contributions
June 30, 2021

	*Year ended June 30			
	2021	2020	2019	2018
Actuarially determined contribution	\$ 757,226	\$ 311,324	\$ -	\$ -
Contribution in relation to the annual required contribution	<u>757,226</u>	<u>311,324</u>	<u>-</u>	<u>-</u>
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Contributions as a percentage of covered employee payroll	3.51%	1.33%	0.00%	0.00%

Notes to Schedule:

Valuation Date: January 1, 2019 and January 1, 2018
Timing: Actuarially determined contribution rates are calculated based on the actuarial valuation completed 18 months before the beginning of the fiscal year.

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age normal
Asset valuation method: 5-year smoothed market
Amortization method: Level dollar, 30-year closed period with 17 years remaining as of January 1, 2019 (18 years as of January 1, 2018), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2019, the unfunded liability was positive and negative as of January 1, 2018
Discount rate: 7.5%
Healthcare cost trend rate: Pre-Medicare: 7.83% grading down to 4.50% over 19 years as of January 1, 2019; 8.00% grading down to 4.50% over 20 years as of January 1, 2018
Medicare: 6.88% grading down to 4.50% over 19 years as of January 1, 2019; 7.00% grading down to 4.50% over 20 years as of January 1, 2018
Administrative expenses: 3.0% per year
Salary increases: From 2.50% to 5.65%, based on years of service as of January 1, 2019; From 2.80% to 5.15%, based on years of service as of January 1, 2018
Mortality: 115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational as of January 1, 2019; Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA as of January 1, 2018
Inflation: 2.5% as of January 1, 2019; 2.8% as of January 1, 2018
Investment rate of return: 7.5%
Retirement age: 2% at ages 50-57 at January 1, 2019 and January 1, 2018, grading up to 100% at age 70

* Schedule of Employer Contribution information is not reflected prior to 2018 due to changes in actuary methodologies required under GASB 75, which was implemented in 2018. Please refer to prior year's audited financial statement for prior methods and assumptions.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement
Schedule of Changes in Total Pension Liability and Related Ratios
June 30, 2021

	*Year ended December 31				
	2020	2019	2018	2017	2016
Total pension liability					
Service cost	\$ -	\$ -	\$ 941	\$ 584	\$ -
Interest (includes interest on service cost)	388	9,181	9,676	7,535	-
Changes of benefit terms	-	(218,272)	-	-	185,077
Differences between expected and actual experience	10,165	34	(36,125)	13,684	-
Changes of assumptions	91	13,342	(22,950)	73,461	-
Benefit payments, including refunds of member contributions	(12,166)	(15,932)	-	-	-
Net change in total pension liability	<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>20,236</u>	<u>231,883</u>	<u>280,341</u>	<u>185,077</u>	<u>-</u>
Total pension liability - ending	<u><u>\$ 18,714</u></u>	<u><u>\$ 20,236</u></u>	<u><u>\$ 231,883</u></u>	<u><u>\$ 280,341</u></u>	<u><u>\$ 185,077</u></u>
Covered payroll	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747
Total pension liability as a percentage of covered payroll	0.05%	0.05%	0.55%	0.65%	0.42%

Notes to Schedule:

* There are no assets accumulated in a trust that meet the criteria in paragraph 4 of GASB 73 to pay related benefits.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Supplemental Information – Schedule of Expenditures of Federal Awards and State
Financial Assistance
June 30, 2021

Federal Grantor/ Pass-Through Grantor	Program Name	CFDA Number	Pass-Through Entity Identifying Number	Expenditures
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	PA-04-TN-4427-PW-00478	\$ 38,549
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	PA-04-TN-4427-PW-00563	\$ 1,711
Total Program 97.036				<u>\$ 40,260</u>
Total Federal Awards				<u><u>\$ 40,260</u></u>

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards and State Financial Assistance includes the federal award related grant activity of Knoxville Utilities Board and is presented on the accrual basis of accounting. The expenditures reported in the Schedule of Expenditures and State Financial Assistance were incurred in fiscal years 2019 and 2020. In accordance with the requirements of CFDA 97.036, the expenditures have been reported in fiscal year 2021 when the grant was approved by the Federal Emergency Management Association. KUB did not elect to use 10% de minimis indirect cost rate.

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2021

Continued on Next Page

FY	BB-2015		CC-2015		DD-2016		EE-2016		FF-2017		GG-2017	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
21-22	1,000,000	661,000	475,000	632,406	575,000	717,250	1,245,000	462,894	510,000	147,450	440,000	628,056
22-23	1,050,000	611,000	475,000	613,406	625,000	688,500	1,315,000	400,644	530,000	127,050	460,000	606,056
23-24	1,110,000	558,500	500,000	599,156	650,000	657,250	1,380,000	334,894	550,000	105,850	485,000	583,056
24-25	1,170,000	503,000	525,000	587,906	675,000	624,750	1,435,000	307,294	575,000	78,350	505,000	558,806
25-26	1,210,000	467,900	550,000	574,782	700,000	604,500	1,460,000	278,594	605,000	49,600	530,000	533,556
26-27	1,245,000	428,575	550,000	560,344	725,000	583,500	1,515,000	249,394	635,000	25,400	555,000	512,356
27-28	1,260,000	385,000	575,000	543,844	750,000	561,750	1,560,000	219,094			575,000	490,156
28-29	1,275,000	340,900	600,000	526,594	775,000	539,250	1,605,000	187,894			590,000	477,938
29-30	1,315,000	296,275	625,000	508,594	800,000	516,000	1,645,000	155,794			600,000	464,662
30-31	2,740,000	256,825	650,000	489,063	825,000	492,000	1,710,000	120,838			625,000	440,663
31-32	2,800,000	174,625	675,000	467,938	825,000	467,250	1,750,000	82,362			650,000	415,662
32-33	2,900,000	90,625	700,000	446,000	850,000	442,500	1,810,000	42,988			675,000	389,662
33-34			725,000	418,000	900,000	417,000					695,000	369,413
34-35			750,000	389,000	925,000	390,000					715,000	348,563
35-36			775,000	359,000	950,000	362,250					740,000	327,112
36-37			800,000	330,906	975,000	333,750					760,000	304,913
37-38			825,000	301,906	1,000,000	304,500					785,000	282,112
38-39			875,000	272,000	1,025,000	274,500					805,000	258,562
39-40			900,000	237,000	1,050,000	243,750					830,000	234,413
40-41			925,000	201,000	1,100,000	212,250					855,000	208,475
41-42			975,000	164,000	1,125,000	179,250					885,000	181,756
42-43			1,000,000	125,000	1,150,000	145,500					910,000	154,100
43-44			1,050,000	85,000	1,200,000	111,000					940,000	125,662
44-45			1,075,000	43,000	1,225,000	75,000					970,000	96,288
45-46					1,275,000	38,250					1,000,000	65,976
46-47											1,030,000	33,476
47-48												
48-49												
49-50												
	<u>\$ 19,075,000</u>	<u>\$ 4,774,225</u>	<u>\$ 17,575,000</u>	<u>\$ 9,475,845</u>	<u>\$ 22,675,000</u>	<u>\$ 9,981,500</u>	<u>\$ 18,430,000</u>	<u>\$ 2,842,684</u>	<u>\$ 3,405,000</u>	<u>\$ 533,700</u>	<u>\$ 18,610,000</u>	<u>\$ 9,091,450</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2021

Continued from Previous Page

FY	HH-2018		II-2019		JJ-2020		KK-2020		LL-2021		TOTAL		Grand Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
21-22	410,000	683,462	380,000	666,800	495,000	631,300	170,000	297,550	1,225,000	1,299,047	6,925,000	6,827,215	13,752,215
22-23	430,000	662,963	400,000	647,800	445,000	616,450	180,000	289,050	1,265,000	1,437,650	7,175,000	6,700,569	13,875,569
23-24	440,000	650,062	420,000	627,800	445,000	603,100	190,000	280,050	1,305,000	1,374,400	7,475,000	6,374,118	13,849,118
24-25	465,000	628,063	440,000	606,800	450,000	580,850	195,000	270,550	1,350,000	1,309,150	7,785,000	6,055,519	13,840,519
25-26	485,000	604,813	465,000	584,800	460,000	558,350	205,000	260,800	1,400,000	1,241,650	8,070,000	5,759,345	13,829,345
26-27	510,000	580,562	485,000	561,550	465,000	535,350	215,000	250,550	1,450,000	1,171,650	8,350,000	5,459,231	13,809,231
27-28	535,000	555,063	510,000	537,300	465,000	512,100	230,000	239,800	2,210,000	1,099,150	8,670,000	5,143,257	13,813,257
28-29	555,000	539,013	535,000	511,800	470,000	488,850	240,000	228,300	2,340,000	988,650	8,985,000	4,829,189	13,814,189
29-30	570,000	522,362	565,000	485,050	475,000	465,350	250,000	216,300	2,450,000	871,650	9,295,000	4,502,037	13,797,037
30-31	590,000	504,550	590,000	456,800	480,000	441,600	260,000	208,800	1,105,000	749,150	9,575,000	4,160,289	13,735,289
31-32	605,000	485,375	615,000	433,200	475,000	427,200	265,000	201,000	1,070,000	693,900	9,730,000	3,848,512	13,578,512
32-33	625,000	464,956	635,000	414,750	470,000	412,950	275,000	193,050	1,000,000	640,400	9,940,000	3,537,881	13,477,881
33-34	645,000	444,644	655,000	395,700	1,965,000	398,850	285,000	184,800	1,175,000	600,400	7,045,000	3,228,807	10,273,807
34-35	670,000	423,681	675,000	376,050	1,945,000	339,900	290,000	176,250	1,215,000	553,400	7,185,000	2,996,844	10,181,844
35-36	690,000	401,906	695,000	355,800	1,925,000	281,550	300,000	167,550	1,255,000	504,800	7,330,000	2,759,968	10,089,968
36-37	710,000	379,481	715,000	334,950	1,900,000	223,800	310,000	158,550	1,285,000	454,600	7,455,000	2,520,950	9,975,950
37-38	735,000	356,406	735,000	313,500	1,880,000	166,800	320,000	149,250	1,335,000	403,200	7,615,000	2,277,674	9,892,674
38-39	760,000	331,600	760,000	291,450	1,855,000	110,400	330,000	139,650	1,370,000	349,800	7,780,000	2,027,962	9,807,962
39-40	785,000	305,950	780,000	268,650	1,825,000	54,750	335,000	129,750	1,405,000	295,000	7,910,000	1,769,263	9,679,263
40-41	815,000	274,550	805,000	245,250			350,000	119,700	1,460,000	238,800	6,310,000	1,500,025	7,810,025
41-42	850,000	241,950	830,000	221,100			360,000	109,200	1,470,000	180,400	6,495,000	1,277,656	7,772,656
42-43	885,000	207,950	855,000	196,200			370,000	98,400	1,520,000	121,600	6,690,000	1,048,750	7,738,750
43-44	920,000	172,550	880,000	170,550			380,000	87,300	1,520,000	60,800	6,890,000	812,862	7,702,862
44-45	950,000	140,350	905,000	144,150			390,000	75,900			5,515,000	574,688	6,089,688
45-46	985,000	107,100	930,000	117,000			405,000	64,200			4,595,000	392,526	4,987,526
46-47	1,020,000	72,625	960,000	89,100			415,000	52,050			3,425,000	247,251	3,672,251
47-48	1,055,000	36,925	990,000	60,300			425,000	39,600			2,470,000	136,825	2,606,825
48-49			1,020,000	30,600			440,000	26,850			1,460,000	57,450	1,517,450
49-50							455,000	13,650			455,000	13,650	468,650
	<u>\$ 18,695,000</u>	<u>\$ 10,778,912</u>	<u>\$ 19,230,000</u>	<u>\$ 10,144,800</u>	<u>\$ 18,890,000</u>	<u>\$ 7,849,500</u>	<u>\$ 8,835,000</u>	<u>\$ 4,728,450</u>	<u>\$ 33,180,000</u>	<u>\$ 16,639,247</u>	<u>\$ 198,600,000</u>	<u>\$ 86,840,313</u>	<u>\$ 285,440,313</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, 2021

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding Balance 7/1/2020	Issued During Period	Paid/Matured During Period	Refunded During Period	Outstanding Balance 6/30/2021
Business-Type Activities									
BONDS PAYABLE									
<u>Payable through Water Fund</u>									
Revenue Bond Refunding, Series X-2012	10,050,000	3.0-5.0	04/20/12	03/01/29	\$ 6,460,000	\$	\$ 625,000	\$ 5,835,000	\$ -
Revenue Bond Refunding, Series Y-2013	9,285,000	3.0-4.0	03/15/13	03/01/30	7,730,000		350,000	7,380,000	-
Revenue Bond, Series Z-2013	25,000,000	2.0-5.0	10/01/13	03/01/44	21,600,000		575,000	21,025,000	-
Revenue Bond, Series AA-2014	8,000,000	2.0-4.0	09/18/14	03/01/44	7,100,000		175,000	6,925,000	-
Revenue Bond Refunding, Series BB-2015	23,005,000	2.0-5.0	05/01/15	03/01/33	20,035,000		960,000		19,075,000
Revenue Bond, Series CC-2015	20,000,000	2.0-4.0	05/20/15	03/01/45	18,025,000		450,000		17,575,000
Revenue Bond, Series DD-2016	25,000,000	3.0-5.0	08/05/16	03/01/46	23,225,000		550,000		22,675,000
Revenue Bond Refunding, Series EE-2016	20,875,000	2.0-5.0	08/05/16	03/01/33	19,585,000		1,155,000		18,430,000
Revenue Bond Refunding, Series FF-2017	5,310,000	3.0-5.0	04/07/17	03/01/27	3,900,000		495,000		3,405,000
Revenue Bond, Series GG-2017	20,000,000	2.125-5.0	09/15/17	03/01/47	19,025,000		415,000		18,610,000
Revenue Bond, Series HH-2018	19,995,000	3.0-5.0	09/14/18	03/01/48	19,090,000		395,000		18,695,000
Revenue Bond, Series II-2019	19,995,000	3.0-5.0	08/20/19	03/01/49	19,595,000		365,000		19,230,000
Revenue Bond Refunding, Series JJ-2020	19,520,000	3.0-5.0	05/22/20	03/01/40	19,520,000		630,000		18,890,000
Revenue Bond, Series KK-2020	9,045,000	3.0-5.0	10/30/20	03/01/50	-	9,045,000	210,000		8,835,000
Revenue Bond Refunding, Series LL-2021	33,180,000	4.0-5.0	04/19/21	03/01/44	-	33,180,000	-		33,180,000
					<u>\$ 204,890,000</u>	<u>\$ 42,225,000</u>	<u>\$ 7,350,000</u>	<u>\$ 41,165,000</u>	<u>\$ 198,600,000</u>

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Statistical Information - Schedule of Insurance in Force
June 30, 2021
(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.

Pollution Legal Liability

New conditions coverage for losses exceeding specified amount per occurrence (\$1,000,000). Limits of coverage - \$20,000,000.

Property Insurance

This coverage provides protection of KUB's property for fire, extended coverage, vandalism and malicious mischief, and coverage on boilers and machinery. Also included are flood and earthquake damage and mechanical failure. Limits of coverage - \$250,000,000 per occurrence (subject to certain sublimits); \$2,500,000 deductible per occurrence.

Travel Accident

Covers losses related to employees' business travel. Limits of coverage - \$3,000,000 aggregate.

Excess Insurance for General Liability

As a governmental entity, KUB's liability is limited under the Tennessee Governmental Tort Liability Act (TCA §29-20-403). KUB is self-insured for the first \$700,000 of any accident and has insurance of \$1,000,000 above this retention.

Excess Insurance for Workers' Compensation

Covers all losses exceeding specified amount per occurrence (\$1,000,000). Limits of coverage - Statutory; stop loss coverage applies for aggregate losses over \$5,000,000.

Employee Health Plan Stop Loss Coverage

KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses in excess of \$600,000 per individual participant.

Cyber Security Liability

Covers losses resulting from employee dishonesty, robbery, burglary, and computer fraud. Limits of coverage - \$5,000,000; \$250,000 retention.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2021
(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:	56,652
	Commodity Charge	
	First 2 100 Cubic Feet Per Month at \$1.00 Per 100 Cubic Feet	
	Over 2 100 Cubic Feet Per Month at \$2.65 Per 100 Cubic Feet	
	Additional Monthly Customer Charge	
	For 5/8" meter \$ 18.00	
	For 1" meter 32.10	
	For 1 1/2" meter 44.00	
	For 2" meter 60.00	
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:	13,983
	Commodity Charge	
	First 2 100 Cubic Feet Per Month at \$1.05 Per 100 Cubic Feet	
	Over 2 100 Cubic Feet Per Month at \$3.20 Per 100 Cubic Feet	
	Additional Monthly Customer Charge	
	For 5/8" meter \$ 19.40	
	For 1" meter 36.40	
	For 1 1/2" meter 50.40	
	For 2" meter 69.40	

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2021
(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:	10,148

Commodity Charge

First	2	100 Cubic Feet Per Month at \$2.15 Per 100 Cubic Feet
Next	8	100 Cubic Feet Per Month at \$4.55 Per 100 Cubic Feet
Next	90	100 Cubic Feet Per Month at \$5.65 Per 100 Cubic Feet
Next	300	100 Cubic Feet Per Month at \$4.20 Per 100 Cubic Feet
Next	4,600	100 Cubic Feet Per Month at \$2.60 Per 100 Cubic Feet
Next	5,000	100 Cubic Feet Per Month at \$1.20 Per 100 Cubic Feet

Additional Monthly Customer Charge

For	5/8" meter	\$ 18.00
For	1" meter	32.10
For	1 1/2" meter	44.00
For	2" meter	60.00
For	3" meter	161.00
For	4" meter	266.00
For	6" meter	583.00
For	8" meter	1,026.00
For	10" meter	1,563.00
For	12" meter	2,311.00

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:	723
--------------------------------------	---	-----

Commodity Charge

First	2	100 Cubic Feet Per Month at \$2.55 Per 100 Cubic Feet
Next	8	100 Cubic Feet Per Month at \$5.30 Per 100 Cubic Feet
Next	90	100 Cubic Feet Per Month at \$6.85 Per 100 Cubic Feet
Next	300	100 Cubic Feet Per Month at \$4.90 Per 100 Cubic Feet
Next	4,600	100 Cubic Feet Per Month at \$3.15 Per 100 Cubic Feet
Next	5,000	100 Cubic Feet Per Month at \$1.45 Per 100 Cubic Feet

Additional Monthly Customer Charge

For	5/8" meter	\$ 19.40
For	1" meter	36.40
For	1 1/2" meter	50.40
For	2" meter	69.40
For	3" meter	192.00
For	4" meter	321.00
For	6" meter	701.00
For	8" meter	1,231.00
For	10" meter	1,873.00
For	12" meter	2,775.00

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division
Statistical Information - Schedule of Unaccounted for Water
June 30, 2021
(Unaudited)

The following unaudited Schedule of Unaccounted for Water is attached as required by the Tennessee Code Annotated. For reports submitted January 1, 2013 and later, the American Water Works Association (AWWA) water loss reporting model must be used. For fiscal years 2021 and 2020, water utilities are required to have a Validity Score greater than 80 and maintain non-revenue water as a percent by cost of operating system of less than 20%. For fiscal year 2021, KUB reported a Validity Score of 82 and non-revenue water as a percent by cost of operating system of 5.8%. For fiscal year 2020, KUB reported a Validity Score of 82 and non-revenue water as a percent by cost of operating system of 9.7%. See Statistical Information - Schedule of Unaccounted for Water for the AWWA Reporting Worksheet.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division

Statistical Information - Schedule of Unaccounted for Water

June 30, 2021
(Unaudited)

AWWA Free Water Audit Software: Reporting Worksheet

WAS v5.0
American Water Works Association
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Water Audit Report for: **Knoxville Utilities Board**
Reporting Year: **2021** 7/2020 - 6/2021

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

WATER SUPPLIED

----- Enter grading in column 'E' and 'J' ----->

Volume from own sources:	+ ? 8	12,155.963	MG/Yr	Pcnt:	Value:	0.000	MG/Yr
Water imported:	+ ? n/a	0.000	MG/Yr	+ ? 8	<input type="radio"/>	<input checked="" type="radio"/>	MG/Yr
Water exported:	+ ? n/a	0.000	MG/Yr	+ ?	<input type="radio"/>	<input checked="" type="radio"/>	MG/Yr

Master Meter and Supply Error Adjustments
Enter negative % or value for under-registration
Enter positive % or value for over-registration

WATER SUPPLIED: **12,155.963** MG/Yr

AUTHORIZED CONSUMPTION

Billed metered:	+ ? 9	8,034.213	MG/Yr	Pcnt:	Value:		MG/Yr
Billed unmetered:	+ ? 9	43.807	MG/Yr	1.25%	<input checked="" type="radio"/>	<input type="radio"/>	MG/Yr
Unbilled metered:	+ ? 10	159.740	MG/Yr				
Unbilled unmetered:	+ ?	151.950	MG/Yr				

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

AUTHORIZED CONSUMPTION: **8,389.710** MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption) **3,766.253** MG/Yr

Apparent Losses

Unauthorized consumption:	+ ?	30.390	MG/Yr	Pcnt:	Value:		MG/Yr
Customer metering inaccuracies:	+ ? 9	36.213	MG/Yr	0.25%	<input checked="" type="radio"/>	<input type="radio"/>	MG/Yr
Systematic data handling errors:	+ ?	20.086	MG/Yr	0.44%	<input checked="" type="radio"/>	<input type="radio"/>	MG/Yr
				0.25%	<input type="radio"/>	<input checked="" type="radio"/>	MG/Yr

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

Apparent Losses: **86.688** MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: **3,679.565** MG/Yr

WATER LOSSES: **3,766.253** MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: **4,077.943** MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	+ ? 9	1,447.0	miles
Number of active AND inactive service connections:	+ ? 9	92,291	
Service connection density:	?	64	conn./mile main

Are customer meters typically located at the curbstop or property line? Yes No

Average length of customer service line: 0 (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line has been set to zero and a data grading score of 10 has been applied

Average operating pressure: 8 99.2 psi

COST DATA

Total annual cost of operating water system:	+ ? 10	\$40,986,043	\$/Year
Customer retail unit cost (applied to Apparent Losses):	+ ? 9	\$8.10	\$/100 cubic feet (ccf)
Variable production cost (applied to Real Losses):	+ ? 7	\$357.22	\$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 82 out of 100 *****

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

- 1: Volume from own sources
- 2: Unauthorized consumption
- 3: Systematic data handling errors

See accompanying Independent Auditor's Report

Knoxville Utilities Board Water Division

Statistical Information - Schedule of Unaccounted for Water

June 30, 2021

(Unaudited)

AWWA Free Water Audit Software:
System Attributes and Performance Indicators

WAS v5.0
American Water Works Association.
Copyright © 2014. All Rights Reserved.

Water Audit Report for: **Knoxville Utilities Board**
Reporting Year: **2021** | **7/2020 - 6/2021**

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 82 out of 100 ***

System Attributes:

	Apparent Losses:	86.688	MG/Yr
	+ Real Losses:	3,679.565	MG/Yr
	= Water Losses:	3,766.253	MG/Yr
	? Unavoidable Annual Real Losses (UARL):	784.70	MG/Yr
	Annual cost of Apparent Losses:	\$938,670	
	Annual cost of Real Losses:	\$1,314,414	Valued at Variable Production Cost
			<small>Return to Reporting Worksheet to change this assumption</small>

Performance Indicators:

Financial:	{	Non-revenue water as percent by volume of Water Supplied:	33.5%	
		Non-revenue water as percent by cost of operating system:	5.8%	Real Losses valued at Variable Production Cost
Operational Efficiency:	{	Apparent Losses per service connection per day:	2.57	gallons/connection/day
		Real Losses per service connection per day:	109.23	gallons/connection/day
		Real Losses per length of main per day*:	N/A	
		Real Losses per service connection per day per psi pressure:	1.10	gallons/connection/day/psi
		From Above, Real Losses = Current Annual Real Losses (CARL):	3,679.57	million gallons/year
	?	Infrastructure Leakage Index (ILI) [CARL/UARL]:	4.69	

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2021, 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 25, 2021.

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 may exist that have not been identified.

Board of Commissioners
Water Division of the Knoxville Utilities Board
Knoxville, Tennessee

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 25, 2021

**Knoxville Utilities Board Water Division
Schedule of Findings and Questioned Costs
June 30, 2021**

Section I -- Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements:	No

Section II -- Financial Statement Findings

None reported.

Section III -- Findings Required by the State of Tennessee Audit Manual

None reported.

Section IV -- Summary Schedule of Prior Year Audit Findings

Not applicable as there were no prior year findings reported.



Wastewater Division

**Financial Statements and Supplemental Information
June 30, 2021 and 2020**

KUB Board of Commissioners

Dr. Jerry W. Askew, Chair
John Worden, Vice Chair

Claudia Caballero
Kathy Hamilton

Celeste Herbert
Adrienne Simpson-Brown

Tyvi Small

Management

Gabriel Bolas II

President and Chief Executive Officer

Mark Walker

Senior Vice President and Chief Financial Officer

Susan Edwards

Senior Vice President and Chief Administrative Officer

Derwin Hagood

Senior Vice President of Operations

Eddie Black

Senior Vice President and Chief Technology Officer

John Williams

Senior Vice President of Engineering & Construction

Tiffany Martin

Vice President and Chief Customer Officer

Mike Bolin

Vice President of Utility Advancement

John Gresham

Vice President of Operations

Jamie Davis

Vice President and Assistant to Chief Technology Officer

Julie Childers

Vice President and Century II Administrator

Knoxville Utilities Board Wastewater Division

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June 30, 2021 and 2020

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Independent Auditor's Report

Board of Commissioners
Wastewater Division of the Knoxville Utilities Board
Knoxville, Tennessee

We have audited the accompanying 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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the index.

Management's Responsibility for the Financial Statements

The Division's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Division's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wastewater Division of the Knoxville Utilities Board as of June 30, 2021 and 2020, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Commissioners
Wastewater Division of the Knoxville Utilities Board
Knoxville, Tennessee

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 3 through 26 and the required supplementary information on pages 64 through 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise 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.

The statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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, 2021 and 2020, 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 25, 2021, 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 25, 2021

Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2021 and 2020

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. 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 at June 30, 2021 and 2020, 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, 2021 activities, resulting changes and current known facts, and should be read in conjunction with the Division's financial statements.

Wastewater Division Highlights

System Highlights

As the COVID-19 global pandemic continued throughout the fiscal year, KUB adjusted its operations accordingly. Employee health and safety, accommodation of customers and continuity of operations rose as priorities. While working to relieve the burden of utility bills for impacted customers, KUB also reduced capital spending to create extra liquidity until the financial impact of the pandemic became clear. As the year progressed, KUB began to return to more normal operations, and projects were restarted. However, KUB continues to maintain flexibility in our finances to ensure that we are prepared to meet the ongoing uncertainties of the pandemic.

The wastewater service area covers 249 square miles and includes 72,830 wastewater customers. KUB maintains 1,320 miles of services mains, 78 pump stations, and 4 treatment plants to treat 13.8 billion gallons of wastewater on an annual basis. The average daily flow is 37.8 million gallons.

KUB has added 1,588 wastewater system customers over the past three years, representing annual growth of less than one percent. In fiscal year 2021, 584 customers were added.

The typical residential wastewater customer's average monthly wastewater bill was \$65.50 as of June 30, 2021, which is unchanged from the prior fiscal year.

Previously planned wastewater rate increases scheduled for July 2020 and July 2021 were eliminated due to operating cost savings, capital project deferrals, and savings from refinancing outstanding bonds.

KUB's treatment plants continue to meet high standards of operation. KUB was awarded the National Association of Clean Water Agencies (NACWA) Peak Performance recognition for three Wastewater Treatment Plants in calendar year 2020. Fourth Creek and Loves Creek Wastewater Treatment Plants won silver awards while Eastbridge won gold.

Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2021 and 2020

KUB continued to maintain Platinum certification with the National Biosolids Partnership following a rigorous review process and independent audit that was conducted in December 2020. Biosolids are nutrient-rich organic matter produced by wastewater treatment and is a registered fertilizer with the Tennessee Department of Agriculture.

Century II Infrastructure Program

Century II is KUB's proactive long-range program to improve and maintain the electric, natural gas, water and wastewater systems for its customers. It includes maintenance and asset replacement strategies for each system and establishes sustainable replacement cycles. Century II moves KUB into its second century of service by improving each system through sound planning, resource allocation, and continued, but accelerated, investment.

In May 2017, a new Century II funding resolution was adopted by the KUB Board to express the continued commitment to funding Century II programs for the next ten years. The funding will be achieved through a combination of rate increases and debt issues supplemented by cost savings and new revenue from net customer additions.

In June 2017, the Board approved the next phase of wastewater rate increases to support the Century II program. The three approved wastewater rate increases went into effect in July 2017, July 2018, and July 2019, generating \$4.3 million, \$4.2 million, and \$4.5 million in additional annual Wastewater Division revenue, respectively.

In fiscal year 2021, KUB rehabilitated or replaced 14.8 miles of wastewater system mains, exceeding the target level of 9.5 miles. Extra replacement work was performed, as other projects were delayed, due to changes in priority, resulting from the pandemic.

Consent Decree

In February 2005, a Consent Decree was entered into federal court regarding the operation of KUB's wastewater system. Under the terms of the Consent Decree, the remediation of identified sanitary sewer overflows (SSOs) on KUB's wastewater system had to be completed by June 30, 2016. KUB completed all the requirements of the Consent Decree for the collection system two years in advance of the deadline.

The Consent Decree also required KUB to perform an evaluation of the wet weather performance and capacity of its wastewater treatment plants. In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB's Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provides for a biologically enhanced high-rate clarification (the BEHRC) secondary treatment system to be installed at the Fourth Creek treatment plant and at the Kuwahee treatment plant. KUB successfully completed the installation of the BEHRC system at the Fourth Creek treatment plant. Work is currently ongoing at the Kuwahee treatment plant and project completion is scheduled for early 2022. The total cost of such improvements at the Kuwahee treatment plant is estimated to be \$50 million.

KUB's funding plan for the Consent Decree includes long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all types of wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2021, the Wastewater Division had issued \$583.7

Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2021 and 2020

million in bonds to fund wastewater system capital improvements since the inception of the Consent Decree. The Board approved two 50 percent rate increases, which went into effect in April 2005 and January 2007. The Board also approved an 8 percent rate increase, which was effective in September 2008, two 12 percent rate increases, which were effective in April 2011 and October 2012, three 6 percent rate increases, which were effective October 2014, October 2015, and October 2016, and three 5 percent rate increases, which were effective July 2017, July 2018, and July 2019. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

KUB successfully completed the first cycle of Maintenance Operation Management (MOM) requirements one year before the deadline by inspecting manholes and gravity mains, smoke testing gravity mains, performing required inspections of pump stations and the related force mains, and completing all Corrective Action Plan/Engineering Report (CAP/ER) projects. KUB initiated the second MOM cycle that continues to focus on the prevention of SSOs. As part of the Century II initiative, formally known as the PACE10 program, KUB has installed storage tanks providing 34 million gallons of wastewater storage to control wet weather overflows and rehabilitated or replaced 423 miles of collection system pipe. KUB also continues to maintain a proactive operations and maintenance plan for the wastewater collection system including inspection, grease control, and private lateral enforcement. The result of the PACE10/Century II initiative has been an 80 percent reduction in SSOs.

As of June 30, 2021, the Wastewater Division had completed its 17th full year under the Consent Decree, spending \$575.9 million on capital investments to meet Consent Decree requirements.

KUB's management anticipates the full completion of final required projects under the Consent Decree in fiscal year 2022, and the closure of the Consent Decree by the applicable regulatory authorities.

(Space left intentionally blank)

Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2021 and 2020

Financial Highlights

Fiscal Year 2021 Compared to Fiscal Year 2020

The Division's net position during the year increased \$17.8 million compared to a \$21.2 million increase last fiscal year.

Operating revenue decreased \$1 million or 1 percent for the fiscal year ended June 30, 2021. This reflects an increase in billed sales of \$0.8 million and a decrease in other operating revenue of \$1.2 million. Billable customer flows increased 1.2 percent.

Operating expenses increased \$1.4 million. Operating and maintenance (O&M) expenditures decreased \$1.9 million. Depreciation expense rose \$3.1 million or 15.4 percent. Taxes and tax equivalents increased \$0.3 million or 4.8 percent.

Interest income was \$1.2 million lower than the prior fiscal year. Interest expense decreased \$0.6 million compared to the prior fiscal year. Other income (net) was \$0.8 million lower.

Capital contributions increased \$0.5 million, the result of increased donated utility assets from developers compared to the previous fiscal year.

Total plant assets (net) increased \$23.3 million or 3 percent since the end of last fiscal year.

During fiscal year 2021, KUB sold \$27.5 million in wastewater system revenue bonds for the purpose of funding wastewater system capital improvements. KUB also took advantage of a lower interest environment to refinance outstanding debt, selling \$190.8 million in wastewater system revenue refunding bonds in March 2021. KUB will realize a total debt service savings of \$47.2 million over the life of the bonds (\$41.8 million on a net present value basis).

Long-term debt represented 56.7 percent of the Division's capital structure as of June 30, 2021, as compared to 59.7 percent last year. The decrease is the net result of the issuance of new revenue and refunding bonds offset by refunded bonds and the scheduled repayment of debt during the 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. Current year debt coverage for the fiscal year was 1.84. Maximum debt service coverage was 1.98.

Fiscal Year 2020 Compared to Fiscal Year 2019

The Division's net position during the year increased \$21.2 million compared to a \$19.5 million increase last fiscal year.

Operating revenue increased \$2.9 million or 2.9 percent, the result of additional revenue generated during the fiscal year from the rate increase effective July 2019 offset by a 3.3 percent decrease in customer billable flows.

Operating expenses increased \$1.1 million. Operating and maintenance (O&M) expenditures increased \$0.5 million. Depreciation expense rose \$0.3 million or 1.7 percent. Taxes and tax equivalents increased \$0.3 million or 4.8 percent.

Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2021 and 2020

Interest income was \$0.4 million lower than the prior fiscal year. Interest expense decreased \$0.4 million compared to the prior fiscal year. Other income (net) was \$0.2 million higher.

Capital contributions decreased \$0.2 million, the result of decreased donated utility assets from developers compared to the previous fiscal year.

Total plant assets (net) increased \$33.5 million or 4.4 percent since the end of last fiscal year.

During fiscal year 2020, KUB sold \$16 million in wastewater system revenue bonds for the purpose of funding wastewater system capital improvements and also sold \$28.2 million in wastewater system revenue refunding bonds for the purpose of refinancing existing wastewater system revenue bonds at lower interest rates. KUB will realize a total debt service savings of \$18.9 million over the life of the bonds (\$8.8 million on a net present value basis).

Long-term debt represented 59.7 percent of the Division's capital structure as of June 30, 2020, as compared to 61.2 percent last year. The decrease is the net result of the issuance of new revenue and refunding bonds and the scheduled repayment of debt during the 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. Current year debt coverage for the fiscal year was 1.92. Maximum debt service coverage was 1.92.

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Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2021 and 2020

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, 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 less 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, 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, 2021 and 2020**

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>	2021	2020	2019
Current, restricted and other assets	\$ 98,557	\$ 85,942	\$ 91,458
Capital assets, net	809,975	786,640	753,174
Deferred outflows of resources	<u>15,027</u>	<u>17,107</u>	<u>19,087</u>
Total assets and deferred outflows of resources	<u>923,559</u>	<u>889,689</u>	<u>863,719</u>
Current and other liabilities	26,469	27,813	28,239
Long-term debt outstanding	523,665	511,453	509,937
Deferred inflows of resources	<u>9,711</u>	<u>4,525</u>	<u>846</u>
Total liabilities and deferred inflows of resources	<u>559,845</u>	<u>543,791</u>	<u>539,022</u>
Net position			
Net investment in capital assets	289,032	279,477	249,592
Restricted	3,331	3,647	3,358
Unrestricted	<u>71,351</u>	<u>62,774</u>	<u>71,747</u>
Total net position	<u>\$ 363,714</u>	<u>\$ 345,898</u>	<u>\$ 324,697</u>

Normal Impacts on Statement of Net Position

The following is a description of activities which will normally impact the comparability of the Statement of Net Position presentation:

- Change in net position (from Statement of Revenues, Expenses and Changes in Net Position): impacts (increase/decrease) current and other assets and/or capital assets and unrestricted net position.
- Issuing debt for capital: increases deferred outflows of resources and long-term debt.
- Spending debt proceeds on new capital: reduces current assets and increases capital assets.
- Spending of non-debt related current assets on new capital: (a) reduces current assets and increases capital assets and (b) reduces unrestricted net position and increases net investment in capital assets.
- Principal payment on debt: (a) reduces current and other assets and reduces long-term debt and (b) reduces unrestricted net position and increases net investment in capital assets.
- Reduction of capital assets through depreciation: reduces capital assets and net investment in capital assets.

Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2021 and 2020

Impacts and Analysis

Current, Restricted and Other Assets

Fiscal Year 2021 Compared to Fiscal Year 2020

Current, restricted and other assets increased \$12.6 million or 14.7 percent, primarily due to an \$8.6 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) and a \$5.7 million increase in the actuarially determined net pension asset.

Fiscal Year 2020 Compared to Fiscal Year 2019

Current, restricted and other assets decreased \$5.5 million or 6 percent, primarily due to a \$10.4 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) offset by an increase in the actuarially determined net pension asset of \$4.2 million.

Capital Assets

Fiscal Year 2021 Compared to Fiscal Year 2020

Capital assets increased \$23.3 million or 3 percent, the result of capital expenditures, net of depreciation. Major capital expenditures during the year included \$35.2 million for major system improvements related to Century II. Spending was slowed this year to allow for greater financial liquidity in response to the pandemic. Wastewater system assets of \$11.4 million were retired during the fiscal year.

Fiscal Year 2020 Compared to Fiscal Year 2019

Capital assets increased \$33.5 million or 4.4 percent, the result of capital expenditures, net of depreciation. Major capital expenditures during the year included \$46 million for major system improvements related to Century II.

Deferred Outflows of Resources

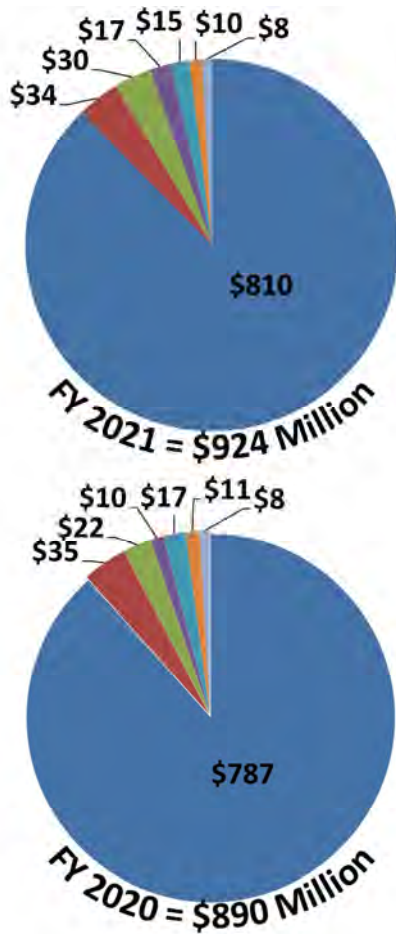
Fiscal Year 2021 Compared to Fiscal Year 2020

Deferred outflows decreased \$2.1 million compared to the prior year due to a \$1.2 million decrease in unamortized bond refunding costs and a \$0.9 million decrease in OPEB outflow.

Fiscal Year 2020 Compared to Fiscal Year 2019

Deferred outflows decreased \$2 million compared to the prior year primarily due to a \$2 million decrease in pension outflow.

**Knoxville Utilities Board Wastewater Division
Management’s Discussion and Analysis
June 30, 2021 and 2020**



Wastewater Division Total Assets and Deferred Outflows of Resources (in Millions)

	<u>FY21</u>	<u>FY20</u>
Plant	88%	88%
Contingency Fund	4%	4%
General Fund	3%	3%
Other Assets	2%	1%
Deferred Outflows of Resources	1%	2%
Accounts Receivable	1%	1%
Restricted Assets	1%	1%

Current and Other Liabilities

Fiscal Year 2021 Compared to Fiscal Year 2020

Current and other liabilities were \$1.3 million lower than the prior fiscal year due to decreases of \$1.7 in net OPEB liability and \$0.8 million in the current portion of revenue bonds, offset by a \$1.2 million increase in accounts payable.

Fiscal Year 2020 Compared to Fiscal Year 2019

Current and other liabilities were \$0.4 million lower than the prior fiscal year due to decreases of \$1.8 million in accounts payable and \$1.5 million in net pension liability, offset by increases of \$1.6 million for the current portion of revenue bonds and \$1.4 in net OPEB liability.

**Knoxville Utilities Board Wastewater Division
Management's Discussion and Analysis
June 30, 2021 and 2020**

Long-Term Debt

Fiscal Year 2021 Compared to Fiscal Year 2020

The Division's outstanding long-term debt increased \$12.2 million or 2.4 percent. This increase is due in part to the net impact of the scheduled repayment of debt and \$27.5 million in wastewater system revenue bonds sold in October 2020. KUB also sold \$190.8 million of wastewater system revenue refunding bonds in March 2021 with a premium of \$48.1 million to refund \$238.6 million in outstanding debt, resulting in a reduction of principal of \$47.8 million.

Fiscal Year 2020 Compared to Fiscal Year 2019

The Division's outstanding long-term debt increased \$1.5 million or 0.3 percent. This increase is due to \$16 million in wastewater system revenue bonds, sold in July 2019, and wastewater system revenue refunding bonds of \$28.2 million, sold in April 2020, offset by the refunded bonds and the scheduled repayment of debt.

Deferred Inflows of Resources

Fiscal Year 2021 Compared to Fiscal Year 2020

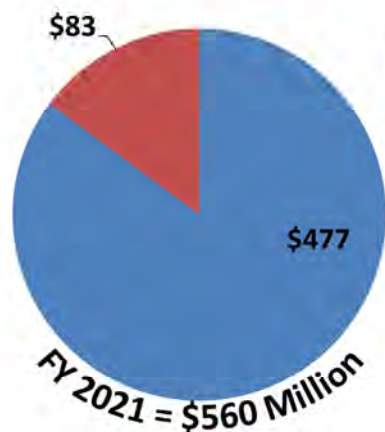
Deferred inflows of resources were \$5.2 million higher than the prior fiscal year due to a \$3.4 million increase in pension inflow and a \$1.8 million increase in OPEB inflow.

Fiscal Year 2020 Compared to Fiscal Year 2019

Deferred inflows of resources were \$3.7 million higher than the prior fiscal year due to differences in pension inflow.

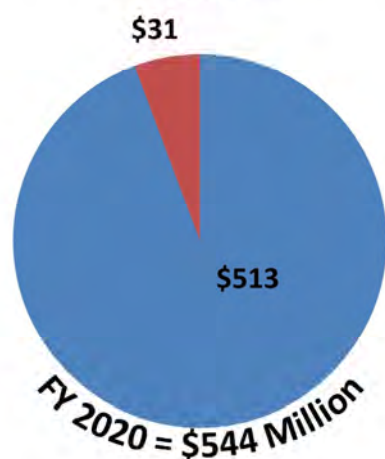
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**Knoxville Utilities Board Wastewater Division
Management’s Discussion and Analysis
June 30, 2021 and 2020**



Wastewater Division Total Liabilities and Deferred Inflows of Resources (in Millions)

	<u>FY21</u>	<u>FY20</u>
■ Bond Debt	85%	94%
■ All Other	15%	6%



Net Position

Fiscal Year 2021 Compared to Fiscal Year 2020

Net position increased \$17.8 million in fiscal year 2021. Unrestricted net position increased \$8.6 million, primarily due to an \$8.6 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments). Net investment in capital assets increased \$9.6 million, the result of \$23.3 million in net plant additions offset by an increase in current portion of revenue bonds and total long-term debt of \$11.4 million. Restricted net position was \$0.3 million lower than the previous fiscal year due to a decrease in required bond fund reserves.

Fiscal Year 2020 Compared to Fiscal Year 2019

Net position increased \$21.2 million in fiscal year 2020. Unrestricted net position decreased \$9 million, primarily due to a \$5.4 million decrease in current and other assets compared to the prior year, which includes a \$10.4 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) offset by an increase in the actuarially determined net pension asset of \$4.2 million. Net investment in capital assets increased \$29.9 million, the result of \$33.5 million in net plant additions offset by an increase in current portion of revenue bonds and total long-term debt of \$3.2 million. Restricted net position was \$0.3 million higher than the previous fiscal year due to a decrease in accrued interest on revenue bonds.

**Knoxville Utilities Board Wastewater Division
Management's Discussion and Analysis
June 30, 2021 and 2020**

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>	2021	2020	2019
Operating revenues	\$ 100,363	\$ 101,336	\$ 98,482
Operating expenses			
Treatment	12,735	12,736	12,444
Collection	8,561	8,229	8,130
Customer service	3,754	3,693	3,776
Administrative and general	9,169	11,464	11,303
Depreciation	22,942	19,881	19,545
Taxes and tax equivalents	5,844	5,574	5,318
Total operating expenses	<u>63,005</u>	<u>61,577</u>	<u>60,516</u>
Operating income	<u>37,358</u>	<u>39,759</u>	<u>37,966</u>
Interest income	311	1,484	1,906
Interest expense	(19,609)	(20,170)	(20,521)
Other income/(expense)	<u>(887)</u>	<u>(64)</u>	<u>(263)</u>
Change in net position before capital contributions	<u>17,173</u>	<u>21,009</u>	<u>19,088</u>
Capital contributions	<u>643</u>	<u>192</u>	<u>389</u>
Change in net position	<u>\$ 17,816</u>	<u>\$ 21,201</u>	<u>\$ 19,477</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 expense is impacted by 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 Wastewater Division Management's Discussion and Analysis June 30, 2021 and 2020

- 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 2021 Compared to Fiscal Year 2020

The Division's Change in Net Position increased \$17.8 million in fiscal year 2021. Comparatively, net position increased by \$21.2 million in fiscal year 2020.

Fiscal Year 2020 Compared to Fiscal Year 2019

The Division's Change in Net Position increased \$21.2 million in fiscal year 2020. Comparatively, net position increased by \$19.5 million in fiscal year 2019.

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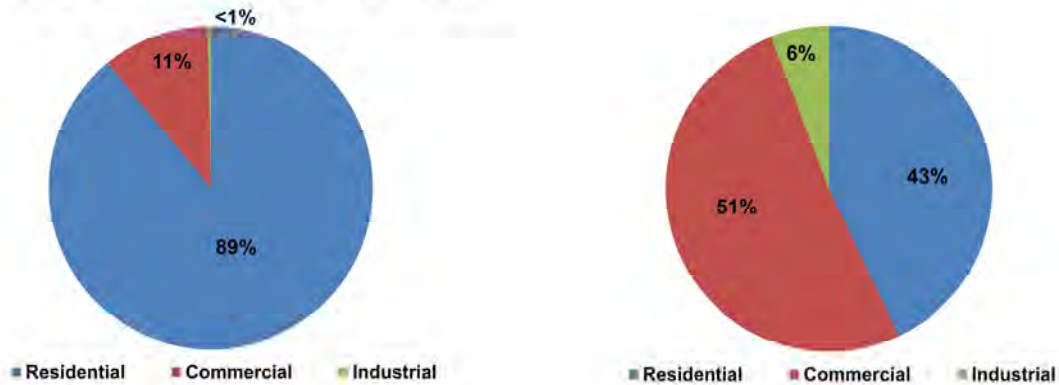
Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2021 and 2020

Margin from Sales

Fiscal Year 2021 Compared to Fiscal Year 2020

Operating revenue decreased \$1 million or 1 percent for the fiscal year ended June 30, 2021. This reflects an increase in billed sales of \$0.8 million and a decrease in other operating revenue of \$1.2 million. Billable customer flows increased 1.2 percent. 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 \$1 million in revenue for BABs rebates in fiscal year 2021.

FY 2021 Total Wastewater Customers = 72,830 FY 2021 Wastewater Sales = 6.3 Billion Gallons



Residential customers accounted for 89 percent of wastewater customers and 43 percent of total billed sales volumes for the year. Commercial customers accounted for the largest portion of total sales volumes for the year with 51 percent.

KUB's ten largest wastewater customers accounted for 18 percent of KUB's billed wastewater volumes. Those ten customers represent five industrial and five commercial customers, including four governmental customers.

KUB has added 1,588 wastewater customers over the past three years, representing annual growth of less than one percent.

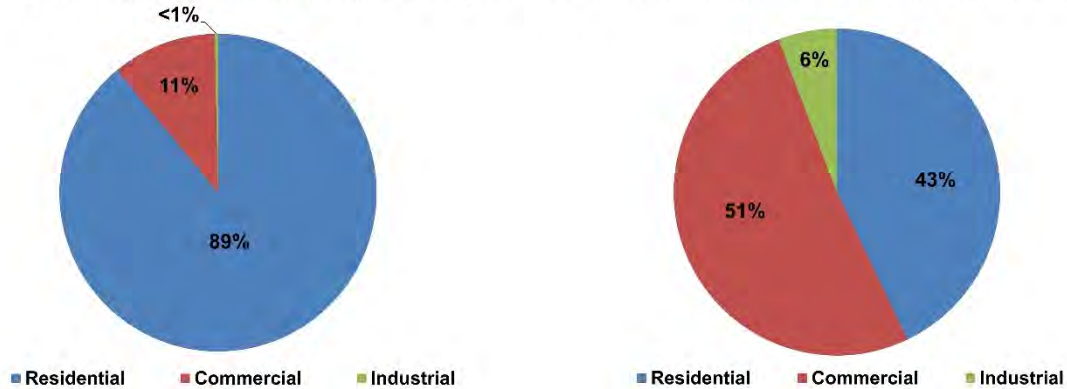
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Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2021 and 2020

Fiscal Year 2020 Compared to Fiscal Year 2019

Operating revenue increased \$2.9 million or 2.9 percent for the fiscal year ended June 30, 2020, the result of additional revenue generated during the fiscal year from the 5 percent rate increase effective July 2019 offset by a 3.3 percent decrease in billable customer flows. 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 \$1.7 million in revenue for BABs rebates in fiscal year 2020.

FY 2020 Total Wastewater Customers = 72,246 FY 2020 Wastewater Sales = 6.2 Billion Gallons



Residential customers accounted for 89 percent of wastewater customers and 43 percent of total billed sales volumes for the year. Commercial customers accounted for the largest portion of total sales volumes for the year with 51 percent.

KUB's ten largest wastewater customers accounted for 19 percent of KUB's billed wastewater volumes. Those ten customers represent three industrial and seven commercial customers, including five governmental customers.

KUB has added 1,495 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, 2021 and 2020

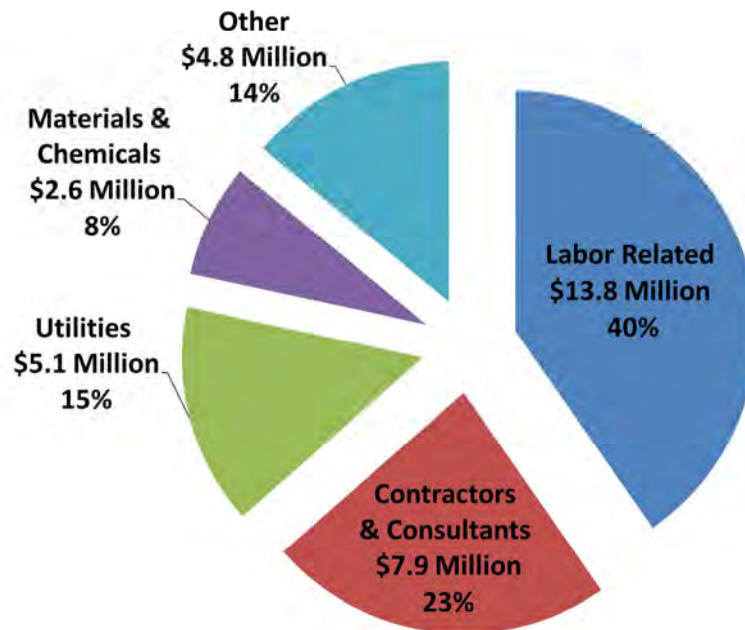
Operating Expenses

Fiscal Year 2021 Compared to Fiscal Year 2020

Operating expenses increased \$1.4 million compared to fiscal year 2020. Operating expenses include operations and maintenance (O&M) expense, depreciation, and taxes/tax equivalents. O&M expenses can be further classified as treatment, collection, customer service, and administrative and general.

- Treatment expenses were consistent with the prior fiscal year.
- Collection system expenses increased \$0.3 million, primarily due to an increase in outside contractor and consultant costs.
- Customer service expenses were up slightly from the prior fiscal year.
- Administrative and general expenses decreased \$2.3 million, primarily due to a decrease in labor related expenses, including lower pension and OPEB expenses.

FY 2021 Wastewater O&M Expense = \$34.2 Million



- Depreciation expense increased \$3.1 million or 15.4 percent. KUB added \$55.2 million in assets during fiscal year 2021, including \$5.2 million of multi-year projects being held in Construction Work in Progress. A partial year of depreciation expense was recorded for these capital investments and a full year of depreciation expense was incurred on \$37.8 million of wastewater system assets placed in service during fiscal year 2020. Wastewater system assets of \$11.4 million were retired during the fiscal year.
- Taxes and tax equivalents increased \$0.3 million compared to the prior fiscal year due to increased plant in service levels.

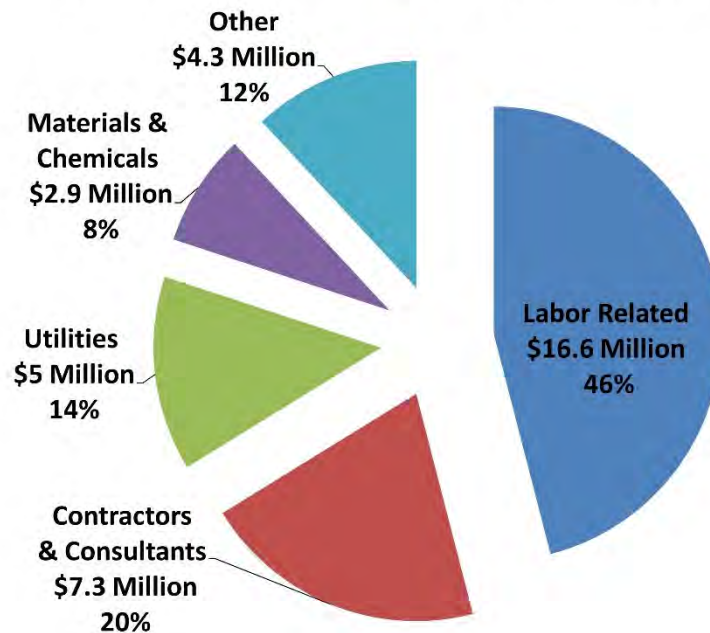
Knoxville Utilities Board Wastewater Division Management’s Discussion and Analysis June 30, 2021 and 2020

Fiscal Year 2020 Compared to Fiscal Year 2019

Operating expenses increased \$1.1 million compared to fiscal year 2019. Operating expenses include operations and maintenance (O&M) expense, depreciation, and taxes/tax equivalents. O&M expenses can be further classified as treatment, collection, customer service, and administrative and general.

- Treatment expenses increased \$0.3 million, primarily due to higher labor related expenses.
- Collection system expenses increased \$0.1 million.
- Customer service expenses decreased \$0.1 million, primarily due to a decrease in outside contractors.
- Administrative and general expenses increased \$0.2 million, primarily due to an increase in labor related expenses including higher OPEB costs.

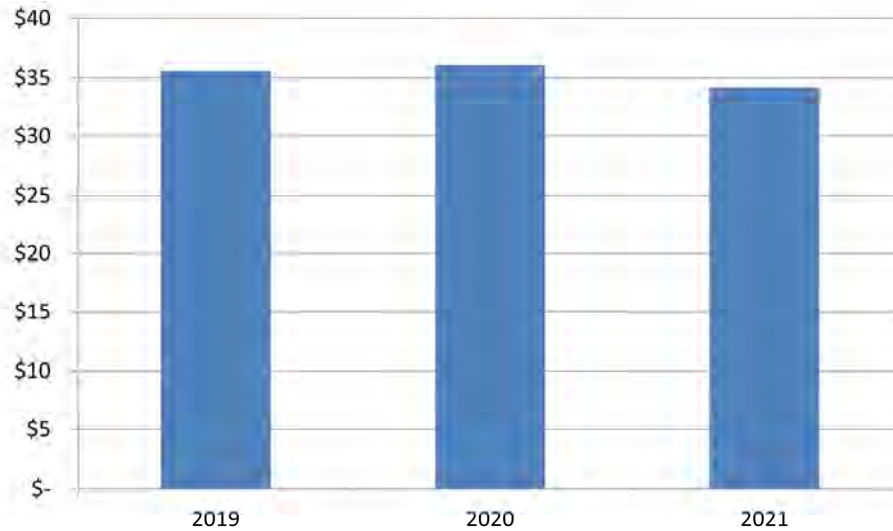
FY 2020 Wastewater O&M Expense = \$36.1 Million



- Depreciation expense increased \$0.3 million or 1.7 percent, the result of a full year of depreciation on \$29.6 million of wastewater system assets placed in service during fiscal year 2019 and a partial year of depreciation of \$37.8 million of wastewater system assets placed in service during fiscal year 2020. Wastewater system assets of \$7.3 million were retired during the fiscal year.
- Taxes and tax equivalents increased \$0.3 million compared to the prior fiscal year due to increased plant in service levels.

**Knoxville Utilities Board Wastewater Division
Management’s Discussion and Analysis
June 30, 2021 and 2020**

Wastewater Division Operation & Maintenance Expense



(Millions)

Other Income and Expense

Fiscal Year 2021 Compared to Fiscal Year 2020

Interest income was \$1.2 million lower than the prior fiscal year, primarily due to lower short-term interest rates.

Interest expense was \$0.6 million lower than the prior fiscal year, reflecting the net impact of interest expense from new revenue bonds sold during the fiscal year and interest savings from the reduction in principal from the refunding of outstanding bonds.

Other expense (net) was \$0.8 million higher than the prior fiscal year, primarily due to losses on disposition of property.

Capital contributions increased \$0.5 million compared to last fiscal year as a result of an increase in assets received from developers and other governmental entities.

Fiscal Year 2020 Compared to Fiscal Year 2019

Interest income was \$0.4 million lower than the prior fiscal year, primarily due to lower short-term interest rates.

Interest expense was \$0.4 million lower than the prior fiscal year, reflecting the net impact of interest expense from new revenue bonds sold during the fiscal year and savings on refunding of outstanding bonds.

Other income (net) was \$0.2 million higher than the prior fiscal year, primarily due to losses on disposition of property the prior fiscal year.

**Knoxville Utilities Board Wastewater Division
Management's Discussion and Analysis
June 30, 2021 and 2020**

Capital contributions decreased \$0.2 million compared to last fiscal year as a result of a decrease in assets received from developers and other governmental entities.

Capital Assets

**Capital Assets
As of June 30
(Net of Depreciation)**

<i>(in thousands of dollars)</i>	2021	2020	2019
Pumping & Treatment Plant	\$ 167,117	\$ 162,645	\$ 156,202
Collection Plant			
Mains and Metering	495,404	473,913	461,419
Other Accounts	62,399	64,355	65,898
Total Collection Plant	<u>557,803</u>	<u>538,268</u>	<u>527,317</u>
Total General Plant	<u>15,590</u>	<u>7,898</u>	<u>7,809</u>
Total Wastewater Plant	\$ <u>740,510</u>	\$ <u>708,811</u>	\$ <u>691,328</u>
Work In Progress	<u>69,465</u>	<u>77,829</u>	<u>61,846</u>
Total Net Plant	<u>\$ 809,975</u>	<u>\$ 786,640</u>	<u>\$ 753,174</u>

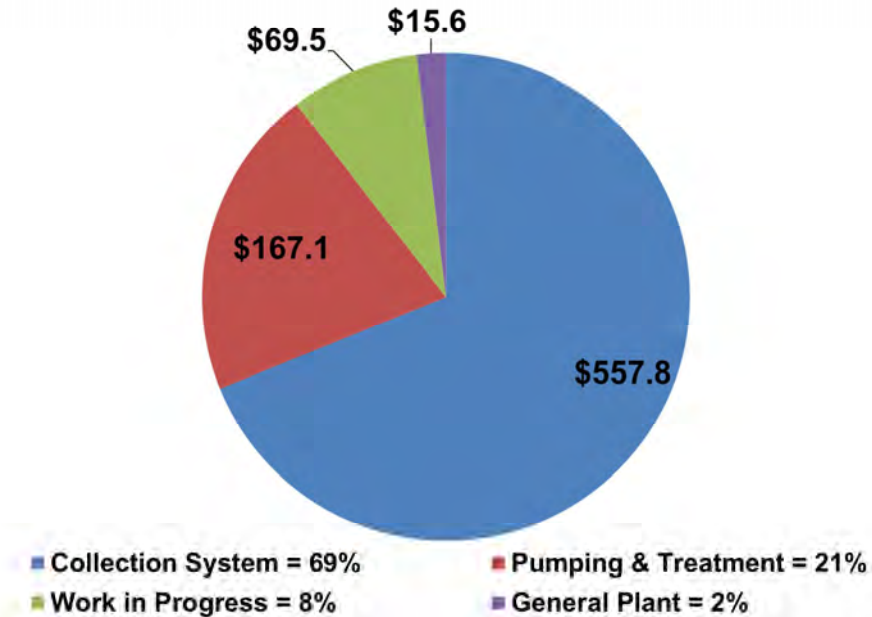
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Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2021 and 2020

Fiscal Year 2021 Compared to Fiscal Year 2020

As of June 30, 2021, the Division had \$810 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 \$23.3 million or 3 percent over the end of the last fiscal year. Spending on capital assets was slowed this year to allow for greater financial liquidity in response to the pandemic.

FY 2021 Wastewater Division Capital Assets = \$810 Million
(in Millions)



Major capital asset expenditures during the year were as follows:

- \$35.2 million related to Century II projects
 - \$18.7 million for wastewater treatment plant upgrades
 - \$8.6 million for sewer mini-basin rehabilitation and replacement
 - \$5.1 million for pump station construction and improvements
 - \$1.5 million for short line projects
 - \$1.3 million for sewer trunk line rehabilitation and replacement

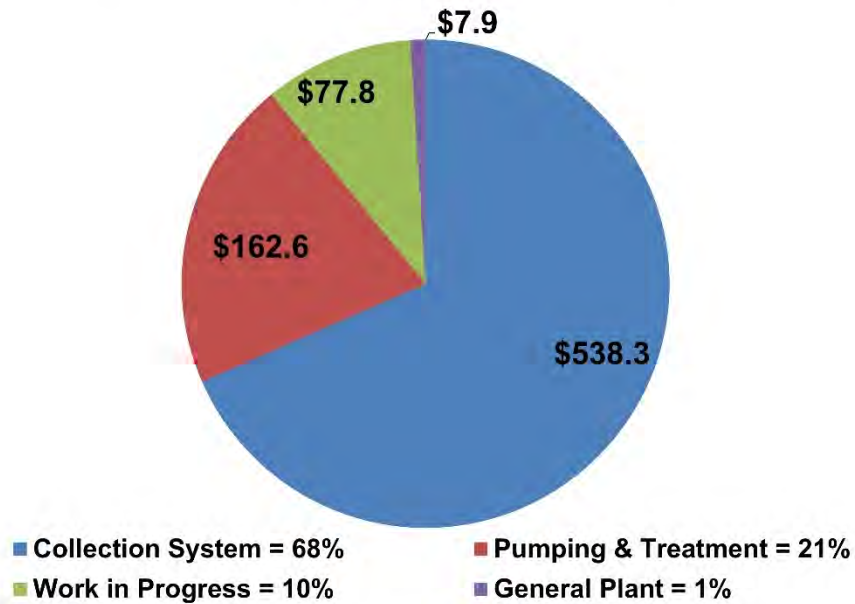
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Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2021 and 2020

Fiscal Year 2020 Compared to Fiscal Year 2019

As of June 30, 2020, the Division had \$786.6 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 \$33.5 million or 4.4 percent over the end of the last fiscal year.

FY 2020 Wastewater Division Capital Assets = \$786.6 Million
(in Millions)



Major capital asset expenditures during the year were as follows:

- \$46 million related to Century II projects
 - \$20.2 million for wastewater treatment plant upgrades
 - \$9.1 million for sewer mini-basin rehabilitation and replacement
 - \$5.2 million for rehabilitation projects
 - \$3.9 million for pump station construction and improvements
 - \$3.9 million for short line projects
 - \$3.7 million for sewer trunk line rehabilitation and replacement

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Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2021 and 2020

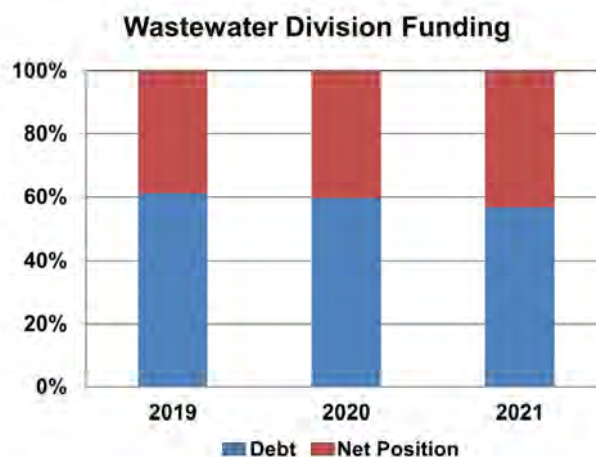
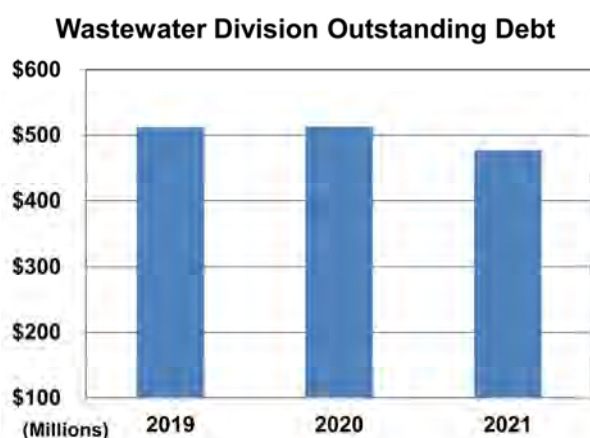
Debt Administration

As of June 30, 2021, the Wastewater Division had \$476.7 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 56.7 percent in 2021, 59.7 percent in 2020, and 61.2 percent at the end of fiscal year 2019. KUB's Debt Management Policy limits the Division's debt ratio to 70 percent or less.

Outstanding Debt As of June 30

(in thousands of dollars)

	2021	2020	2019
Revenue bonds	\$ 476,660	\$ 512,560	\$ 511,995
Total outstanding debt	\$ 476,660	\$ 512,560	\$ 511,995



The Division will pay \$153.3 million in principal payments over the next ten years, representing 32.2 percent of the outstanding bonds. KUB's Debt Management Policy requires a minimum of 20 percent of wastewater debt principal be repaid over the next ten years.

Fiscal Year 2021 Compared to Fiscal Year 2020

As of June 30, 2021, the Division had \$476.7 million in outstanding debt (including the current portion of revenue bonds), representing a decrease of \$35.9 million. As of June 30, 2021, the Division's weighted average cost of debt was 3.98 percent (3.90 percent including the impact of Build America Bonds rebates).

KUB sold \$27.5 million in wastewater system revenue bonds in October 2020 for the purpose of funding wastewater system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.41 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2050.

KUB sold \$190.8 million in wastewater system revenue refunding bonds in March 2021 for the purpose of refinancing existing wastewater system revenue bonds. KUB will realize a total debt service savings of \$47.2 million over the life of the bonds (\$41.8 million on a net present value basis), with \$47.8 million of the savings as a reduction of outstanding principal. The true interest cost of the bonds, which were sold through a competitive bidding process, was 1.91 percent. The bonds have a final maturity in fiscal year 2049.

Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2021 and 2020

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2020, the Division's revenue bonds were rated AA+ by Standard & Poor's and Aa2 by Moody's Investors Service.

Fiscal Year 2020 Compared to Fiscal Year 2019

As of June 30, 2020, the Division had \$512.6 million in outstanding debt (including the current portion of revenue bonds), representing an increase of \$0.6 million. The increase is attributable to new revenue and refunding bonds issued during the fiscal year offset by the scheduled repayment of debt. As of June 30, 2020, the Division's weighted average cost of debt was 3.77 percent (3.55 percent including the impact of Build America Bonds rebates).

KUB sold \$16 million in wastewater system revenue bonds in July 2019 for the purpose of funding wastewater system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.79 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2049.

KUB sold \$28.2 million in wastewater system revenue refunding bonds in April 2020 for the purpose of refinancing existing wastewater system revenue bonds at lower interest rates. KUB will realize a total debt service savings of \$18.9 million over the life of the bonds (\$8.8 million on a net present value basis). The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.66 percent. The bonds mature over a period of 25 years with a final maturity in fiscal year 2045.

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2020, the Division's revenue bonds were rated AA+ by Standard & Poor's and Aa2 by Moody's Investors Service.

Impacts on Future Financial Position

KUB anticipates adding 400 wastewater customers in fiscal year 2022.

During March 2020, a global pandemic was declared related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). While the disruption is currently expected to be temporary, there is uncertainty around its duration and the ultimate future impact, if any, on results of operations, financial position, liquidity or capital resources. In response to the COVID-19 pandemic, the Wastewater Division chose to forego a proposed 2.25% rate increase for fiscal year 2021 to reduce financial impact on its customers.

KUB expects to receive remaining reimbursements in fiscal year 2022 from the Federal Emergency Management Agency (FEMA) to partially offset the cost of the 2019 storm and flood event.

KUB long-term debt includes \$20.3 million of Wastewater Division 2010 Build America 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.

The Pension Plan actuarial valuation resulted in an actuarially determined contribution of \$3,665,168 for the fiscal year ending June 30, 2022, based on the Plan's current funding policy. The Wastewater Division's portion of this contribution is \$806,337. Subsequent to June 30, 2021, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$2,624,373 for the fiscal year ending June 30, 2023, based on the Plan's current funding policy. The Wastewater Division's portion of this contribution is

Knoxville Utilities Board Wastewater Division Management's Discussion and Analysis June 30, 2021 and 2020

\$577,363. For the Plan year beginning January 1, 2021, the Plan's actuarial funded ratio is 105.56 percent, and the market value funded ratio is 120.37 percent.

The OPEB Plan actuarial valuation resulted in an actuarially determined contribution of \$489,066 for the fiscal year ending June 30, 2022, based on the Plan's current funding policy. The Wastewater Division's portion of this contribution is \$107,594. Subsequent to June 30, 2021, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$1,413,392 for the fiscal year ending June 30, 2023, based on the Plan's current funding policy. The Wastewater Division's portion of this contribution is \$310,946. The Plan's actuarial funded ratio is 89.85 percent, and the market value funded ratio is 95.93 percent.

GASB Statement No. 87, *Leases*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, is effective for fiscal years beginning after December 15, 2020. GASB Statement No. 91, *Conduit Debt Obligations*, is effective for fiscal years beginning after December 15, 2021. GASB Statement No. 92, *Omnibus 2020*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 93, *Replacement of Interbank Offered Rates*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, is effective for fiscal years beginning after June 15, 2021. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on the Division's financial position or results of operations during fiscal year 2021.

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, 2021 and 2020. If you have questions about the statements or need additional financial information, contact KUB's Chief Financial Officer at 445 South Gay Street, Knoxville, Tennessee 37902.

Knoxville Utilities Board Wastewater Division
Statements of Net Position
June 30, 2021 and 2020

	2021	2020
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	\$ 30,379,799	\$ 11,728,383
Short-term investments	-	10,057,625
Short-term contingency fund investments	29,190,159	27,390,992
Other current assets	3,295	-
Accrued interest receivable	3,481	26,972
Accounts receivable, less allowance of uncollectible accounts of \$93,477 in 2021 and \$83,004 in 2020	10,278,112	11,227,956
Inventories	496,539	595,389
Prepaid expenses	69,264	69,278
Total current assets	<u>70,420,649</u>	<u>61,096,595</u>
Restricted assets:		
Wastewater bond fund	7,665,526	8,324,253
Other funds	333	333
Total restricted assets	<u>7,665,859</u>	<u>8,324,586</u>
Wastewater plant in service	975,561,186	931,773,141
Less accumulated depreciation	<u>(235,051,108)</u>	<u>(222,962,546)</u>
	740,510,078	708,810,595
Retirement in progress	75,484	636,592
Construction in progress	69,389,448	77,192,768
Net plant in service	<u>809,975,010</u>	<u>786,639,955</u>
Other assets:		
Net pension asset	9,921,843	4,206,702
Net OPEB asset	1,305,002	-
Long-term contingency fund investments	5,028,619	7,056,465
Other	4,214,649	5,257,115
Total other assets	<u>20,470,113</u>	<u>16,520,282</u>
Total assets	<u>908,531,631</u>	<u>872,581,418</u>
Deferred outflows of resources:		
Pension outflow	1,815,356	1,787,079
OPEB outflow	4,708	919,316
Unamortized bond refunding costs	13,207,033	14,400,979
Total deferred outflows of resources	<u>15,027,097</u>	<u>17,107,374</u>
Total assets and deferred outflows of resources	<u>\$ 923,558,728</u>	<u>\$ 889,688,792</u>

The accompanying notes are an integral part of these financial statements.

Knoxville Utilities Board Wastewater Division
Statements of Net Position
June 30, 2021 and 2020

	2021	2020
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	\$ 14,275,000	\$ 15,055,000
Accounts payable	3,569,385	2,335,983
Accrued expenses	1,049,186	927,750
Customer deposits plus accrued interest	880,799	921,231
Accrued interest on revenue bonds	4,334,630	4,678,153
Total current liabilities	<u>24,109,000</u>	<u>23,918,117</u>
Other liabilities:		
Accrued compensated absences	1,965,640	1,878,956
Customer advances for construction	330,927	261,274
Net pension liability	4,117	4,452
Net OPEB liability	-	1,669,678
Other	58,677	80,441
Total other liabilities	<u>2,359,361</u>	<u>3,894,801</u>
Long-term debt:		
Wastewater revenue bonds	462,385,000	497,505,000
Unamortized premiums/discounts	61,280,353	13,948,164
Total long-term debt	<u>523,665,353</u>	<u>511,453,164</u>
Total liabilities	<u>550,133,714</u>	<u>539,266,082</u>
Deferred inflows of resources:		
Pension inflow	7,960,080	4,525,089
OPEB inflow	1,750,893	-
Total deferred inflows of resources	<u>9,710,973</u>	<u>4,525,089</u>
Total liabilities and deferred inflows of resources	<u>559,844,687</u>	<u>543,791,171</u>
Net position		
Net investment in capital assets	289,031,630	279,477,265
Restricted for:		
Debt service	3,330,896	3,646,100
Other	333	333
Unrestricted	71,351,182	62,773,923
Total net position	<u>363,714,041</u>	<u>345,897,621</u>
Total liabilities, deferred inflows, and net position	<u>\$ 923,558,728</u>	<u>\$ 889,688,792</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, 2021 and 2020

	2021	2020
Operating revenues	\$ <u>100,362,719</u>	\$ <u>101,335,524</u>
Operating expenses		
Treatment	12,734,681	12,735,896
Collection	8,560,687	8,228,482
Customer service	3,754,065	3,693,419
Administrative and general	9,169,554	11,464,254
Provision for depreciation	22,941,889	19,881,198
Taxes and tax equivalents	<u>5,844,210</u>	<u>5,573,710</u>
Total operating expenses	<u>63,005,086</u>	<u>61,576,959</u>
Operating income	<u>37,357,633</u>	<u>39,758,565</u>
Non-operating revenues (expenses)		
Contributions in aid of construction	733,992	854,230
Interest income	310,767	1,484,440
Interest expense	(19,608,946)	(20,169,760)
Amortization of debt costs	10,070	(395,497)
Write-down of plant for costs recovered through contributions	(733,992)	(854,230)
Other	<u>(896,104)</u>	<u>331,541</u>
Total non-operating revenues (expenses)	<u>(20,184,213)</u>	<u>(18,749,276)</u>
Change in net position before capital contributions	17,173,420	21,009,289
Capital contributions	<u>643,000</u>	<u>191,674</u>
Change in net position	17,816,420	21,200,963
Net position, beginning of year	<u>345,897,621</u>	<u>324,696,658</u>
Net position, end of year	<u>\$ <u>363,714,041</u></u>	<u>\$ <u>345,897,621</u></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, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash receipts from customers	\$ 99,519,075	\$ 98,420,186
Cash receipts from other operations	957,830	1,475,476
Cash payments to suppliers of goods or services	(22,449,045)	(25,577,736)
Cash payments to employees for services	(12,654,917)	(11,008,049)
Payment in lieu of taxes	(4,883,160)	(4,650,629)
Net cash provided by operating activities	<u>60,489,783</u>	<u>58,659,248</u>
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	29,761,846	16,842,065
Principal paid on revenue bonds	(15,605,000)	(13,665,000)
Interest paid on revenue bonds	(20,388,208)	(20,539,172)
Acquisition and construction of wastewater plant	(47,635,687)	(54,470,052)
Changes in wastewater bond fund, restricted	658,727	77,162
Customer advances for construction	69,653	8,249
Proceeds received on disposal of plant	105	53,582
Cash received from developers and individuals for capital purposes	733,992	854,230
Net cash used in capital and related financing activities	<u>(52,404,572)</u>	<u>(70,838,936)</u>
Cash flows from investing activities:		
Purchase of investment securities	(13,984,737)	(34,031,204)
Maturities of investment securities	23,987,202	33,966,149
Interest received	415,457	1,569,438
Other property and investments	148,283	170,608
Net cash provided by (used in) investing activities	<u>10,566,205</u>	<u>1,674,991</u>
Net decrease in cash and cash equivalents	18,651,416	(10,504,697)
Cash and cash equivalents, beginning of year	<u>11,728,383</u>	<u>22,233,080</u>
Cash and cash equivalents, end of year	<u>\$ 30,379,799</u>	<u>\$ 11,728,383</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 37,357,633	\$ 39,758,565
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	23,367,789	20,288,071
Changes in operating assets and liabilities:		
Accounts receivable	949,844	(703,942)
Inventories	98,850	(116,724)
Prepaid expenses	14	5,185
Other assets	(45,733)	22,991
Accounts payable and accrued expenses	(1,176,418)	(625,492)
Customer deposits plus accrued interest	(40,432)	28,073
Other liabilities	(21,764)	2,521
Net cash provided by operating activities	<u>\$ 60,489,783</u>	<u>\$ 58,659,248</u>
Noncash capital activities:		
Acquisition of plant assets through developer contributions	\$ 643,000	\$ 191,674

The accompanying notes are an integral part of these financial statements.

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2021 and 2020

1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions, including setting rates. 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 at June 30, 2021 and 2020, 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 January 2017, the GASB issued GASB Statement No. 84 (Statement No. 84), *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 is effective for fiscal years beginning after December 15, 2019. Adoption of this Statement did not have a significant impact on the Division's financial statements.

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2021 and 2020

In August 2018, the GASB issued GASB Statement No. 90 (Statement No. 90), *Major Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Statement No. 90 is effective for fiscal years beginning after December 15, 2019. Adoption of this Statement did not have a significant impact on the Division'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 "Provision for depreciation" in the Statements of Revenue, Expenses and Change in Net Position does not include depreciation for transportation equipment of \$425,900 in fiscal year 2021 and \$406,873 in fiscal year 2020. Under regulatory accounting, interest costs are expensed as incurred with construction of plant assets.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of 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 \$403,292 in fiscal year 2021 and \$216,936 in fiscal year 2020.

Non-operating Revenue

Non-operating revenue consists of revenues that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

Expense

When an expense is incurred for purposes for which there are both restricted and unrestricted 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, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2021 and 2020

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 or others for a particular purpose, generally the construction of new facilities to serve new customers in excess of the investment KUB is willing to make for a particular incremental revenue source. KUB reduces the plant account balances to which contributions relate by the actual amount of the contribution and recognizes the contributions as non-operating revenue in accordance with Statement No. 62.

Capital contributions represent contributions of utility plant infrastructure constructed by developers and others in industrial parks and other developments and transferred to KUB upon completion of construction and the initiation of utility service. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, such contributions are recognized as revenues and capital assets upon receipt.

Inventories

Inventories, consisting of plant materials and operating supplies, are valued at the lower of average cost or replacement value.

OPEB Plan

KUB's employees hired prior to July 1, 1999, who are retired and who (prior to retirement) qualified for retiree medical insurance by meeting the Rule of 80 (age plus years of service) with a minimum of 20 years of service and were enrolled in medical coverage on their last day, are eligible for post-employment health care. KUB's OPEB Trust was established by KUB's Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. KUB's policy is to fully fund the annual actuarially determined contributions, which are determined by actuarial valuation. As required by GASB Statement No. 75, KUB measures net OPEB liability as total OPEB liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2021 and 2020 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a June 30, 2021 and 2020 measurement date, respectively. The net OPEB asset is \$5,931,828 (Division's share \$1,305,002) as of June 30, 2021 and the net OPEB liability is \$7,589,447 (Division's share \$1,669,678) as of June 30, 2020.

Pension Plan and Qualified Excess Benefit Arrangement

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 10). KUB's policy is to fully fund the annual actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2021 and 2020 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a December 31, 2020 and 2019 measurement date, respectively. The net pension asset

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2021 and 2020

is \$45,099,288 (Division's share \$9,921,843) as of June 30, 2021, and \$19,121,375 (Division's share \$4,206,702) as of June 30, 2020.

KUB implemented a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). The QEBA is a single-employer defined benefit pension plan, administered by KUB (Note 11). As required by GASB Statement No. 73, KUB measures the total pension liability of the QEBA. The amounts reported as of June 30, 2021 and 2020 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a December 31, 2020 and 2019 measurement date, respectively. The total pension liability of the QEBA is \$18,714 (Division's share \$4,117) as of June 30, 2021 and \$20,236 (Division's share \$4,452) as of June 30, 2020.

Investments

Investments are carried at fair value as determined by quoted market prices at the reporting date.

Self-Insurance

KUB has established self-insurance programs covering portions of workers' compensation, employee health, environmental liability, general liability, property and casualty liability, and automobile liability claims. A liability is accrued for claims as they are incurred. When applicable, claims in excess of the self-insured risk are covered by KUB's insurance carrier. Additionally, KUB provides certain lifetime health benefits to eligible retired employees under a self-insurance plan administered by a third party.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on historical experience and various other assumptions that KUB believes are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require adjustment. Estimates are used for, but not limited to, inventory valuation, allowance for uncollectible accounts, depreciable lives of plant assets, unbilled revenue volumes, pension trust valuations, OPEB trust valuations, insurance liability reserves, and potential losses from contingencies and litigation. Actual results could differ from those estimates.

Restricted and Designated Assets

Certain assets are restricted by bond resolutions for utility plant construction and debt repayment. Certain additional assets are designated by management for contingency purposes and economic development.

Cash Equivalents

For purposes of the Statements of Cash Flows, KUB considers all unrestricted and undesignated highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are items related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. Deferred inflows of resources are items related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. KUB records costs associated with the gain or loss on refunding of debt as either a deferred outflow or inflow based on the parameters of Statement No. 65. Deferred outflows of resources also include

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2021 and 2020

employer pension contributions made subsequent to the measurement date of the net pension liability and before the end of the employer's reporting period in accordance with Statement No. 71. Deferred inflows and deferred outflows also include the net difference between projected and actual earnings on pension plan investments and OPEB plan investments, differences between expected and actual experience, and changes in assumptions in accordance with Statements No. 68, 73 and 75.

Debt Premium/Discount

KUB records unamortized premium and discount on debt as a separate line item in the Long Term Debt section of the Financial Statements. Amortization of these amounts is recorded over the life of the applicable debt as amortization expense.

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.

Subsequent Events

In August 2021, KUB approved the addition of a Retiree Health Reimbursement Arrangement (HRA) to the OPEB Trust, effective January 1, 2022, to be available to KUB retirees who have a benefits service date on or after July 1, 1999 and retire or die in service on or after January 1, 2021 having met the Rule of 80. Those covered by the existing Retiree Medical Benefit will not be eligible for the HRA. Each HRA eligible retiree will be eligible for \$50,000 to be used exclusively for reimbursement of qualified medical expenses of the retiree and his or her spouse and dependents. Any unused amounts will remain assets of the OPEB Trust. The aggregate HRA and Retiree Medical Benefit liability will be funded by KUB through the existing OPEB Trust.

Recently Issued Accounting Pronouncements

In June 2017, the GASB issued GASB Statement No. 87 (Statement No. 87), *Leases*. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset. Statement No. 87 is effective for fiscal years beginning after June 15, 2021.

In June 2018, the GASB issued GASB Statement No. 89 (Statement No. 89), *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and to simplify accounting for interest cost incurred before the end of a construction period. Statement No. 89 is effective for fiscal years beginning after December 15, 2020.

In May 2019, the GASB issued GASB Statement No. 91 (Statement No. 91), *Conduit Debt Obligations*. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments

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extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. Statement No. 91 is effective for fiscal years beginning after December 15, 2021.

In January 2020, the GASB issued GASB Statement No. 92 (Statement No. 92), *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain provisions of Statement No. 92 were effective immediately. Paragraphs 6, 7, 8, 9, and 12 are effective for fiscal years beginning after June 15, 2021.

In March 2020, the GASB issued GASB Statement No. 93 (Statement No. 93), *Replacement of Interbank Offered Rates*. This Statement establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. Statement No. 93 is effective for fiscal years beginning after June 15, 2021.

In March 2020, the GASB issued GASB Statement No. 94 (Statement No. 94), *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to better meet the information needs of financial statement users by improving the comparability of financial statements among governments that enter in PPPs and APAs. Statement No. 94 is effective for fiscal years beginning after June 15, 2022.

In May 2020, the GASB issued GASB Statement No. 96 (Statement No. 96), *Subscription-Based Information Technology Arrangements*. The objective of this Statement is to better meet the information needs of financial statement users by (a) establishing uniform accounting and financial reporting requirements for SBITAs; (b) improving the comparability of financial statements among governments that have entered into SBITAs; and (c) enhancing the understandability, reliability, relevance, and consistency of information about SBITAs. Statement No. 96 is effective for fiscal years beginning after June 15, 2022.

In June 2020, the GASB issued GASB Statement No. 97 (Statement No. 97), *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The objectives of this Statement are to (a) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (b) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (c) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Statement No. 97 is effective for fiscal years beginning after June 15, 2021.

KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

3. Deposits and Investments

KUB follows the provisions of Statement No. 40 of the Governmental Accounting Standards Board, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*. This Statement establishes and modifies disclosure requirements for state and local governments related to deposit and investment risks. KUB classifies its fair value measurements within the fair

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value hierarchy established by Statement No. 72 of the Governmental Accounting Standards Board, *Fair Value Measurement and Application*.

KUB's investment policy provides the framework for the administration and investment of cash deposits. The investment policy follows Tennessee State law and defines the parameters under which KUB funds should be invested. State law authorizes KUB to invest in obligations of the United States Treasury, its agencies and instrumentalities; certificates of deposit; repurchase agreements; money market funds; and the State Treasurer's Investment Pool.

Interest Rate Risk. KUB's primary investment objectives are to place investments in a manner to ensure the preservation of capital, remain sufficiently liquid to meet all operating requirements, and maximize yield of return. KUB minimizes its exposure to interest rate risk by adhering to Tennessee State law requirements for the investment of public funds. This includes limiting investments to those types described above and limiting maturity horizons. The maximum maturity is four years from the date of investment. KUB also limits its exposure by holding investments to maturity unless cash flow requirements dictate otherwise.

Credit Risk. KUB's investment policy, as required by state law, is to apply the prudent-person rule: Investments are made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable income to be derived, as well as the probable safety of their capital.

Custodial Credit Risk. KUB's investment policy limits exposure to custodial credit risk by restricting investments to a standard set forth by state law. All deposits in excess of federal depository insurance limits are collateralized with government securities held in KUB's name by a third-party custodian bank(s) acting as KUB's agent(s), or through the State of Tennessee's collateral pool. Financial institutions that participate in the collateral pool are subject to special assessment; therefore, the deposits are considered insured. A portion of KUB's investments are generally held in the State of Tennessee Local Government Investment Pool (LGIP). The LGIP is a part of the State Pooled Investment Fund and is sponsored by the State of Tennessee Treasury Department. Tennessee Code Annotated ¶9-4-701 *et seq.* authorizes local governments to invest in the LGIP. None of KUB's investments are exposed to custodial credit risk.

Classification of deposits and investments per Statement of Net Position:

	2021	2020
Current assets		
Cash and cash equivalents	\$ 30,379,799	\$ 11,728,383
Short-term investments	-	10,057,625
Short-term contingency fund investments	29,189,975	27,387,441
Other assets		
Long-term contingency fund investments	4,981,150	6,927,797
Restricted assets		
Wastewater bond fund	7,665,526	8,324,253
Other funds	333	333
	<u>\$ 72,216,783</u>	<u>\$ 64,425,832</u>

The above amounts do not include accrued interest of \$47,653 in fiscal year 2021 and \$132,219 in fiscal year 2020. Interest income is recorded on an accrual basis.

Knoxville Utilities Board Wastewater Division
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Investments and maturities of KUB's deposits and investments as held by financial institutions as of June 30, 2021:

	Deposit and Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	\$ 31,560,293	\$ 31,560,293	\$ -
State Treasurer's Investment Pool	30,009,148	30,009,148	-
Agency Bonds	11,827,402	6,846,252	4,981,150
	<u>\$ 73,396,843</u>	<u>\$ 68,415,693</u>	<u>\$ 4,981,150</u>

KUB categorizes its fair value measurements within the fair value hierarchy established by Statement No. 72 of the Governmental Accounting Standards Board, *Fair Value Measurement and Application*. The hierarchy is based on the valuation inputs used to measure the fair value of an asset with a maturity at purchase of greater than one year. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

KUB has the following recurring fair value measurements as of June 30, 2021:

- U.S. Agency bonds of \$4,981,150, 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:

	2021	2020
Wholesale and retail customers		
Billed services	\$ 5,704,016	\$ 6,333,228
Unbilled services	4,258,303	4,288,451
Other	409,270	689,281
Allowance for uncollectible accounts	<u>(93,477)</u>	<u>(83,004)</u>
	<u>\$ 10,278,112</u>	<u>\$ 11,227,956</u>

5. Accounts Payable and Accruals

Accounts payable and accruals were composed of the following:

	2021	2020
Trade accounts	\$ 3,569,385	\$ 2,335,983
Salaries and wages	623,211	549,214
Self-insurance liabilities	425,975	378,536
	<u>\$ 4,618,571</u>	<u>\$ 3,263,733</u>

Knoxville Utilities Board Wastewater Division
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6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2020	Additions	Payments	Defeased	Balance June 30, 2021	Amounts Due Within One Year
2010C - 1.18 - 6.1%	\$ 58,450,000	\$ -	\$ 1,650,000	\$ 36,550,000	\$ 20,250,000	\$ -
2012A - 2.0 - 4.0%	10,850,000	-	1,085,000	9,765,000	-	-
2012B - 1.25 - 5.0%	58,225,000	-	1,150,000	57,075,000	-	-
2013A - 2.0 - 4.0%	109,115,000	-	710,000	108,405,000	-	-
2014A - 2.0 - 4.0%	27,300,000	-	525,000	26,775,000	-	-
2015A - 3.0 - 5.0%	116,085,000	-	5,460,000	-	110,625,000	5,675,000
2015B - 3.0 - 5.0%	27,475,000	-	525,000	-	26,950,000	550,000
2016 - 2.0 - 5.0%	18,275,000	-	475,000	-	17,800,000	500,000
2017A - 3.0 - 5.0%	7,575,000	-	1,605,000	-	5,970,000	1,685,000
2017B - 2.0 - 5.0%	23,745,000	-	540,000	-	23,205,000	570,000
2018 - 3.0 - 5.0%	11,485,000	-	245,000	-	11,240,000	255,000
2019 - 3.0 - 5.0%	15,750,000	-	300,000	-	15,450,000	315,000
2020A - 3.0 - 5.0%	28,230,000	-	785,000	-	27,445,000	680,000
2020B - 3.0 - 4.0%	-	27,460,000	550,000	-	26,910,000	555,000
2021A - 4.0 - 5.0%	-	190,815,000	-	-	190,815,000	3,490,000
Total bonds	\$ 512,560,000	\$ 218,275,000	\$ 15,605,000	\$ 238,570,000	\$ 476,660,000	\$ 14,275,000
Unamortized Premium	13,948,164	50,727,997	1,051,517	2,344,292	61,280,352	-
Total long term debt	\$ 526,508,164	\$ 269,002,997	\$ 16,656,517	\$ 240,914,292	\$ 537,940,352	\$ 14,275,000

	Balance June 30, 2019	Additions	Payments	Defeased	Balance June 30, 2020	Amounts Due Within One Year
2010 - 6.3 - 6.5%	\$ 30,000,000	\$ -	\$ -	\$ 30,000,000	\$ -	\$ -
2010C - 1.18 - 6.1%	60,050,000	-	1,600,000	-	58,450,000	1,650,000
2012A - 2.0 - 4.0%	11,800,000	-	950,000	-	10,850,000	1,085,000
2012B - 1.25 - 5.0%	59,325,000	-	1,100,000	-	58,225,000	1,150,000
2013A - 2.0 - 4.0%	109,800,000	-	685,000	-	109,115,000	710,000
2014A - 2.0 - 4.0%	27,800,000	-	500,000	-	27,300,000	525,000
2015A - 3.0 - 5.0%	121,390,000	-	5,305,000	-	116,085,000	5,460,000
2015B - 3.0 - 5.0%	28,000,000	-	525,000	-	27,475,000	525,000
2016 - 2.0 - 5.0%	18,750,000	-	475,000	-	18,275,000	475,000
2017A - 3.0 - 5.0%	9,100,000	-	1,525,000	-	7,575,000	1,605,000
2017B - 2.0 - 5.0%	24,260,000	-	515,000	-	23,745,000	540,000
2018 - 3.0 - 5.0%	11,720,000	-	235,000	-	11,485,000	245,000
2019 - 3.0 - 5.0%	-	16,000,000	250,000	-	15,750,000	300,000
2020 - 3.0 - 5.0%	-	28,230,000	-	-	28,230,000	785,000
Total bonds	\$ 511,995,000	\$ 44,230,000	\$ 13,665,000	\$ 30,000,000	\$ 512,560,000	\$ 15,055,000
Unamortized Premium	11,356,966	3,388,697	640,486	157,013	13,948,164	-
Total long term debt	\$ 523,351,966	\$ 47,618,697	\$ 14,305,486	\$ 30,157,013	\$ 526,508,164	\$ 15,055,000

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Debt service over remaining term of the debt is as follows:

Fiscal Year	Total		Grand Total
	Principal	Interest	
2022	\$ 14,275,000	\$ 18,577,318	\$ 32,852,318
2023	14,435,000	18,322,447	32,757,447
2024	14,155,000	17,645,550	31,800,550
2025	14,470,000	17,110,749	31,580,749
2026	14,500,000	16,575,652	31,075,652
2027-2031	81,455,000	73,197,429	154,652,429
2032-2036	100,770,000	54,463,617	155,233,617
2037-2041	127,605,000	32,499,290	160,104,290
2042-2046	71,180,000	10,877,684	82,057,684
2047-2050	23,815,000	1,745,387	25,560,387
Total	<u>\$ 476,660,000</u>	<u>\$ 261,015,123</u>	<u>\$ 737,675,123</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 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, 2021, those bond covenants had been satisfied.

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, 2020, the effective reduction in rebate is 5.7 percent.

During fiscal year 2020, KUB's Wastewater Division issued Series 2019 bonds to fund wastewater system capital improvements. KUB's Wastewater Division also issued Series 2020A bonds to retire a portion of outstanding Series 2010 bonds. On May 22, 2020, \$28.2 million in revenue refunding bonds with an average interest rate of 3.3 percent were issued to currently refund \$30 million of outstanding bonds with an average interest rate of 6.4 percent. The net proceeds of \$30.3 million (after payment of \$0.3 million in issuance costs plus premium of \$2.4 million) were used to refund the bonds. As a result, the bonds are considered to be refunded and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 25 years by \$18.9 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$8.8 million.

During fiscal year 2021, KUB's Wastewater Division issued Series 2020B bonds to fund wastewater system capital improvements. KUB's Wastewater Division also issued Series 2021A bonds to retire Series 2012A, 2012B, 2013A and 2014A and \$36.6 million of outstanding Series 2010C bonds. On April 19, 2021, \$190.8 million in revenue refunding bonds with an average interest rate of 4.2 percent were issued to currently refund \$238.6 million of outstanding bonds with an average interest rate of 3.6 percent. The net proceeds of \$239 million (after payment of \$0.8 million in issuance costs plus premium of \$48.1 million and an additional issuer equity contribution of \$0.9 million) were used to refund the bonds. As a result, the bonds are considered to be refunded and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 28 years by \$47.2 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$41.8 million.

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Other liabilities consist of the following:

	Balance June 30, 2020	Increase	Decrease	Balance June 30, 2021
Accrued compensated absences	\$ 1,878,956	\$ 2,916,881	\$ (2,830,197)	\$ 1,965,640
Customer advances				
for construction	261,274	69,653	-	330,927
Other	80,441	357,794	(379,558)	58,677
	<u>\$ 2,220,671</u>	<u>\$ 3,344,328</u>	<u>\$ (3,209,755)</u>	<u>\$ 2,355,244</u>
	Balance June 30, 2019	Increase	Decrease	Balance June 30, 2020
Accrued compensated absences	\$ 1,662,272	\$ 3,083,833	\$ (2,867,149)	\$ 1,878,956
Customer advances				
for construction	253,025	8,249	-	261,274
Other	77,920	198,067	(195,546)	80,441
	<u>\$ 1,993,217</u>	<u>\$ 3,290,149</u>	<u>\$ (3,062,695)</u>	<u>\$ 2,220,671</u>

7. Lease Commitments

KUB has non-cancelable operating lease commitments for office equipment, property, and vehicles, summarized for the following fiscal years:

2022	\$ 72,654
2023	13,555
2024	11,663
2025	11,663
2026	8,646
Total operating minimum lease payments	<u>\$ 118,181</u>

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Knoxville Utilities Board Wastewater Division
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8. Capital Assets

Capital asset activity was as follows:

	Balance June 30, 2020	Increase	Decrease	Balance June 30, 2021
Pumping & Treatment Plant	\$ 254,356,634	\$ 10,995,833	\$ (2,113,726)	\$ 263,238,741
Collection Plant				
Mains and Metering	565,143,725	32,819,349	(8,486,651)	589,476,423
Mains and Metering - Meters	975,041	230,243	-	1,205,284
Other Accounts	80,348,716	-	(686,553)	79,662,163
Total Collection Plant	<u>\$ 646,467,482</u>	<u>\$ 33,049,592</u>	<u>\$ (9,173,204)</u>	<u>\$ 670,343,870</u>
Total General Plant	30,949,025	11,116,880	(87,330)	41,978,575
Total Wastewater Plant	<u>\$ 931,773,141</u>	<u>\$ 55,162,305</u>	<u>\$ (11,374,260)</u>	<u>\$ 975,561,186</u>
Less accumulated depreciation	(222,962,546)	(23,375,249)	11,286,687	(235,051,108)
Net Plant Assets	<u>\$ 708,810,595</u>	<u>\$ 31,787,056</u>	<u>\$ (87,573)</u>	<u>\$ 740,510,078</u>
Work In Progress	77,829,360	46,758,276	(55,122,704)	69,464,932
Total Net Plant	<u><u>\$ 786,639,955</u></u>	<u><u>\$ 78,545,332</u></u>	<u><u>\$ (55,210,277)</u></u>	<u><u>\$ 809,975,010</u></u>

	Balance June 30, 2019	Increase	Decrease	Balance June 30, 2020
Pumping & Treatment Plant	\$ 242,699,904	\$ 12,820,889	\$ (1,164,159)	\$ 254,356,634
Collection Plant				
Mains and Metering	547,107,036	23,633,561	(5,596,872)	565,143,725
Mains and Metering - Meters	903,570	71,471	-	975,041
Other Accounts	80,348,716	-	-	80,348,716
Total Collection Plant	<u>\$ 628,359,322</u>	<u>\$ 23,705,032</u>	<u>\$ (5,596,872)</u>	<u>\$ 646,467,482</u>
Total General Plant	30,261,775	1,238,188	(550,938)	30,949,025
Total Wastewater Plant	<u>\$ 901,321,001</u>	<u>\$ 37,764,109</u>	<u>\$ (7,311,969)</u>	<u>\$ 931,773,141</u>
Less accumulated depreciation	(209,993,338)	(20,295,530)	7,326,322	(222,962,546)
Net Plant Assets	<u>\$ 691,327,663</u>	<u>\$ 17,468,579</u>	<u>\$ 14,353</u>	<u>\$ 708,810,595</u>
Work In Progress	61,846,449	53,580,779	(37,597,868)	77,829,360
Total Net Plant	<u><u>\$ 753,174,112</u></u>	<u><u>\$ 71,049,358</u></u>	<u><u>\$ (37,583,515)</u></u>	<u><u>\$ 786,639,955</u></u>

9. Risk Management

KUB is exposed to various risks of loss related to active and retiree medical claims; injuries to workers; theft of, damage to, and destruction of assets; environmental damages; and natural disasters. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

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These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. At June 30, 2021 and June 30, 2020, the amount of these liabilities was \$425,975 and \$378,536, respectively, resulting from the following changes:

	2021	2020
Balance, beginning of year	\$ 378,536	\$ 420,533
Current year claims and changes in estimates	3,405,736	3,282,496
Claims payments	<u>(3,358,297)</u>	<u>(3,324,493)</u>
Balance, end of year	<u>\$ 425,975</u>	<u>\$ 378,536</u>

10. Pension Plan

Description of Plan

The Knoxville Utilities Board Pension Plan (the Plan) is a governmental plan as defined by the Employee Retirement Income Security Act of 1974 (ERISA or the Act), is not subject to any of the provisions of the Act, and was revised January 1, 2020 to include all prior approved amendments. The Plan is a single-employer contributory, defined benefit pension plan established by Knoxville Utilities Board Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville §1107(J). KUB Board Resolution No. 979, effective July 1, 1999, as amended by Resolution No. 1037, establishing the KUB Retirement System, was amended effective June 18, 2020 to amend the term "Trustee" to include both custodians and/or trustees, in order to provide flexibility should KUB choose to change from its current Pension trustee. The Plan is designed to provide retirement, disability, and death benefits to KUB employees. KUB administers the Plan through an Administrative Committee consisting of seven KUB employees that are appointed by KUB's President and CEO. Any amendments to the Plan involving costs not approved in the operating budget must be adopted by KUB's Board of Commissioners, upon recommendation by KUB's President and CEO. All other amendments to the Plan may be approved by KUB's President and CEO upon 60 days notification to the Board's Audit and Finance Committee. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017. 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:

	2020	2019
Inactive plan members:		
Terminated vested participants	11	18
Retirees and beneficiaries	593	592
Active plan members	<u>518</u>	<u>551</u>
Total	<u>1,122</u>	<u>1,161</u>

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Retirement Benefits

The Plan provides three benefit arrangements for KUB participants, retirees, and beneficiaries.

The Plan provides pension benefits through the Career Equity Program (“CEP”) for eligible employees hired on or after January 1, 1999, and for eligible former “City System Plan A” participants who elected CEP coverage as of July 1, 1999. The guaranteed pension benefit payable to a participant who has completed five or more years of service (or reached the normal retirement date, if earlier) upon termination of KUB employment shall be a lump sum equal to the participant’s average compensation times their benefit percentage, as defined in the Plan document, or an annuity may be chosen by the participant.

In addition, the Plan provided retirement benefits through “Plan A” for former City System Plan A participants who elected not to participate in the CEP. Plan A is a closed plan and is not available to KUB employees hired after July 1, 1999. Plan A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or later. Benefits provided to Plan A participants include several different forms of monthly annuity payments.

The Plan also provides retirement benefits through “Plan B” for former “City System Plan B” participants. Plan B is a closed plan providing benefits to participants not covered by Social Security. Benefits provided to Plan B participants include several different forms of monthly annuity payments available to participants.

Effective January 1, 2012, KUB began to provide for additional monthly supplements, which are not subject to cost of living adjustments, to certain former employees and surviving dependents of former employees who are eligible for and have elected coverage under the KUB retiree medical plan and are eligible for Medicare. This was done to compensate for the elimination of drug coverage under the KUB retiree medical plan and to assist such individuals in obtaining prescription drug coverage under Medicare Part D.

Contributions

Participation in Plan A requires employee contributions of 3% of the first \$4,800 of annual earnings and 5% of annual earnings in excess of \$4,800. KUB contributions are determined by the enrolled actuary of the Plan and equal the amount necessary to provide the benefits under the Plan determined by the application of accepted actuarial methods and assumptions. The method of funding shall be consistent with Plan objectives.

Plan Funding

KUB maintains a Funding Policy for the Plan in accordance with Tennessee State Law. The primary goal of the Policy is to document the method KUB has adopted to provide assurance that future KUB and employee contributions and current Plan assets will be sufficient to fund all benefits expected to be paid to current active, inactive and retired Plan participants and their beneficiaries. Per the Funding Policy, KUB fully funds its annual Actuarially Determined Contribution.

Investments

The Plan’s investments are held by State Street Bank and Trust Company (the “Trustee”). The Plan’s policy in regard to the allocation of invested assets is established by the Retirement System Investment Committee and approved by the KUB Board of Commissioners and may only be amended by the KUB Board of Commissioners. It is the policy of the Retirement System Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Plan’s adopted asset allocation policy as of December 31, 2020:

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Asset Class	Target Allocation
Domestic equity – large cap	20% - 50%
Domestic equity – mid cap	0% - 15%
Domestic equity – small cap	0% - 15%
Domestic equity – convertible securities	0% - 10%
Non-U.S. equity	0% - 20%
Real estate equity	0% - 10%
Fixed income – aggregate bonds	5% - 25%
Fixed income – long-term bonds	10% - 25%
Cash and deposits	0% - 5%

Contributions of \$3,167,680 and \$2,585,824 for 2019 and 2018, respectively, were made during the Plan sponsor's fiscal years ended June 30, 2021 and 2020, respectively. Of these amounts, \$696,890 and \$568,881 are attributable to the Wastewater Division. The fiscal year 2021 contribution was determined as part of the January 1, 2019 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability or death.

Net Pension Liability (Asset)

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB 68"), which requires measurement of the net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 will be based on the December 31, 2020 and 2019 measurement date, respectively. The Division's share of the net pension asset at June 30, 2021 is \$9,921,843 and the net pension asset at June 30, 2020 is \$4,206,702.

GASB 68 requires certain disclosures related to the net pension liability (asset) of the Plan as disclosed below:

	2020	2019
Total pension liability	\$ 234,363,021	\$ 226,818,557
Plan fiduciary net position	<u>(279,462,309)</u>	<u>(245,939,932)</u>
Plan's net pension liability (asset)	<u>\$ (45,099,288)</u>	<u>\$ (19,121,375)</u>
Plan fiduciary net position as a percentage of the total pension liability	119.24%	108.43%

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Changes in Net Pension Liability (Asset) are as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2019	\$ 226,818,557	\$ 245,939,932	\$ (19,121,375)
Changes for the year:			
Service cost	5,227,657	-	5,227,657
Interest	16,393,202	-	16,393,202
Changes of Benefits	-	-	-
Differences between Expected and Actual Experience	1,930,170	-	1,930,170
Changes of Assumptions	-	-	-
Contributions - employer	-	2,876,752	(2,876,752)
Contributions - rollovers	-	2,281,793	(2,281,793)
Contributions - member	-	2,934	(2,934)
Net investment income	-	44,822,654	(44,822,654)
Benefit payments	(16,006,565)	(16,006,565)	-
Administrative expense	-	(455,191)	455,191
Net changes	7,544,464	33,522,377	(25,977,913)
Balances at December 31, 2020	\$ 234,363,021	\$ 279,462,309	\$ (45,099,288)

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation, using the following actuarial assumptions applied to all periods included in the measurement:

Valuation dates	January 1, 2020, rolled forward to December 31, 2020; January 1, 2019, rolled forward to December 31, 2019
Discount rate	7.25% as of December 31, 2020 and 2019
Salary increases	From 2.50% to 5.65%, based on years of service as of December 31, 2020 and 2019
Mortality	115% and 110% of the PubG-2010 table, for males and females respectively, using the Public Sector General Employee Table for ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of December 31, 2020 and 2019
Inflation	2.5% as of December 31, 2020 and 2019

The actuarial assumptions used in the January 1, 2020 and 2019 valuations were based on an actuarial experience study covering the period January 1, 2014 through December 31, 2018.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding

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expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2020 and 2019 are summarized in the following table. The real rate of return reported for fixed income is for aggregate fixed income. The Plan has both aggregate and long duration fixed income.

Asset Class	Long Term Expected Real Rate of Return	
	2020	2019
Domestic equity	5.1%	5.5%
Non-U.S. equity	6.4%	6.4%
Real estate equity	5.6%	5.9%
Debt securities	0.9%	1.5%
Cash and deposits	0.2%	0.6%

Discount rate

The discount rate used to measure the total pension liability was 7.25 percent as of December 31, 2020 and 2019. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the net pension liability (asset) of the Plan as of December 31, 2020, calculated using the discount rate of 7.25 percent, as well as what the Plan's net pension liability (asset) would be if it were calculated using a discount rate that is one percent lower (6.25 percent) or one percent higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Plan's net pension liability (asset)	\$ (24,234,936)	\$ (45,099,288)	\$ (63,103,448)

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Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2021, KUB recognized pension expense of (\$7,325,254), Division's share (\$1,611,556).

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2019, this average was 5.00 years. During the measurement year, there was a liability experience loss of \$1,930,170 with \$386,034 of that recognized in the current year and in each of the next four years, resulting in a deferred outflow of \$1,544,136 (Division's share \$339,710). Unrecognized liability experience gains from prior periods were \$2,088,302, of which \$996,139 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$1,092,163 (Division's share \$240,275).

During the measurement year, there were no benefit changes or assumption changes. Unrecognized assumption change losses from prior periods were \$6,778,528, of which \$1,694,632 was recognized as an increase in pension expense in the current year and resulted in a deferred outflow of \$5,083,896 (Division's share \$1,118,458). Unrecognized assumption change decreases from prior periods were \$729,629, of which \$658,104 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$71,525 (Division's share \$15,736).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$27,394,477, of which \$5,478,895 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment gains from prior periods were \$17,715,210, of which \$4,635,928 was recognized as a decrease in pension expense in the current year. The combination of unrecognized investment gains this year along with the net unrecognized investment gains from prior periods results in a net difference between projected and actual earnings on pension plan investments as of December 31, 2020 of \$34,994,864 (Division's share \$7,698,870). The following table summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years. In addition, KUB recorded a deferred outflow of resources of \$1,583,842 at June 30, 2021 for employer contributions made between December 31, 2020 and June 30, 2021 (Division's share \$348,443).

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,544,136	\$ 1,092,163
Changes in assumptions	5,083,896	71,525
Net difference between projected and actual earnings on pension plan investments	-	34,994,864
Contributions subsequent to measurement date	1,583,842	-
Total	<u>\$ 8,211,874</u>	<u>\$ 36,158,552</u>
Division's share	<u>\$ 1,806,611</u>	<u>\$ 7,954,881</u>

\$1,583,842 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2022	\$ (8,815,508)
2023	(5,035,228)
2024	(10,586,921)
2025	(5,092,863)
Thereafter	-

For the year ended June 30, 2020, KUB recognized pension expense of \$2,673,376 (Division's share \$588,143).

The impact of experience gains or losses and assumption changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2018, this average was 5.00 years. During the measurement year, there was an experience gain of \$1,054,117, with \$210,822 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of \$843,295 (Division's share \$185,525). Unrecognized experience gains from prior periods were \$2,408,388, of which \$1,163,381 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$1,245,007 (Division's share \$273,902).

During the measurement year, there was an assumption change loss of \$8,473,160, with \$1,694,632 of that recognized in the current year and each of the next four years, resulting in a deferred outflow of \$6,778,528 (Division's share \$1,491,276). Unrecognized assumption change decreases from prior periods were \$1,387,733, of which \$658,104 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of \$729,629 (Division's share \$160,518).

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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 gain of \$34,889,331, of which \$6,977,866 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were \$15,614,774, of which \$5,418,519 was recognized as an increase in pension expense in the current year. The combination of unrecognized investment gains this year along with the net unrecognized investment losses from prior periods results in a net difference between projected and actual earnings on pension plan investments as of December 31, 2019 of \$17,715,210 (Division's share \$3,897,346). The following table summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years. In addition, KUB recorded a deferred outflow of resources of \$1,292,915 (Division's share \$284,441) at June 30, 2020 for employer contributions made between December 31, 2019 and June 30, 2020.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,088,302
Changes in assumptions	6,778,528	729,629
Net difference between projected and actual earnings on pension plan investments	-	17,715,210
Contributions subsequent to measurement date	1,292,915	-
Total	<u>\$ 8,071,443</u>	<u>\$ 20,533,141</u>
Division's share	<u>\$ 1,775,717</u>	<u>\$ 4,517,291</u>

11. Qualified Excess Benefit Arrangement

Description

In fiscal year 2017, KUB implemented a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). The QEBA is a single-employer defined benefit pension plan, administered by KUB. The number of participants in any given year for the QEBA is determined by the number of KUB Pension Plan participants who exceed the current year's section 415(b) limitations, as calculated by the KUB Pension Plan actuary. The amount of QEBA benefit will be the amount specified by the terms of the KUB Pension Plan without regard to Section 415(b) limitations minus the amount payable from the KUB Pension Plan as limited by Section 415(b). QEBA benefits are subject to cost of living adjustments.

As of June 30, 2021, there are 487 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. There is currently one member receiving benefits under the QEBA. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the KUB Pension Plan. The KUB Pension Plan was amended to include the provision of QEBA benefits; therefore, amendments to the QEBA require the same authority as amendments to the KUB Pension Plan. As required by federal tax law, the QEBA is unfunded within the meaning of the federal tax laws. KUB may not pre-fund the QEBA to cover future liabilities beyond the current year. KUB has established procedures to pay for these benefits on a pay-as-you-go basis, funded by KUB. There are no assets accumulated in a trust that meets the GASB's criteria.

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Total Pension Liability of the QEBA

The below summarizes the disclosures of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"). GASB 73 extends a similar approach of financial reporting to plans meeting specific criteria that are not administered through trusts that GASB 68 established for pension plans. GASB 73 requires measurement of the total pension liability of the QEBA. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2021 and 2020 are based on a December 31, 2020 and 2019 measurement date, respectively. The Division's share of the total pension liability was \$4,117 at June 30, 2021, and \$4,452 at June 30, 2020.

GASB 73 requires certain disclosures related to the total pension liability of the QEBA, as disclosed below:

	2020	2019
Total pension liability	\$18,714	\$20,236
Deferred outflows	(33,660)	(45,559)
Deferred inflows	23,630	35,445
Net impact on Statement of Net Position	<u>\$8,684</u>	<u>\$10,122</u>
Covered payroll	\$41,524,273	\$40,276,197
Total pension liability as a % of covered payroll	0.05%	0.05%

Changes in total pension liability of the QEBA are as follows:

	Increase (Decrease)
	Total Pension Liability
Balances at December 31, 2019	\$ 20,236
Changes for the year:	
Service cost	-
Interest	388
Changes of Benefits	-
Differences between Expected and Actual Experience	10,165
Changes of Assumptions	91
Benefit payments	(12,166)
Net changes	<u>(1,522)</u>
Balances at December 31, 2020	<u>\$ 18,714</u>

Actuarial Assumptions

The total pension liability of the QEBA was determined by an actuarial valuation, using the following actuarial assumptions applied to all periods included in the measurement:

Valuation dates	December 31, 2020 and December 31, 2019
Actuarial cost method	Individual entry age

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Salary increase	From 2.50% to 5.65%, based on years of service as of December 31, 2020 and 2019
Mortality	115% and 110% of the Public Sector General Healthy Annuitant Mortality Table (PubG-2010), for males and females, respectively, using the Public Sector General Employee Table for ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of December 31, 2020 and 2019
Inflation	2.5% as of December 31, 2020 and 2019

The actuarial assumptions used in the December 31, 2020 and 2019 valuations were based on the results of an actuarial experience study for the period January 1, 2014 through December 31, 2018.

Discount rate

The QEBA is not funded. In accordance with paragraph 31 of GASB 73, the discount rate is based on the Bond Buyer 20-Bond GO index. This rate was 2.12% at December 31, 2020 and 2.74% at December 31, 2019.

Sensitivity of the total pension liability to changes in the discount rate

The following presents the total pension liability of the QEBA as of December 31, 2020, calculated using the discount rate of 2.12 percent, as well as what the QEBA's total pension liability would be if it were calculated using a discount rate that is one percent lower (1.12 percent) or one percent higher (3.12 percent) than the current rate:

	1% Decrease (1.12%)	Current Discount Rate (2.12%)	1% Increase (3.12%)
QEBA's total pension liability	\$ 18,864	\$ 18,714	\$ 18,568

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2021, KUB recognized pension expense of \$21,436 for the QEBA (Division's share \$4,717). This amount is not expected to be the same as KUB's contribution to the QEBA (\$22,874), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [\$8,684 - \$10,122 + \$22,874].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2019, this average was 5 years. During the measurement year, there was an experience loss of \$10,165, with \$2,033 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$8,132 (Division's share \$1,790). There was a deferred inflow at the end of the measurement year of \$14,450 (Division's share \$3,179) from experience gains in prior years and a deferred outflow of \$2,756 (Division's share \$606) from experience losses in prior years.

During the measurement year, there was an assumption change loss of \$91, with \$18 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$73 (Division's share \$17). There was a deferred inflow at the end of the measurement year of \$9,180 (Division's share \$2,020) and a deferred outflow of \$22,699 (Division's share \$4,994) from assumption changes in prior years. In addition, KUB recorded a deferred outflow of resources of \$6,084 at June

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30, 2021 for contributions between December 31, 2020 and June 30, 2021 (Division's share \$1,338).

The table below summarizes the current balances of deferred outflows and deferred inflows of resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 10,888	\$ 14,450
Changes in assumptions	22,772	9,180
Contributions subsequent to measurement date	6,084	-
Total	\$ 39,744	\$ 23,630
Division's share	\$ 8,745	\$ 5,199

\$6,084 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total pension liability in the year ending June 30, 2022 (Division's share \$1,338). Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2022	\$ 10,340
2023	(7,089)
2024	4,727
2025	2,052
Thereafter	-

For the year ended June 30, 2020, KUB recognized pension expense of (\$199,098) for the QEBA (Division's share \$43,801). This amount is not expected to be the same as KUB's contribution to the QEBA (\$17,636), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [\$10,122 - \$226,856 + \$17,636].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2018, this average was 5 years. During the measurement year, there was an experience loss of \$34, with \$7 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$27 (Division's share \$6). There was a deferred inflow at the end of the measurement year of \$21,675 (Division's share \$4,769) from experience gains in prior years and a deferred outflow of \$5,473 (Division's share \$1,205) from experience losses in prior years.

During the measurement year, the Plan was amended to provide automatic increases to retirees for benefits limited under Code §415(d), resulting in a change in benefits of \$218,272 that was recognized in the current year (Division's share \$48,020). There was an increase in the total pension liability due to assumption changes of \$13,342, with \$2,668 recognized in the current year and each of the next four years, resulting in a deferred outflow of \$10,674 (Division's share \$2,348).

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There was a deferred inflow at the end of the measurement year of \$13,770 (Division's share \$3,029) and a deferred outflow of \$29,385 (Division's share \$6,465) from assumption changes in prior years. In addition, KUB recorded a deferred outflow of resources of \$6,083 at June 30, 2020 for contributions between December 31, 2019 and June 30, 2020 (Division's share \$1,338).

The table below summarizes the current balances of deferred outflows and deferred inflows of resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,500	\$ 21,675
Changes in assumptions	40,059	13,770
Contributions subsequent to measurement date	6,083	-
Total	\$ 51,642	\$ 35,445
Division's share	\$ 11,362	\$ 7,798

12. Defined Contribution Plan

The KUB Asset Accumulation 401(k) Plan (the "401(k) Plan") is a defined contribution 401(k) employee retirement savings plan covering eligible KUB employees established by the KUB Board of Commissioners in accordance with the Charter of the City of Knoxville, Tennessee. The 401(k) Plan's assets are held in trust under an agreement between KUB and Fidelity Management Trust Company. Employees hired prior to January 1, 2011 may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. Employees hired on or after January 1, 2011 have an enhanced 401(k) due to the closure of the Defined Benefit Pension Plan. They may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. They also receive a nonelective KUB contribution of 3 percent to 6 percent, depending on years of service, whether they contribute or not.

KUB funded 401(k) matching contributions and nonelective contributions of \$2,984,314 (Division's share \$656,549) and \$2,469,273 (Division's share \$543,240), respectively, for the years ended June 30, 2021 and 2020.

13. Other Post-Employment Benefits (OPEB)

Description of Trust

The Knoxville Utilities Board Other Post Employment Benefits Trust (the Trust) is a single-employer trust established by the KUB Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. The Trust along with the KUB Health Plan make up a Voluntary Employee Beneficiary Association ("VEBA") and are intended to be tax-exempt pursuant to Code §501(c)(9). The purpose of the Trust is to fund KUB's post-employment health care plan (the "Plan"), which provides certain medical benefits for qualifying KUB retirees and beneficiaries. The applicable documentation was submitted to the State Funding Board and, in December 2007, the State Funding Board approved the Trust. The Trust was also approved by the Internal Revenue Service in June 2008. KUB administers the Trust through a Board of Trustees consisting of seven KUB employees that are appointed by KUB's President and CEO. Any amendments to the Trust

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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 July 1, 1999, KUB closed the OPEB Plan such that persons employed or re-employed by KUB on or after July 1, 1999, are not eligible to participate, but that eligible employees hired prior to July 1, 1999, who are retired and who (prior to retirement) qualified for retiree medical insurance by meeting the "Rule of 80", the sum of age and at least 20 years of qualified service equal or exceed 80, accrue benefits under the OPEB Plan.

Participants in the OPEB Plan consisted of the following as of June 30:

	<u>2021</u>	<u>2020</u>
Retirees	538	555
Dependents of retirees	579	576
Eligible active employees	160	181
Total	<u>1,277</u>	<u>1,312</u>

Benefits

Other post-employment benefits may include, but shall not be limited to, medical, prescription drugs, dental, vision, hearing, Medicare Part B or Part D premiums, life insurance, long-term care, and long-term disability. Only medical and pharmacy are currently provided to eligible retirees.

Contributions and Plan Funding

The primary goal of the Funding Policy for the Trust is to document the method KUB has adopted to provide assurance that future KUB and retiree contributions and current Trust assets will be sufficient to fund all benefits expected to be paid to Trust beneficiaries. Per the Funding Policy, KUB's current practice is to fully fund its annual Actuarially Determined Contribution, which is determined by actuarial valuation.

Contributions are authorized by the terms of the Trust as established by KUB Resolution No. 1168, as amended, as approved by the Tennessee State Funding Board. KUB shall have the right at any time to amend, in whole or in part, the provisions of this Trust; however, no such amendment shall 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.

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Based on the date of retirement, certain retired plan members are required to contribute specified amounts monthly to maintain health insurance. Those who retired prior to July 1983 have no required monthly premiums for themselves or dependents. The retirees, or their surviving dependents, who retired between August 1983 and January 1998 are required to pay \$262.50 per month for pre-Medicare family health insurance. For individuals who retired after January 1998, the required monthly premium for pre-Medicare health insurance is \$262.50 for single coverage and \$525 for family coverage. There is currently no premium for Medicare eligible retirees or dependents. KUB is responsible for determining the level of retired plan member contributions on an annual basis, as part of its review of healthcare cost sharing.

Investments

The Trust holds investments in a balanced fund, which invests in passively managed common trust index funds, managed and sponsored by State Street Global Advisors (SSgA), with an asset allocation mirroring the asset allocation of the Trust and rebalanced monthly. The Trust's Investment Policy was established and may only be amended by the KUB Board of Commissioners. The Trust's Investment Policy is to invest in a manner that will provide sufficient investment return to meet current and future retiree health benefits, while conforming to all governing State and Federal statutes. It allows investment of Trust assets in any type of security instrument allowed for in T.C.A 8-50-1203. The following was the Trust's adopted investment target allocations as set forth in the Trust's Investment Policy as of June 30, 2021:

<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 of \$757,226 and \$311,324 were made to the OPEB Trust in fiscal years ended June 30, 2021 and 2020, (Division's share \$166,591 and \$68,491), respectively. These were based on the OPEB Plan's actuarial valuations as of January 1, 2019, and 2018.

Net OPEB Liability (Asset)

The below summarizes the disclosures of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"), which requires measurement of the net OPEB liability as total OPEB liability less the amount of the Trust's fiduciary net position. The amounts reported as of June 30 are based on the reporting date for the KUB Other Post-Employment Benefits Plan which is June 30. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2021 and 2020 and the Total OPEB Liability as of the valuation date, January 1, 2020 updated to June 30, 2021, and January 1, 2019 updated to June 30, 2020, respectively. The Division's share of the total net OPEB (asset) liability was (\$1,305,002) at June 30, 2021 and \$1,669,678 at June 30, 2020.

Knoxville Utilities Board Wastewater Division
Notes to Financial Statements
June 30, 2021 and 2020

The components of the net OPEB (asset) liability of the Trust are as follows as of June 30:

	2021	2020
Total OPEB liability	\$ 51,515,118	\$ 54,544,240
Plan fiduciary net position	57,446,946	46,954,793
Net OPEB (asset) liability	<u>\$ (5,931,828)</u>	<u>\$ 7,589,447</u>

Plan fiduciary net position as a percentage of the total OPEB liability	111.51%	86.09%
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Changes in Net OPEB Liability (Asset) are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2020	\$ 54,544,240	\$ 46,954,793	\$ 7,589,447
Changes for the year:			
Service cost	283,786	-	283,786
Interest	3,861,304	-	3,861,304
Changes of Benefits	-	-	-
Differences between Expected and Actual Experience	42,802	-	42,802
Changes of Assumptions	(4,105,835)	-	(4,105,835)
Contributions - employer	-	757,226	(757,226)
Contributions - member	-	-	-
Net investment income	-	12,890,602	(12,890,602)
Benefit payments	(3,111,179)	(3,111,179)	-
Administrative expense	-	(44,496)	44,496
Net changes	<u>(3,029,122)</u>	<u>10,492,153</u>	<u>(13,521,275)</u>
Balances at June 30, 2021	<u>\$ 51,515,118</u>	<u>\$ 57,446,946</u>	<u>\$ (5,931,828)</u>

Actuarial assumptions

The total OPEB liability was determined by actuarial valuations, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation dates:	January 1, 2020, rolled forward to June 30, 2021; January 1, 2019, rolled forward to June 30, 2020
Discount rate:	7.25% as of January 1, 2020 and 2019
Healthcare cost trend rates:	Pre-Medicare: 6.75% grading down to 4.04% over 20 years as of January 1, 2020; 7.83% grading down to 4.50% over 19 years as of January 1, 2019 Medicare: 6.30% grading down to 4.04% over 20 years as of January 1, 2020; 6.88% grading down to 4.50% over 19 years as of January 1, 2019 Administrative expenses: 3.0% per year

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2021 and 2020

Salary increases:	From 2.50% to 5.65%, based on years of service as of January 1, 2020 and 2019
Mortality:	115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Healthy Annuitant Mortality Table, both projected using scale MP2018 fully generational as of January 1, 2020 and 2019
Inflation:	2.50% as of January 1, 2020 and 2019

The actuarial assumptions used in the January 1, 2020 and January 1, 2019 valuations were based on the results of actuarial experience studies for the periods January 1, 2014 through December 31, 2018.

The long-term expected rate of return on Trust investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Trust investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The long-term expected rate of return may be lower in periods of current strong performance due to future valuations that mean revert to the long-term average. Best estimates of arithmetic real rates of return for each major asset class included in the Trust's target asset allocation (see the discussion of the Trust's Investment Policy) are summarized in the chart below.

Asset Class	Long Term Expected Real Rate of Return	
	2021	2020
Domestic equity	4.9%	5.4%
International equity	5.9%	6.4%
Emerging Market equity	8.4%	9.3%
Real estate equity	5.4%	5.8%
Debt securities	0.5%	0.2%
Cash and deposits	(0.1%)	(0.2%)

Discount rate

The discount rate used to measure the total OPEB liability was 7.25 percent as of June 30, 2021 and 2020. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2021 and 2020

Sensitivity of the net OPEB liability (asset) to changes in the discount rate.

The following presents the net OPEB liability (asset) of the Trust as of June 30, 2021, calculated using the discount rate of 7.25 percent, as well as what the Trust's net OPEB liability (asset) would be if it were calculated using a discount rate that is 1 percent lower (6.25 percent) or 1 percent higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net OPEB liability (asset)	\$(1,051,843)	\$(5,931,828)	\$(10,060,704)

Sensitivity of the net OPEB liability (asset) to changes in the healthcare cost trend rates.

The following presents the net OPEB liability (asset) of the Trust as of June 30, 2021, as well as what the Trust's net OPEB liability (asset) would be if it were calculated using a healthcare cost trend rate that is 1 percent lower or 1 percent higher than the current rate:

	1% Decrease	Baseline Trends	1% Increase
Net OPEB liability (asset)	\$(10,845,460)	\$(5,931,828)	\$(217,229)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2021, KUB recognized OPEB expense of (\$648,134) (Division's share (\$142,590)).

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was 2.0 years. During the measurement year, there was an experience loss of \$42,802, with \$21,401 of that recognized in the current year and the remaining amount will be recognized in the next year, resulting in a deferred outflow of resources of \$21,401 (Division's share \$4,708). Unrecognized experience losses from prior periods were \$21,951, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there was a decrease in the Total OPEB Liability due to assumption changes of \$4,105,835, with \$2,052,918 of that recognized in the current year and in the next year, resulting in a deferred inflow of \$2,052,917 (Division's share \$451,642). Unrecognized assumption changes from prior periods were \$1,802,421, of which the entire amount is recognized as an increase in OPEB expense in the current year.

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$9,571,802, of which \$1,914,360 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were \$2,354,338, of which \$602,585 was recognized as an increase in OPEB expense in the current year. The combination of unrecognized gains this year along with the net unrecognized investment losses from prior periods results in a net difference between projected and actual earnings on OPEB plan investments as of June 30,

Knoxville Utilities Board Wastewater Division
Notes to Financial Statements
June 30, 2021 and 2020

2021 of \$5,905,689 (Division's share \$1,299,251). 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	\$ 21,401	\$ -
Changes in assumptions	-	2,052,917
Net difference between projected and actual earnings on OPEB plan investments	-	5,905,689
Total	\$ 21,401	\$ 7,958,606
Division's share	\$ 4,708	\$ 1,750,893

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ended June 30:	
2022	\$ (3,343,290)
2023	(1,281,013)
2024	(1,398,540)
2025	(1,914,362)
2026	-
Thereafter	-

For the year ended June 30, 2020, KUB recognized OPEB expense of \$4,767,499 (Division's share \$1,048,850).

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was 2.0 years. During the measurement year, there was an experience loss of \$43,902, with \$21,951 of that recognized in the current year and the remaining amount will be recognized in the next year, resulting in a deferred outflow of resources of \$21,951 (Division's share \$4,829). Unrecognized experience losses from prior periods were \$499,549, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there were benefit changes that decreased the expense by \$202,408. There was an increase in the Total OPEB Liability due to assumption changes of \$3,604,843, with \$1,802,422 of that recognized in the current year and in the next year, resulting in a deferred outflow of \$1,802,421 (Division's share \$396,533). Unrecognized assumption changes from prior periods were \$1,615,800, of which the entire amount is recognized as an increase in OPEB expense in the current year.

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment loss of \$2,579,092, of which \$515,818 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred outflow of resources as of June 30, 2020 of \$2,063,274 (Division's share \$453,920). Net unrecognized investment losses from prior periods were \$377,831, of which \$86,767 was recognized as an increase in OPEB expense in the current year and resulting in a net deferred outflow of \$291,064 (Division's share \$64,034). The following table summarizes the current balances of deferred outflows and deferred inflows of resources.

Knoxville Utilities Board Wastewater Division
Notes to Financial Statements
June 30, 2021 and 2020

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 21,951	\$ -
Changes in assumptions	1,802,421	-
Net difference between projected and actual earnings on OPEB plan investments	2,354,338	-
Total	<u>\$ 4,178,710</u>	<u>\$ -</u>
Division's share	<u>\$ 919,316</u>	<u>\$ -</u>

14. 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, 2021 and 2020 are summarized as follows:

	2021	2020
City of Knoxville		
Amounts billed by the Division for utilities and related services	\$ 1,058,321	\$ 958,288
Payments by the Division in lieu of property tax	4,883,160	4,650,629
Payments by the Division for services provided	1,453,601	1,331,081
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	344,030	375,057
Interdivisional rental expense	560,935	729,961
Interdivisional rental income	158,382	164,999
Amounts billed to the Division by other divisions for utilities services provided	3,589,283	3,874,660

With respect to these transactions, accounts receivable from the City of Knoxville included in the balance sheet at year end were as follows:

	2021	2020
Accounts receivable	\$ 59,856	\$ 41,586

15. 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.

In February 2005, a Consent Decree was entered into federal court regarding the operation of KUB's wastewater system. Under the terms of the Consent Decree, the remediation of identified

Knoxville Utilities Board Wastewater Division

Notes to Financial Statements

June 30, 2021 and 2020

sanitary sewer overflows (SSOs) on KUB's wastewater system had to be completed by June 30, 2016. KUB completed all the requirements of the Consent Decree for the collection system two years in advance of the deadline.

The Consent Decree also required KUB to perform an evaluation of the wet weather performance and capacity of its wastewater treatment plants. In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB's Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provides for a biologically enhanced high-rate clarification (the BEHRC) secondary treatment system to be installed at the Fourth Creek treatment plant and at the Kuwahee treatment plant. KUB successfully completed the installation of the BEHRC system at the Fourth Creek treatment plant. Work is currently ongoing at the Kuwahee treatment plant and project completion is scheduled for early 2022. The total cost of such improvements at the Kuwahee treatment plant is estimated to be \$50 million.

KUB's funding plan for the Consent Decree includes long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all types of wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2021, the Wastewater Division had issued \$583.7 million in bonds to fund wastewater system capital improvements since the inception of the Consent Decree. The Board approved two 50 percent rate increases, which went into effect in April 2005 and January 2007. The Board also approved an 8 percent rate increase, which was effective in September 2008, two 12 percent rate increases, which were effective in April 2011 and October 2012, three 6 percent rate increases, which were effective October 2014, October 2015, and October 2016, and three 5 percent rate increases, which were effective July 2017, July 2018, and July 2019. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

KUB successfully completed the first cycle of Maintenance Operation Management (MOM) requirements one year before the deadline by inspecting manholes and gravity mains, smoke testing gravity mains, performing required inspections of pump stations and the related force mains, and completing all Corrective Action Plan/Engineering Report (CAP/ER) projects. KUB initiated the second MOM cycle that continues to focus on the prevention of SSOs. As part of the Century II initiative, formally known as the PACE10 program, KUB has installed storage tanks providing 34 million gallons of wastewater storage to control wet weather overflows and rehabilitated or replaced 423 miles of collection system pipe. KUB also continues to maintain a proactive operations and maintenance plan for the wastewater collection system including inspection, grease control, and private lateral enforcement. The result of the PACE10/Century II initiative has been an 80 percent reduction in SSOs.

As of June 30, 2021, the Wastewater Division had completed its 17th full year under the Consent Decree, spending \$575.9 million on capital investments to meet Consent Decree requirements.

KUB's management anticipates the full completion of final required projects under the Consent Decree in fiscal year 2022, and the closure of the Consent Decree by the applicable regulatory authorities.

Knoxville Utilities Board Wastewater Division
Notes to Financial Statements
June 30, 2021 and 2020

16. Risks and Uncertainties

During March 2020, a global pandemic was declared related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). The pandemic has significantly impacted the economic conditions across the nation as federal, state, and local governments react to the public health crisis, creating significant uncertainties in the economy. This situation is rapidly changing, and additional impacts may arise. While the disruption is currently expected to be temporary, there is uncertainty around its duration. The ultimate future impact, if any, of the pandemic on results of operations, financial position, liquidity or capital resources cannot be reasonably estimated at this time.

Knoxville Utilities Board Wastewater Division
Required Supplementary Information – Schedule of Changes in Net Pension Liability and Related Ratios
June 30, 2021

	*Year ended December 31						
	2020	2019	2018	2017	2016	2015	2014
Total pension liability							
Service cost	\$ 5,227,657	\$ 6,142,213	\$ 5,095,488	\$ 4,607,486	\$ 4,226,985	\$ 4,157,062	\$ 4,092,808
Interest	16,393,202	16,030,626	15,344,193	15,015,282	14,966,559	14,812,784	14,698,657
Changes of benefit terms	-	163,199	-	-	-	-	-
Differences between expected and actual experience	1,930,170	(1,054,117)	(605,649)	(1,087,161)	(2,233,762)	(1,890,334)	-
Changes of assumptions	-	8,473,160	-	(357,633)	(2,932,883)	-	-
Benefit payments, including refunds of member contributions	(16,006,565)	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)	(15,533,167)
Net change in total pension liability	7,544,464	14,660,606	4,559,218	3,207,995	(111,612)	1,728,586	3,258,298
Total pension liability - beginning	226,818,557	212,157,951	207,598,733	204,390,738	204,502,350	202,773,764	199,515,466
Total pension liability - ending (a)	\$ 234,363,021	\$ 226,818,557	\$ 212,157,951	\$ 207,598,733	\$ 204,390,738	\$ 204,502,350	\$ 202,773,764
Plan fiduciary net position							
Contributions - employer	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541
Contributions - participants	2,284,727	3,170,825	2,081,125	1,488,632	555,075	487,546	475,854
Net investment income	44,814,914	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)	22,292,369
Other additions	7,740	13,579	62,616	82,239	45,848	30,879	29,733
Benefit payments, including refunds of member contributions	(15,962,565)	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)	(15,405,167)
Administrative expense	(455,191)	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)	(378,085)
Death benefits	(44,000)	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)	(128,000)
Net change in plan fiduciary net position**	33,522,377	40,431,737	(21,868,910)	22,862,426	5,052,489	(9,333,204)	12,795,245
Plan fiduciary net position - beginning**	245,939,932	205,508,195	227,377,105	204,514,679	199,462,190	208,795,394	196,000,149
Plan fiduciary net position - ending (b)**	\$ 279,462,309	\$ 245,939,932	\$ 205,508,195	\$ 227,377,105	\$ 204,514,679	\$ 199,462,190	\$ 208,795,394
Plan's net pension liability - ending (a) - (b)	\$ (45,099,288)	\$ (19,121,375)	\$ 6,649,756	\$ (19,778,372)	\$ (123,941)	\$ 5,040,160	\$ (6,021,630)
Plan fiduciary net position as a percentage of the total pension liability	119.24%	108.43%	96.87%	109.53%	100.06%	97.54%	102.97%
Covered payroll	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743	\$ 44,076,351
Plan's net pension liability as a percentage of covered payroll	(108.61%)	(47.48%)	15.78%	(45.67%)	(0.28%)	11.34%	(13.66%)

Notes to Schedule:

* Information not reflected prior to 2014 due to changes in actuary methodologies required under GASB 67, which was implemented in 2014.

** Excludes amounts related to 401(k) matching contributions.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Required Supplementary Information – Schedule of Employer Pension Contributions
June 30, 2021

	*Year ended December 31							
	2020	2019	2018	2017	2016	2015	2014	
Actuarially determined contribution	\$ 2,876,752	\$ 2,871,241	\$ 3,456,475	\$ 4,286,597	\$ 5,243,146	\$ 5,991,887	\$ 5,908,541	
Contribution in relation to the actuarially determined contribution	2,876,752	2,871,241	3,456,475	4,286,597	5,243,146	5,991,887	5,908,541	
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Covered payroll	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747	\$ 44,446,743	\$ 44,076,351	
Contributions as a percentage of covered payroll	6.93%	7.13%	8.20%	9.90%	11.80%	13.48%	13.41%	

Notes to Schedule:

Timing: Actuarially determined contributions for a Plan year are based upon 50% of the amounts determined at the actuarial valuations for each of the two prior Plan years.
Valuation Dates: January 1, 2019 and January 1, 2018

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Individual entry age
Asset valuation method: 5-year smoothed market
Amortization method: Level dollar, 30-year closed period with 22 years remaining (23 years as of January 1, 2018), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2019 and 2018, the unfunded liability was negative.
Discount rate: 7.5%
Salary increases: As of January 1, 2019: 2.50% to 5.65%, based on years of service
As of January 1, 2018: 2.80% to 5.15%, based on years of service
Mortality: As of January 1, 2019: 115% and 110% of the benefits-weighted Public Sector General Healthy Annuitant Mortality Table (PubG-2010), respectively, for males and females, using the Public Sector General Employee Table while in active employment and for annuitant ages prior to the start of the Healthy Annuitant Mortality Table, both projected from the 2010 base rates using scale MP2018 fully generational
As of January 1, 2018: Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation: 2.5% as of January 1, 2019 and 2.8% as of January 1, 2018

* Schedule of Employer Contribution information is not reflected prior to 2014 due to changes in actuary methodologies required under GASB 67, which was implemented 2014. Please refer to prior year's audited financial statements for prior methods and assumptions.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division

Required Supplementary Information – Schedule of Changes in Net OPEB Liability and Related Ratios

June 30, 2021

	*Year ended June 30			
	2021	2020	2019	2018
Total OPEB liability				
Service cost	\$ 283,786	\$ 256,270	\$ 270,515	\$ 202,603
Interest	3,861,304	3,672,291	3,624,737	3,295,240
Change of benefit terms	-	(202,408)	-	-
Differences between expected and actual experience	42,802	43,902	999,098	1,324,769
Changes of assumptions	(4,105,835)	3,604,843	3,231,601	(397,180)
Benefit payments	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Net change in total OPEB liability	<u>(3,029,122)</u>	<u>4,346,302</u>	<u>4,593,507</u>	<u>1,126,693</u>
Total OPEB liability - beginning	<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>\$ 51,515,118</u>	<u>\$ 54,544,240</u>	<u>\$ 50,197,938</u>	<u>\$ 45,604,431</u>
Plan fiduciary net position				
Contributions - employer	\$ 757,226	\$ 311,324	\$ -	\$ -
Net investment income	12,890,602	975,155	2,981,928	3,705,473
Benefit payments	(3,111,179)	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	(44,496)	(53,286)	(54,787)	(51,668)
Net change in plan fiduciary net position	<u>10,492,153</u>	<u>(1,795,403)</u>	<u>(605,303)</u>	<u>355,066</u>
Plan fiduciary net position - beginning	<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>\$ 57,446,946</u>	<u>\$ 46,954,793</u>	<u>\$ 48,750,196</u>	<u>\$ 49,355,499</u>
Net OPEB liability (asset) - ending (a) - (b)	<u>\$ (5,931,828)</u>	<u>\$ 7,589,447</u>	<u>\$ 1,447,742</u>	<u>\$ (3,751,068)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	111.51%	86.09%	97.12%	108.23%
Covered employee payroll	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	(27.49%)	32.48%	5.95%	(15.84%)

Notes to Schedule:

* Information not reflected prior to 2018 due to changes in actuary methodologies required under GASB 75, which was implemented in 2018.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Required Supplementary Information – Schedule of Employer OPEB Contributions
June 30, 2021

	*Year ended June 30			
	2021	2020	2019	2018
Actuarially determined contribution	\$ 757,226	\$ 311,324	\$ -	\$ -
Contribution in relation to the annual required contribution	<u>757,226</u>	<u>311,324</u>	<u>-</u>	<u>-</u>
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 21,578,366	\$ 23,363,536	\$ 24,346,735	\$ 23,677,080
Contributions as a percentage of covered employee payroll	3.51%	1.33%	0.00%	0.00%

Notes to Schedule:

Valuation Date: January 1, 2019 and January 1, 2018
Timing: Actuarially determined contribution rates are calculated based on the actuarial valuation completed 18 months before the beginning of the fiscal year.

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age normal
Asset valuation method: 5-year smoothed market
Amortization method: Level dollar, 30-year closed period with 17 years remaining as of January 1, 2019 (18 years as of January 1, 2018), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2019, the unfunded liability was positive and negative as of January 1, 2018
Discount rate: 7.5%
Healthcare cost trend rate: Pre-Medicare: 7.83% grading down to 4.50% over 19 years as of January 1, 2019; 8.00% grading down to 4.50% over 20 years as of January 1, 2018
Medicare: 6.88% grading down to 4.50% over 19 years as of January 1, 2019; 7.00% grading down to 4.50% over 20 years as of January 1, 2018
Administrative expenses: 3.0% per year
Salary increases: From 2.50% to 5.65%, based on years of service as of January 1, 2019; From 2.80% to 5.15%, based on years of service as of January 1, 2018
Mortality: 115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational as of January 1, 2019; Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA as of January 1, 2018
Inflation: 2.5% as of January 1, 2019; 2.8% as of January 1, 2018
Investment rate of return: 7.5%
Retirement age: 2% at ages 50-57 at January 1, 2019 and January 1, 2018, grading up to 100% at age 70

* Schedule of Employer Contribution information is not reflected prior to 2018 due to changes in actuary methodologies required under GASB 75, which was implemented in 2018. Please refer to prior year's audited financial statement for prior methods and assumptions.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement
Schedule of Changes in Total Pension Liability and Related Ratios
June 30, 2021

	*Year ended December 31				
	2020	2019	2018	2017	2016
Total pension liability					
Service cost	\$ -	\$ -	\$ 941	\$ 584	\$ -
Interest (includes interest on service cost)	388	9,181	9,676	7,535	-
Changes of benefit terms	-	(218,272)	-	-	185,077
Differences between expected and actual experience	10,165	34	(36,125)	13,684	-
Changes of assumptions	91	13,342	(22,950)	73,461	-
Benefit payments, including refunds of member contributions	(12,166)	(15,932)	-	-	-
Net change in total pension liability	<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>20,236</u>	<u>231,883</u>	<u>280,341</u>	<u>185,077</u>	<u>-</u>
Total pension liability - ending	<u>\$ 18,714</u>	<u>\$ 20,236</u>	<u>\$ 231,883</u>	<u>\$ 280,341</u>	<u>\$ 185,077</u>
Covered payroll	\$ 41,524,273	\$ 40,276,197	\$ 42,150,040	\$ 43,309,374	\$ 44,437,747
Total pension liability as a percentage of covered payroll	0.05%	0.05%	0.55%	0.65%	0.42%

Notes to Schedule:

* There are no assets accumulated in a trust that meet the criteria in paragraph 4 of GASB 73 to pay related benefits.

See accompanying Independent Auditor's Report

**Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Expenditures of Federal Awards and State
Financial Assistance
June 30, 2021**

Federal Grantor/ Pass-Through Grantor	Program Name	CFDA Number	Pass-Through Entity Identifying Number	Expenditures
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	PA-04-TN-4427-PW-00478	\$ 139,380
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	PA-04-TN-4427-PW-00563	<u>\$ 2,895</u>
Total Program 97.036				<u>\$ 142,275</u>
Total Federal Awards				<u><u>\$ 142,275</u></u>

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards and State Financial Assistance includes the federal award related grant activity of Knoxville Utilities Board and is presented on the accrual basis of accounting. The expenditures reported in the Schedule of Expenditures and State Financial Assistance were incurred in fiscal years 2019 and 2020. In accordance with the requirements of CFDA 97.036, the expenditures have been reported in fiscal year 2021 when the grant was approved by the Federal Emergency Management Association. KUB did not elect to use 10% de minimis indirect cost rate.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Debt Maturities by Fiscal Year
June 30, 2021

Continued on Next Page

FY	2010C			2015A		2015B		2016		2017A		2017B	
	Principal	Interest	Rebate*	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
21-22		1,235,250	432,338	5,675,000	4,179,012	550,000	1,042,938	500,000	488,781	1,685,000	261,300	570,000	744,213
22-23		1,235,250	432,338	6,005,000	3,895,262	575,000	1,020,936	525,000	463,781	1,775,000	177,050	600,000	715,712
23-24		1,235,250	432,338	3,720,000	3,595,012	600,000	997,938	550,000	437,531	595,000	88,300	630,000	685,713
24-25		1,235,250	432,338	3,785,000	3,483,412	625,000	973,938	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	650,000	955,188	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	675,000	935,688	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	700,000	915,438	600,000	386,032			725,000	586,213
28-29		1,235,250	432,338	1,450,000	3,222,226	725,000	887,438	625,000	374,032			745,000	570,806
29-30		1,235,250	432,338	1,455,000	3,178,726	775,000	858,438	625,000	361,532			760,000	553,112
30-31		1,235,250	432,338	1,515,000	3,135,076	800,000	827,436	650,000	348,250			785,000	530,313
31-32		1,235,250	432,338	1,520,000	3,089,626	825,000	795,436	675,000	333,625			805,000	506,762
32-33		1,235,250	432,338	1,580,000	3,042,125	850,000	762,436	675,000	318,438			830,000	482,613
33-34		1,235,250	432,338	1,635,000	2,992,750	900,000	733,750	700,000	302,406			855,000	457,712
34-35		1,235,250	432,338	1,690,000	2,939,612	925,000	703,375	700,000	284,906			880,000	432,063
35-36	3,700,000	1,235,250	432,338	1,750,000	2,884,688	975,000	671,000	725,000	267,406			910,000	405,662
36-37	3,875,000	1,009,550	353,343	1,825,000	2,827,812	1,000,000	632,000	750,000	249,282			935,000	378,363
37-38	4,050,000	773,175	270,611	13,420,000	2,768,500	500,000	592,000	775,000	229,594			965,000	350,312
38-39	4,225,000	526,125	184,144	13,895,000	2,298,800	500,000	572,000	775,000	209,250			995,000	320,156
39-40	4,400,000	268,400	93,940	14,480,000	1,743,000	500,000	552,000	800,000	186,000			1,025,000	289,063
40-41				15,130,000	1,236,200	1,100,000	532,000	825,000	162,000			1,055,000	257,032
41-42				15,775,000	631,000	1,150,000	488,000	850,000	137,250			1,090,000	224,062
42-43						1,200,000	442,000	875,000	111,750			1,125,000	190,000
43-44						1,250,000	394,000	900,000	85,500			1,160,000	154,844
44-45						1,300,000	344,000	950,000	58,500			1,195,000	118,594
45-46						1,350,000	292,000	1,000,000	30,000			1,230,000	81,250
46-47						1,400,000	238,000					1,270,000	41,275
47-48						1,450,000	182,000						
48-49						1,525,000	124,000						
49-50						1,575,000	63,000						
Total	\$ 20,250,000	\$ 21,106,000	\$ 7,387,100	\$ 110,625,000	\$ 61,107,653	\$ 26,950,000	\$ 18,528,373	\$ 17,800,000	\$ 7,054,439	\$ 5,970,000	\$ 675,500	\$ 23,205,000	\$ 10,951,782

*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, 2020 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, 2021

Continued from Previous Page

FY	2018		2019		2020A		2020B		2021A		Totals		Grand Total	Grand Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	(P + I)	(Less Rebates)
21-22	255,000	389,506	315,000	537,450	680,000	994,650	555,000	858,500	3,490,000	7,845,718	14,275,000	18,577,318	32,852,318	32,419,981
22-23	270,000	376,756	330,000	521,700	715,000	960,650	580,000	836,300	3,060,000	8,119,050	14,435,000	18,322,447	32,757,447	32,325,110
23-24	280,000	365,956	345,000	505,200	750,000	924,900	600,000	813,100	6,085,000	7,996,650	14,155,000	17,645,550	31,800,550	31,368,213
24-25	290,000	354,756	360,000	487,950	785,000	887,400	625,000	789,100	6,150,000	7,753,250	14,470,000	17,110,749	31,580,749	31,148,412
25-26	305,000	343,156	380,000	469,950	825,000	848,150	650,000	764,100	8,360,000	7,507,250	14,500,000	16,575,652	31,075,652	30,643,315
26-27	315,000	330,956	400,000	450,950	865,000	806,900	675,000	738,100	8,535,000	7,172,850	14,930,000	16,019,187	30,949,187	30,516,850
27-28	325,000	321,506	420,000	430,950	910,000	763,650	705,000	711,100	9,760,000	6,746,100	15,550,000	15,367,639	30,917,639	30,485,302
28-29	335,000	311,756	435,000	409,950	955,000	718,150	730,000	682,900	10,260,000	6,258,100	16,260,000	14,670,608	30,930,608	30,498,271
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	16,980,000	13,946,164	30,926,164	30,493,827
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	17,735,000	13,193,831	30,928,831	30,496,494
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	18,520,000	12,417,055	30,937,055	30,504,718
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	19,345,000	11,601,768	30,946,768	30,514,431
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	20,055,000	10,894,506	30,949,506	30,517,169
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	20,780,000	10,157,768	30,937,768	30,505,431
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	22,070,000	9,392,520	31,462,520	31,030,183
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	23,040,000	8,495,331	31,535,331	31,181,989
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	25,495,000	7,556,363	33,051,363	32,780,752
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	26,405,000	6,569,263	32,974,263	32,790,119
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	27,420,000	5,472,719	32,892,719	32,798,779
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	25,245,000	4,405,614	29,650,614	29,650,614
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	26,255,000	3,447,044	29,702,044	29,702,044
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	10,965,000	2,449,706	13,414,706	13,414,706
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	11,390,000	2,065,526	13,455,526	13,455,526
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	11,870,000	1,666,076	13,536,076	13,536,076
45-46	580,000	65,432	740,000	93,000			1,220,000	194,250	4,580,000	493,400	10,700,000	1,249,332	11,949,332	11,949,332
46-47	600,000	44,406	765,000	70,800			1,255,000	157,650	4,830,000	310,200	10,120,000	862,331	10,982,331	10,982,331
47-48	625,000	22,656	785,000	47,850			1,295,000	120,000	4,425,000	117,000	5,580,000	489,506	6,069,506	6,069,506
48-49			810,000	24,300			1,335,000	81,150	1,500,000	60,000	5,170,000	289,450	5,459,450	5,459,450
49-50							1,370,000	41,100			2,945,000	104,100	3,049,100	3,049,100
Total	\$ 11,240,000	\$ 6,201,358	\$ 15,450,000	\$ 8,126,100	\$ 27,445,000	\$ 12,732,500	\$ 26,910,000	\$ 14,088,300	\$ 190,815,000	\$ 100,443,118	\$ 476,660,000	\$ 261,015,123	\$ 737,675,123	\$ 730,288,023

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, 2021

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding Balance 7/1/2020	Issued During Period	Paid/Matured During Period	Refunded During Period	Outstanding Balance 6/30/2021
Business-Type Activities									
BONDS PAYABLE									
Payable through Wastewater Fund									
Revenue Bond, Series 2010C	70,000,000	1.18-6.1	12/08/10	04/01/40	\$ 58,450,000	\$	\$ 1,650,000	\$ 36,550,000	\$ 20,250,000
Revenue Bond Refunding, Series 2012A	17,070,000	2.0-4.0	04/20/12	04/01/29	10,850,000		1,085,000	9,765,000	-
Revenue Bond, Series 2012B	65,000,000	1.25-5.0	12/18/12	04/01/47	58,225,000		1,150,000	57,075,000	-
Revenue Bond Refunding, Series 2013A	113,340,000	2.0-4.0	03/15/13	04/01/37	109,115,000		710,000	108,405,000	-
Revenue Bond, Series 2014A	30,000,000	2.0-4.0	09/18/14	04/01/49	27,300,000		525,000	26,775,000	-
Revenue Bond Refunding, Series 2015A	129,825,000	3.0-5.0	05/01/15	04/01/42	116,085,000		5,460,000		110,625,000
Revenue Bond, Series 2015B	30,000,000	3.0-5.0	05/20/15	04/01/50	27,475,000		525,000		26,950,000
Revenue Bond, Series 2016	20,000,000	2.0-5.0	08/05/16	04/01/46	18,275,000		475,000		17,800,000
Revenue Bond Refunding, Series 2017A	11,965,000	3.0-5.0	04/07/17	04/01/27	7,575,000		1,605,000		5,970,000
Revenue Bond, Series 2017B	25,000,000	2.0-5.0	09/15/17	04/01/47	23,745,000		540,000		23,205,000
Revenue Bond, Series 2018	12,000,000	3.0-5.0	09/14/18	04/01/48	11,485,000		245,000		11,240,000
Revenue Bond, Series 2019	16,000,000	3.0-5.0	08/20/19	04/01/49	15,750,000		300,000		15,450,000
Revenue Bond Refunding, Series 2020A	28,230,000	3.0-5.0	05/22/20	04/01/45	28,230,000		785,000		27,445,000
Revenue Bond, Series 2020B	27,460,000	3.0-4.0	10/30/20	04/01/50	-	27,460,000	550,000		26,910,000
Revenue Bond Refunding, Series 2021A	190,815,000	4.0-5.0	04/19/21	04/01/49	-	190,815,000	-		190,815,000
					\$ 512,560,000	\$ 218,275,000	\$ 15,605,000	\$ 238,570,000	\$ 476,660,000

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Statistical Information – Schedule of Insurance in Force
June 30, 2021
(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.

Pollution Legal Liability

New conditions coverage for losses exceeding specified amount per occurrence (\$1,000,000). Limits of coverage - \$20,000,000.

Property Insurance

This coverage provides protection of KUB's property for fire, extended coverage, vandalism and malicious mischief, and coverage on boilers and machinery. Also included are flood and earthquake damage and mechanical failure. Limits of coverage - \$250,000,000 per occurrence (subject to certain sublimits); \$2,500,000 deductible per occurrence.

Travel Accident

Covers losses related to employees' business travel. Limits of coverage - \$3,000,000 aggregate.

Excess Insurance for General Liability

As a governmental entity, KUB's liability is limited under the Tennessee Governmental Tort Liability Act (TCA §29-20-403). KUB is self-insured for the first \$700,000 of any accident and has insurance of \$1,000,000 above this retention.

Excess Insurance for Workers' Compensation

Covers all losses exceeding specified amount per occurrence (\$1,000,000). Limits of coverage - Statutory; stop loss coverage applies for aggregate losses over \$5,000,000.

Employee Health Plan Stop Loss Coverage

KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses in excess of \$600,000 per individual participant.

Cyber Security Liability

Covers losses resulting from employee dishonesty, robbery, burglary, and computer fraud. Limits of coverage - \$5,000,000; \$250,000 retention.

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Statistical Information – Schedule of Current Rates in Force
June 30, 2021
(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:	56,086
	Commodity Charge	
	First 2 100 Cubic Feet Per Month at \$1.75 Per 100 Cubic Feet	
	Over 2 100 Cubic Feet Per Month at \$8.70 Per 100 Cubic Feet	
	Additional Monthly Customer Charge	
	5/8" meter \$ 35.90	
	1" meter 50.90	
	1 1/2" meter 62.90	
	2" meter 82.90	
Non-Residential Inside City rate	For wastewater service furnished to premises entirely within the corporate limits of the City of Knoxville:	7,711
	Commodity Charge	
	First 2 100 Cubic Feet Per Month at \$1.00 Per 100 Cubic Feet	
	Next 8 100 Cubic Feet Per Month at \$12.95 Per 100 Cubic Feet	
	Next 90 100 Cubic Feet Per Month at \$11.55 Per 100 Cubic Feet	
	Next 300 100 Cubic Feet Per Month at \$9.90 Per 100 Cubic Feet	
	Next 4,600 100 Cubic Feet Per Month at \$8.05 Per 100 Cubic Feet	
	Next 5,000 100 Cubic Feet Per Month at \$4.75 Per 100 Cubic Feet	
	Additional Monthly Customer Charge	
	5/8" meter \$ 35.90	
	1" meter 50.90	
	1 1/2" meter 62.90	
	2" meter 82.90	
	3" meter 161.00	
	4" meter 264.00	
	6" meter 562.00	
	8" meter 977.00	
	10" meter 1,481.00	
	12" meter 2,182.00	

See accompanying Independent Auditor's Report

Knoxville Utilities Board Wastewater Division
Statistical Information – Schedule of Current Rates in Force
June 30, 2021
(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: auto; margin-right: auto;"> <tr> <td style="padding-right: 20px;">First</td> <td style="padding-right: 20px;">2</td> <td>100 Cubic Feet Per Month at \$1.90 Per 100 Cubic Feet</td> </tr> <tr> <td>Over</td> <td>2</td> <td>100 Cubic Feet Per Month at \$9.30 Per 100 Cubic Feet</td> </tr> </table> <div style="text-align: center; margin-top: 10px;">Additional Monthly Customer Charge</div> <table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="padding-right: 20px;">5/8" meter</td> <td style="padding-right: 20px;">\$</td> <td>39.90</td> </tr> <tr> <td>1" meter</td> <td></td> <td>53.90</td> </tr> <tr> <td>1 1/2" meter</td> <td></td> <td>70.90</td> </tr> <tr> <td>2" meter</td> <td></td> <td>90.90</td> </tr> </table>	First	2	100 Cubic Feet Per Month at \$1.90 Per 100 Cubic Feet	Over	2	100 Cubic Feet Per Month at \$9.30 Per 100 Cubic Feet	5/8" meter	\$	39.90	1" meter		53.90	1 1/2" meter		70.90	2" meter		90.90	8,727																														
First	2	100 Cubic Feet Per Month at \$1.90 Per 100 Cubic Feet																																																
Over	2	100 Cubic Feet Per Month at \$9.30 Per 100 Cubic Feet																																																
5/8" meter	\$	39.90																																																
1" meter		53.90																																																
1 1/2" meter		70.90																																																
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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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2021, 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 25, 2021.

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 may exist that have not been identified.

Board of Commissioners
Wastewater Division of the Knoxville Utilities Board
Knoxville, Tennessee

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 25, 2021

**Knoxville Utilities Board Wastewater Division
Schedule of Findings and Questioned Costs
June 30, 2021**

Section I -- Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements:	No

Section II -- Financial Statement Findings

None reported.

Section III -- Findings Required by the State of Tennessee Audit Manual

None reported.

Section IV -- Summary Schedule of Prior Year Audit Findings

Not applicable as there were no prior year findings reported.