Knoxville Utilities Board

Consolidated

Financial Statements and Supplemental Information
June 30, 2018 and 2017

Knoxville Utilities Board
Index
June 30, 2018 and 2017

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Independent Auditors' 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, 2018 and 2017, 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, 2018 and 2017, 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.

Change in Accounting Principle

As discussed in Note 13 to the financial statements, effective July 1, 2017, KUB adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to that matter.

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 27 and the required supplementary information on pages 70 through 74 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 audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), 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 supplemental information on Schedule 3 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, 2018, 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, 2018

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 ending June 30, 2018 activities, resulting changes and current known facts, and should be read in conjunction with KUB's consolidated financial statements.

Consolidated Highlights

System Highlights

As of June 30, 2018, KUB served 459,797 customers. KUB added 3,493 new customers in fiscal year 2018, representing growth of less than one percent.

KUB's electric system experienced a record peak in demand of 1,328 megawatt hours in February 2015. KUB's electric system had a strong year for reliability with only 1.77 hours of service interruption for the average customer in fiscal year 2018. The natural gas system's peak demand occurred January 2018 at 140,204 dekatherms. The previous natural gas system peak was 136,356 dekatherms in February 2015.

The first of three-annual rate increases for each Division previously adopted by the KUB Board went into effect in fiscal year 2018. These rate increases provide additional revenue to help fund each system's respective Century II infrastructure program.

KUB's electric system was impacted by a storm event in May 2017 that resulted in a cost of $1.2 million to the system. KUB received $0.9 million in reimbursements in fiscal year 2018 from the Federal Emergency Management Agency (FEMA) to offset the cost of the 2017 event.

KUB's energy sales in fiscal year 2018 were impacted by a colder winter in Knoxville. Natural gas sales increased approximately 20.8 percent from the prior year, while milder temperatures in the spring and summer months offset electric sales volumes from the cold winter.

KUB's Compressed Natural Gas (CNG) Public Fueling Station opened in fiscal year 2017 to promote clean burning fuel in the Knoxville area. It joined 13 other CNG stations in Tennessee cities.

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

KUB's natural gas system was named to the American Public Gas Association's (APGA) System Operational Achievement Recognition (SOAR) Program, reflecting KUB's focus on system integrity, continuous improvement, safety and employee development.

KUB's treatment plants continue to meet high standards of operation. KUB's Kuwahee, Eastbridge, Loves Creek, and Fourth Creek wastewater treatment plants were awarded Operational Excellence awards from the Tennessee Kentucky Water Environment Association for having one or less permit violations within the 2017 calendar year. The treatment plants additionally won awards at various levels based on performance from the National Association of Clean Water Agencies for peak performance. The Eastbridge wastewater treatment plant achieved a Platinum award for continued outstanding compliance performance over multiple years. Loves Creek wastewater treatment plant won a Gold Award for having zero violations in calendar year 2017. Kuwahee and Fourth Creek wastewater treatment plants won Silver Awards for having one violation in 2017.

KUB continued to maintain Platinum certification with the National Biosolids Partnership following a rigorous review process and independent audit that was conducted in December 2017. (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.

KUB's Century II programs were resumed in 2011, after a break due to the economic recession. At that time, the KUB Board endorsed ten-year funding plans for the electric and water systems, which included a combination of rate increases and debt issues to fully fund the Century II programs. The Board adopted three years of electric and water rate increases to help fund those plans. All three of those rate increases, adopted in 2011, have gone into effect.

In 2013, the Board extended the same long-term funding approach for Century II to include the natural gas and wastewater systems, although the Wastewater Division had maintained a ten-year funding plan since the inception of the federal Consent Decree in 2005. The Board formally endorsed and adopted by resolution ten-year funding plans for the natural gas and wastewater systems, which included a combination of rate increases and debt issues.

In April 2014, KUB management provided the Board an updated assessment of the overall condition of each utility system, including a recommendation for annual rate increases for each division for the next three fiscal years. In June 2014, the Board approved the three annual rate increases for all KUB Divisions, of which all three rate increases have gone into effect.

The natural gas system South Loop project was completed in October 2015, which included the installation of a new 8-mile transmission main in the southwest portion of KUB's service territory. The South Loop provides additional system capacity to meet the increased natural gas demands of the University of Tennessee, in addition to other potential growth opportunities in that portion of KUB's gas service territory.

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. The deployment is funded in large part by debt issues and system revenues. As of June 30, 2018, KUB completed the second year of the advanced meter deployment. KUB replaced approximately 40 percent of its electric meters, installed network communication devices on 33 percent of its gas meters, and replaced 46 percent of its water meters, spending approximately $41.9 million on the Grid Modernization deployment.

In June 2017, the Board adopted the next three annual rate increases for all KUB Divisions. The first of the three approved electric rate increases went into effect in October 2017, generating $10.9 million in additional annual revenue. The remaining two electric rate increases are effective in October 2018 and October 2019 and are expected to provide an additional $11.2 million and $5.7 million in annual revenue, respectively, to assist with the funding of the Electric Division. The first of the three approved gas rate increases went into effect in October 2017, generating $2.2 million in additional annual revenue. The remaining two gas rate increases are effective in October 2018 and October 2019 and are expected to provide an additional $2.3 million each in annual revenue to assist with the funding of the Gas Division. The first of the three approved water rate increases went into effect July 2017 generating $3.1 million of additional annual Water Division revenue, while the July 2018 and July 2019 rate increases are expected to provide an additional $3.1 million and $3.3 million in annual revenue, respectively, to help fund the Water Division. The first of the three approved wastewater rate increases went into effect in July 2017, generating $4.3 million in additional annual revenue. The remaining two rate increases are effective in July 2018 and July 2019 and are expected to provide an additional $4.2 million and $4.5 million in annual revenue, respectively, to assist with the funding of the Wastewater Division.

In fiscal year 2017, KUB completed the transition to a new disinfection system at the Mark B. Whitaker (MBW) Water Treatment plant.

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 $126 million in various redundant facilities at the site of its existing Mark B. Whitaker Water Treatment Plant over the next 11 years.

For the fiscal year, KUB stayed on track with its overall Century II capital budget and production goals. The electric system replaced 2,418 poles and 15 miles of underground electric cable. In the natural gas system, 6 miles of gas steel main were replaced. In the water system, 6.4 miles of galvanized water main and 6.6 miles of cast iron water main were replaced. In the wastewater system, 16 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 by June 30, 2018 and at the Kuwahee treatment plant by June 30, 2021. KUB successfully completed the installation of the BEHRC system at the Fourth Creek treatment plant ahead of schedule in April 2018. Work is currently ongoing at the Kuwahee treatment plant and remains on schedule for completion before the deadline of June 30, 2021. The total cost of such improvements is estimated to be approximately $58 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, 2018, the Wastewater Division had issued $530 million in bonds to fund 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 effective October 2014, October 2015 and October 2016 and three 5 percent rate increases 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 approximately 368.8 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 83 percent reduction in SSOs.

As of June 30, 2018, the Wastewater Division had completed its 14th full year under the Consent Decree, spending $536.9 million on capital investments to meet Consent Decree requirements.

Financial Highlights

Fiscal Year 2018 Compared to Fiscal Year 2017

KUB's consolidated Change in Net Position increased $63.6 million in fiscal year 2018. A restatement to the fiscal year 2018 beginning net position, based on a change in method of accounting for Other Post-Employment Benefits (OPEB), increased the total net position by an additional $4.5 million. The change resulted in a total increase of $68.1 million in KUB's net position. Comparatively, net position increased by $36.1 million in fiscal year 2017.

Operating revenue increased $46 million or 6 percent, the result of additional revenues from system rate increases and a 20.8 percent increase in natural gas sales volumes. Purchased energy expense (power and natural gas) increased $16.4 million or 3.6 percent, the combined effect of $4.1 million increase in purchased power cost and an increase of $12.3 million in purchased gas cost, reflecting higher base wholesale TVA rates and customer demand. Margin from sales (operating revenue less purchased energy expense) was up $29.6 million or 9.6 percent compared with the prior fiscal year.

Operating expenses (excluding purchased power and purchased gas expense) increased $0.1 million. Operating and maintenance (O&M) expenses were $6.5 million or 5 percent lower than the previous year. Depreciation expense increased $5.6 million or 7.8 percent. Taxes and tax equivalents increased $1 million or 3 percent, reflecting higher plant in service levels.

Interest income was $1.9 million more than the prior fiscal year. Interest expense increased $1.5 million or 3.7 percent, reflecting the interest costs on new revenue bonds issued during fiscal year 2018 to fund system capital improvements offset by savings on refunding of outstanding bonds.

Capital contributions decreased $1.5 million, the result of less assets contributed by developers.

Total plant assets (net) increased $72.7 million or 4 percent over the last fiscal year.

Long-term debt represented 50.8 percent of KUB's consolidated capital structure, compared to 51 percent last fiscal year. Capital structure equals long-term debt (including the current and long-term portion of revenue bonds and notes), plus net position.

Fiscal Year 2017 Compared to Fiscal Year 2016

KUB's consolidated net position increased $36.1 million. This increase was $2.1 million more than the prior year's change in net position.

Operating revenue increased $36.1 million or 4.9 percent, the result of lower natural gas sales volumes offset in part by additional revenues from system rate increases and a modest increase in billable wastewater volumes and a 5.2 percent increase in billed water sales. Purchased energy expense (power and natural gas) increased $21.3 million or 4.8 percent, the combined effect of $18.8 million increase in purchased power cost and an increase of $2.5 million in purchased gas cost, reflecting higher TVA rates and natural gas commodity prices. Margin from sales (operating revenue less purchased energy expense) was up $14.8 million or 5 percent compared with the prior fiscal year.

Operating expenses (excluding purchased power and purchased gas expense) increased $13 million or 5.8 percent. Operating and maintenance (O&M) expenses were $7.3 million or 5.9 percent higher than the previous year. Depreciation expense increased $3.7 million or 5.3 percent. Taxes and tax equivalents increased $2 million or 6.5 percent, reflecting higher plant in service levels.

Interest income was $0.8 million more than the prior fiscal year. Interest expense increased $1.3 million or 3.4 percent, reflecting the interest costs on new revenue bonds issued during fiscal year 2017 to fund system capital improvements.

Capital contributions increased $0.8 million, the result of more assets contributed by developers.

Total plant assets (net) increased $82.2 million or 4.7 percent over the last fiscal year.

Long-term debt represented 51 percent of KUB's consolidated capital structure, compared to 50.4 percent last fiscal year. Capital structure equals long-term debt (including the current and long-term portion of revenue bonds and notes), plus net position.

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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.

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

(in thousands of dollars)	2018	2017	2016
Current, restricted and other assets	$ 424,562	$ 350,320	$ 318,650
Capital assets, net	1,897,995	1,825,293	1,743,105
Deferred outflows of resources	25,544	33,495	34,235
Total assets and deferred outflows of resources	2,348,101	2,209,108	2,095,990
Current and other liabilities	169,966	167,533	159,519
Long-term debt outstanding	1,097,096	1,037,622	972,365
Deferred inflows of resources	14,259	5,268	1,512
Total liabilities and deferred inflows of resources	1,281,321	1,210,423	1,133,396
Net position			
Net investment in capital assets	794,383	786,361	772,012
Restricted	19,436	17,977	16,201
Unrestricted	252,961	194,347	174,381
Total net position	$ 1,066,780	$ 998,685	$ 962,594

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.

Impacts and Analysis

Current, Restricted and Other Assets

Fiscal Year 2018 Compared to Fiscal Year 2017

Current, restricted and other assets increased $74.2 million or 21.2 percent. This increase reflects a $36.8 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments), an increase in the actuarially determined net pension asset of $19.7 million, an increase in accounts receivable of $7.7 million, an increase of $5.3 million in operating contingency reserves and an increase in inventories of $4.7 million. Fiscal year 2017's $3.8 million under recovery of wholesale gas costs was collected from customers in fiscal year 2018 through adjustments to rates via the Purchased Gas Adjustment.

Fiscal Year 2017 Compared to Fiscal Year 2016

Current, restricted and other assets increased $31.7 million or 9.9 percent. This increase reflects a $15 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments), an increase in inventories of $8 million primarily from Grid Modernization materials, an increase of $3.6 million in operating contingency reserves, a $2.5 million increase in other current assets, and an increase in accounts receivable of $1.5 million. KUB under recovered its wholesale gas costs by $3.7 million in fiscal year 2017 compared to a $2.2 million under recovery in fiscal year 2016. The under recovery of costs will be collected from customers next fiscal year through adjustments to rates via the Purchased Gas Adjustment.

An offset to the increases was the under recovery of $1.4 million in purchased power costs from electric system customers through its Purchased Power Adjustment mechanism in fiscal year 2016, as compared to a $4 million over recovery in fiscal year 2017. Fiscal year 2016's under recovery of costs was collected from customers during fiscal year 2017 through adjustments to rates via the Purchased Power Adjustment.

Capital Assets

Fiscal Year 2018 Compared to Fiscal Year 2017

Capital assets (net) increased $72.7 million or 4 percent. Major capital expenditures (reflected in both plant additions and work in progress) in fiscal year 2018 included $31.3 million for various electric distribution system improvements, $26.7 million related to wastewater Century II projects, $12.4 million for water plant and system improvements, $10.1 million for Grid Modernization and advanced metering, including Supervisory Control and Data Acquisition (SCADA) system upgrades, $8.9 million for utility asset replacements and relocations for the gas and water system to accommodate Tennessee Department of Transportation (TDOT) highway improvement projects and $8.6 million for pole replacements for the electric system.

Fiscal Year 2017 Compared to Fiscal Year 2016

Capital assets (net) increased $82.2 million or 4.7 percent. Major capital expenditures (reflected in both plant additions and work in progress) in fiscal year 2017 included $34.4 million for various electric distribution system improvements, $30.9 million related to wastewater Century II projects, $9.2 million for water plant and system improvements, $8.3 million for pole replacements for the electric system, $7.7 million for water main replacement, $7.3 million for construction of gas mains and service extensions, $6.2 million for utility asset replacements and relocations for the gas and water system to accommodate Tennessee Department of Transportation (TDOT) highway improvement projects, and $5.2 million for trucks and equipment.

Deferred Outflows of Resources

Fiscal Year 2018 Compared to Fiscal Year 2017

Deferred outflows of resources decreased $8 million compared to the prior year, reflecting a decrease in pension outflow of $7.1 million and a $1.5 million decrease in unamortized bonds refunding costs offset by a $0.7 increase in OPEB outflow when compared to the prior fiscal year.

Fiscal Year 2017 Compared to Fiscal Year 2016

Deferred outflows of resources decreased $0.7 million compared to the prior year, reflecting a decrease in pension outflow of $1.2 million offset by a $0.5 million increase in unamortized bonds refunding costs when compared to the prior fiscal year.

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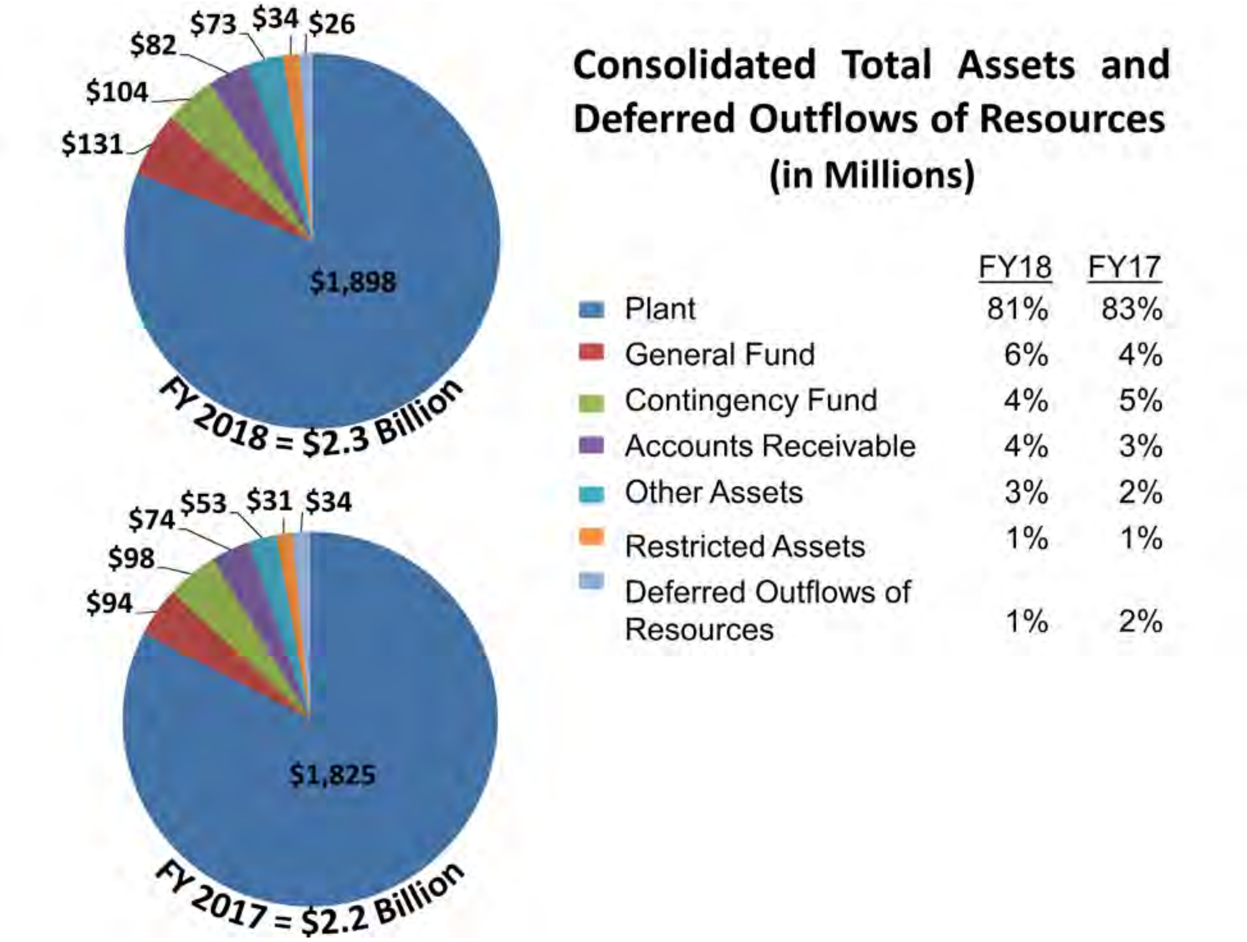

Consolidated Total Assets and Deferred Outflows of Resources (in Millions)

	FY18	FY17
Plant	81%	83%
General Fund	6%	4%
Contingency Fund	4%	5%
Accounts Receivable	4%	3%
Other Assets	3%	2%
Restricted Assets	1%	1%
Deferred Outflows of Resources	1%	2%

Current and Other Liabilities

Fiscal Year 2018 Compared to Fiscal Year 2017

Current and other liabilities increased $2.4 million or 1.5 percent compared to the prior fiscal year. This reflects an increase in the current portion of revenue bonds of $2.8 million, an increase of $1.7 million in accrued expenses, an increase of $1.6 million in customer advances for construction and an increase in accrued interest on revenue bonds of $1.1 million. KUB over recovered $4.7 million in wholesale power costs from its customers in fiscal year 2018, as compared to a $4 million over recovery in fiscal year 2017. 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. KUB over recovered $1.5 million in wholesale gas costs from its customers in fiscal year 2018, as compared to an under recovery in fiscal year 2017. This over recovery of costs will be flowed back to KUB's gas customers during the next fiscal year through adjustments to rates via the Purchased Gas Adjustment.

These increases were offset by a decline in accounts payable of $5.6 million. The outstanding balance on TVA conservation loans declined by $1.8 million, as KUB ceased issuance of any new loans in fiscal year 2016.

Fiscal Year 2017 Compared to Fiscal Year 2016

Current and other liabilities increased $8 million or 5 percent compared to the prior fiscal year. This reflects an increase of $6.5 million in accounts payable, an increase in the current portion of revenue bonds of $3 million, and an increase in accrued interest on revenue bonds of $0.2 million. Purchased power cost was also over recovered by $4 million. The over recovery of costs will be flowed back to KUB's electric customers during fiscal year 2018 through adjustments to rates via the Purchased Power Adjustment.

These increases were offset by a decline in the actuarially determined net pension obligation of $5 million and accrued expenses were $0.9 million lower than the prior fiscal year. The outstanding balance on TVA conservation loans declined by $2.2 million as KUB ceased issuance of any new loans in fiscal year 2016.

Long-term Debt

Fiscal Year 2018 Compared to Fiscal Year 2017

Long-term debt increased $59.5 million or 5.7 percent. Revenue bonds totaling $97 million were sold in August 2017 and were offset by the scheduled repayment of debt and bond refunding issuances. During the fiscal year, $34.7 million of bond debt was repaid, which included principal payments from the August 2017 revenue bond issuance.

Fiscal Year 2017 Compared to Fiscal Year 2016

Long-term debt increased $65.3 million or 6.7 percent. Revenue bonds totaling $97 million were sold in July 2016. Also in July 2016, revenue refunding bonds of $20.9 were sold and in March 2017, $48.8 million in revenue refunding bonds were sold to refinance bonds sold in 2009 and 2005, respectively. The additional issuances offset by the defeased bonds and schedule debt repayments accounted for the change in long-term debt. During the fiscal year, $31.9 million of bond debt was repaid, which included additional principal payments required from the July 2016 revenue bond issuance.

Deferred Inflows of Resources

Fiscal Year 2018 Compared to Fiscal Year 2017

Deferred inflows increased $9 million compared to the prior fiscal year primarily due to differences in pension inflows.

Fiscal Year 2017 Compared to Fiscal Year 2016

Deferred inflows increased $3.8 million compared to the prior fiscal year due to differences in pension inflows.

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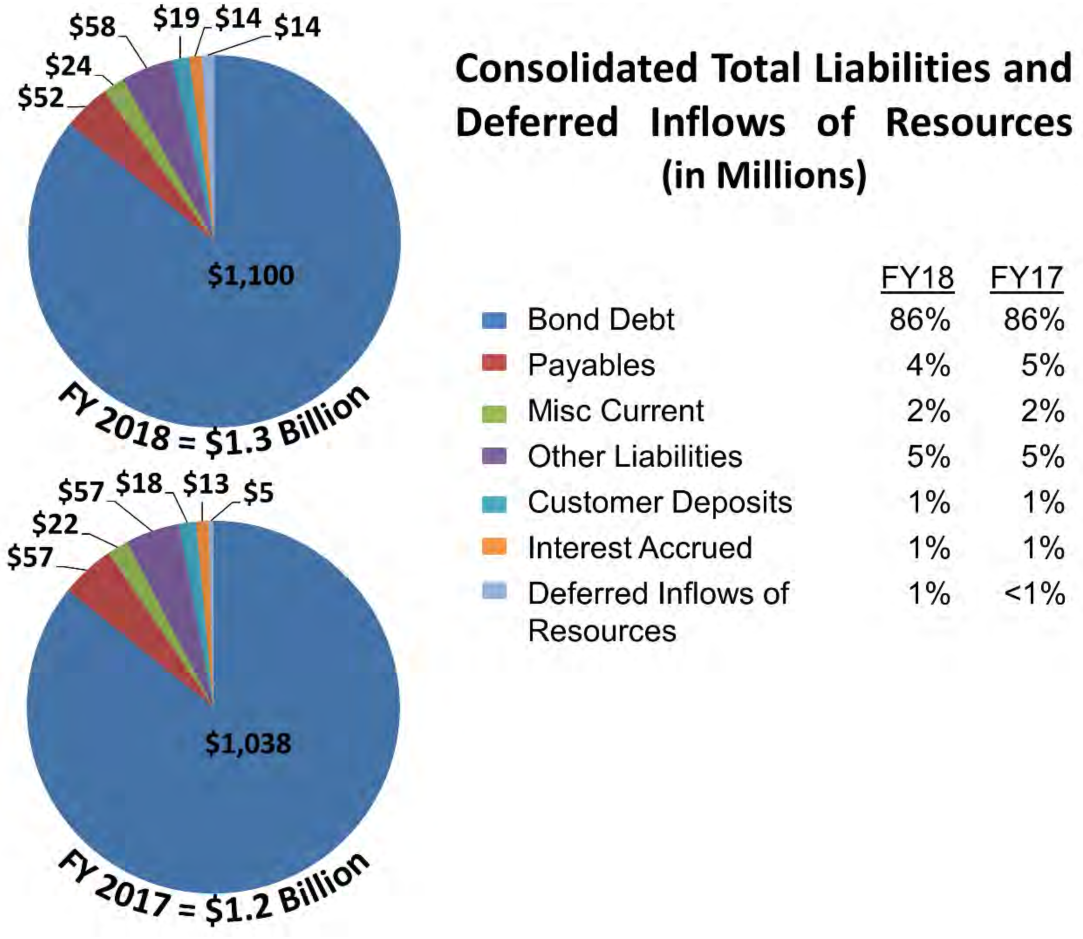

Consolidated Total Liabilities and Deferred Inflows of Resources (in Millions)

	FY18	FY17
🟦 Bond Debt	86%	86%
🟥 Payables	4%	5%
🟩 Misc Current	2%	2%
🟪 Other Liabilities	5%	5%
🟦 Customer Deposits	1%	1%
🟧 Interest Accrued	1%	1%
🟦 Deferred Inflows of Resources	1%	<1%

Net Position

Fiscal Year 2018 Compared to Fiscal Year 2017

Unrestricted net position increased $58.6 million or 30.2 percent compared to the previous fiscal year, reflecting a $36.8 million increase in general fund cash. Net investment in capital assets increased $8 million or 1 percent, the result of net capital assets increasing $72.7 million and a $62.3 million increase in current portion of revenue bonds and total long-term debt. Restricted net position increased $1.5 million compared to the prior year.

Fiscal Year 2017 Compared to Fiscal Year 2016

Net position increased by $36.1 million in fiscal year 2017. Unrestricted net position increased $20 million or 11.4 percent compared to the previous fiscal year, reflecting a $15 million increase in general fund cash. Net investment in capital assets increased $14.3 million or 1.9 percent, the result of net capital assets increasing $82.2 million and a $68.3 million increase in current portion of revenue bonds and total long-term debt. Restricted net position increased $1.8 million compared to the prior year.

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)	**2018**	**2017**	**2016**
Operating revenues	$ 815,544	$ 769,496	$ 733,362
Less: Purchased energy expense	477,038	460,594	439,301
Margin from sales	338,506	308,902	294,061
Operating expenses			
Treatment	15,951	16,211	16,618
Distribution and collection	63,868	65,309	59,536
Customer service	13,327	14,151	13,893
Administrative and general	30,891	34,897	33,239
Depreciation	77,666	72,022	68,370
Taxes and tax equivalents	34,504	33,483	31,440
Total operating expenses	236,207	236,073	223,096
Operating income	102,299	72,829	70,965
Interest income	4,063	2,140	1,388
Interest expense	(41,962)	(40,470)	(39,143)
Other income/(expense)	(1,296)	(416)	(408)
Change in net position before capital contributions	63,104	34,083	32,802
Capital contributions	467	2,008	1,170
Change in net position	$ 63,571	$ 36,091	$ 33,972

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.

- 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/(expenses) 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 2018 Compared to Fiscal Year 2017

KUB's consolidated Change in Net Position increased $63.6 million in fiscal year 2018. A restatement to the fiscal year 2018 beginning net position, based on a change in method of accounting for OPEB, increased the total net position by an additional $4.5 million. The change resulted in a total increase of $68.1 million in KUB's net position. Comparatively, net position increased by $36.1 million in fiscal year 2017.

Fiscal Year 2017 Compared to Fiscal Year 2016

KUB's consolidated net position increased $36.1 million. This increase was $2.1 million more than the prior year's change in net position.

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Margin from Sales

Fiscal Year 2018 Compared to Fiscal Year 2017

Operating revenue was $46 million or 6 percent higher than the previous fiscal year. Both electric and natural gas sales were impacted by a colder winter than the previous fiscal year. Electric Division operating revenue increased $13.6 million due to the result of additional revenue from KUB's electric rate increase, the flow through of TVA rate adjustments, and the flow through of prior year over recovered purchased power costs to electric customers. Gas Division revenue increased $22.6 million for the fiscal year, the result of a 20.8 percent increase in billed sales due to the colder winter and additional revenue generated from the gas rate increase. Water Division revenue increased $3.6 million, the net result of additional revenue from the water rate increase and a 2.1 percent decline in billed water sales volumes. Wastewater Division revenue was $6.2 million higher than the previous year due to additional revenue from the wastewater rate increase offset by a 0.2 percent decrease in billable wastewater volumes.

Wholesale energy expense increased $16.4 million or 3.6 percent. Purchased power expense increased $4.1 million compared to last year, reflecting higher wholesale rates from TVA. Purchased gas expense was $12.3 million higher, reflecting higher customer demand for the fiscal year.

Margin from sales (operating revenue less purchased energy expense) increased $29.6 million compared to the previous year. The increase reflects additional revenue from the electric, natural gas, water, and wastewater rate increases and higher natural gas sales volumes.

Fiscal Year 2017 Compared to Fiscal Year 2016

Operating revenue was $36.1 million or 4.9 percent higher than the previous fiscal year. Both electric and natural gas sales were impacted by another extremely mild winter. Electric Division operating revenue increased $24.5 million due to the result of additional revenue from KUB's one percent electric rate increase, the flow through of TVA rate adjustments, and the flow through of prior year under recovered purchased power costs to electric customers. Gas Division revenue increased $3.4 million for the fiscal year, the net result of 2.5 percent lower billed sales due to the warmer winter offset by additional revenue generated from the gas rate increase. Water Division revenue increased $3.3 million, the result of additional revenue from the water rate increase and a 5.2 percent increase in billed water sales volumes. Wastewater Division revenue was $4.8 million higher than the previous year due to additional revenue from the wastewater rate increase offset by a 0.3 percent decrease in billable wastewater volumes.

Wholesale energy expense increased $21.3 million or 4.8 percent. Purchased power expense increased $18.8 million compared to last year, reflecting higher wholesale rates from TVA. Purchased gas expense was $2.5 million higher, reflecting higher commodity prices for natural gas offset by overall lower customer demand for the fiscal year.

Margin from sales (operating revenue less purchased energy expense) increased $14.8 million compared to the previous year. The increase reflects additional revenue from the electric, natural gas, water, and wastewater rate increases offset by lower natural gas sales volumes.

Operating Expenses

Fiscal Year 2018 Compared to Fiscal Year 2017

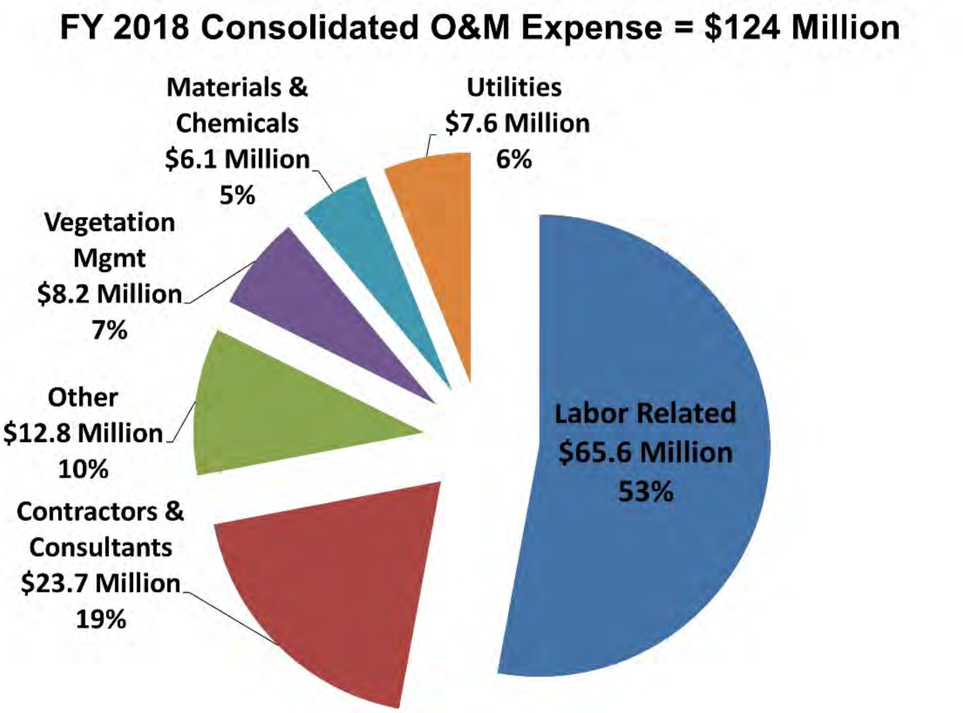
Operating expenses (excluding wholesale purchased energy expense) increased $0.1 million compared to fiscal year 2017. Operating expenses include operations and maintenance (O&M) expense, depreciation, and taxes/tax equivalents. O&M expenses can be further classified as treatment, distribution and collection, customer service, and administrative and general.

- Treatment expenses were $0.3 million lower than the prior year, reflecting lower outside contractor and consultant expenses for the wastewater system.

- Distribution and collection expenses decreased $1.4 million or 2.2 percent, primarily due to less outside contractor use and lower labor related expenses.

- Customer service expenses decreased $0.8 million or 5.8 percent, primary due to less outside contractor use.

- Administrative and general expenses decreased $4 million or 11.5 percent, primarily due to a decrease in labor related expenses.



- Depreciation expense increased $5.6 million or 7.8 percent. KUB added $156.7 million in assets during fiscal year 2017. A full year of depreciation expense was recorded on these capital investments and a partial year of depreciation expense was incurred on $145.3 million in assets placed in service during fiscal year 2018.

- Taxes and tax equivalents increased $1 million or 3 percent due to increased plant in service levels. 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 2017 Compared to Fiscal Year 2016

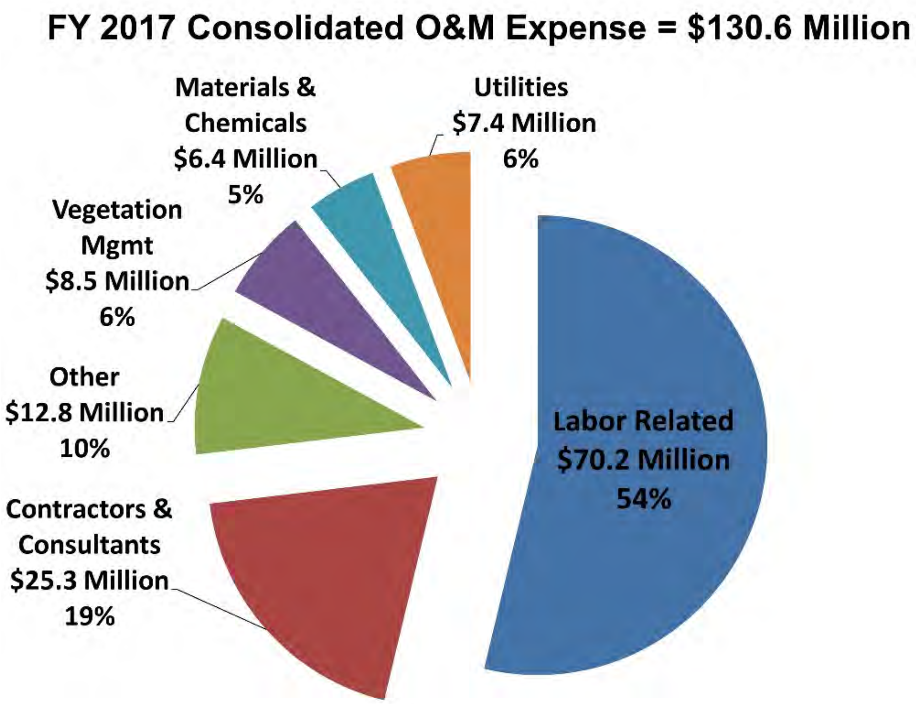
Operating expenses (excluding wholesale purchased energy expense) increased $13 million or 5.8 percent compared to fiscal year 2016. Operating expenses include operations and maintenance (O&M) expense, depreciation, and taxes/tax equivalents. O&M expenses can be further classified as treatment, distribution and collection, customer service, and administrative and general.

- Treatment expenses were $0.4 million lower than the prior year, reflecting lower outside contractor and consultant expenses for the wastewater system.

- Distribution and collection expenses increased $5.8 million or 9.7 percent, primarily due to increased labor related expenses, outside contractor use, and costs related to storm events.

- Customer service expenses rose $0.2 million or 1.9 percent.

- Administrative and general expenses increased $1.7 million or 5 percent, primarily due to an increase in labor related expenses.



- Depreciation expense increased $3.7 million or 5.3 percent. KUB added $213.7 million in assets during fiscal year 2016. A full year of depreciation expense was recorded on these capital investments and a partial year of depreciation expense was incurred on $156.7 million in assets placed in service during fiscal year 2017.

- Taxes and tax equivalents increased $2 million or 6.5 percent due to increased plant in service levels. 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.

Other Income and Expense

Fiscal Year 2018 Compared to Fiscal Year 2017

Interest income increased $1.9 million compared to the prior fiscal year, reflecting increases in short-term interest rates over the prior fiscal year.

Interest expense increased $1.5 million or 3.7 percent, reflecting the net effect of interest expense from new revenue bonds sold during the fiscal year and savings on refunding of outstanding bonds.

Other income (net) decreased $0.9 million, primarily due to the prior year recognition of $0.9 million in non-operating income for the reimbursement by FEMA to offset the cost of restoration expenses related to the May 2017 storm.

Capital contributions by developers were $1.5 million lower due to less donated assets compared to the prior fiscal year.

Fiscal Year 2017 Compared to Fiscal Year 2016

Interest income increased $0.8 million compared to the prior fiscal year, reflecting modest increases in short-term interest rates over the prior fiscal year.

Interest expense increased $1.3 million or 3.4 percent, reflecting interest expense from new bonds issued during fiscal year 2017.

Other income (net) was consistent with the prior fiscal year. Future reimbursements by FEMA of $0.9 million were recognized as non-operating income in fiscal year 2017 for the May 2017 storm.

Capital contributions by developers were $0.8 million higher than last fiscal year.

Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

(in thousands of dollars)		**2018**		**2017**		**2016**
Production Plant (Intakes)	$	57	$	58	$	58
Pumping and Treatment Plant		204,756		196,884		194,450
Distribution and Collection Plant						
Mains and metering	$	825,318	$	804,007	$	755,850
Services and meters		129,275		108,974		92,121
Electric station equipment		54,695		53,178		56,487
Poles, towers and fixtures		127,343		113,640		104,867
Overhead conductors		99,761		90,886		84,937
Line transformers		61,446		60,424		59,587
Other accounts		185,945		196,598		195,751
Total Distribution & Collection Plant	**$**	1,483,783	**$**	1,427,707	**$**	1,349,600
General Plant		55,713		58,881		55,791
Total Plant Assets	**$**	1,744,309	**$**	1,683,530	**$**	1,599,899
Work In Progress		153,686		141,763		143,206
Total Net Plant	$	1,897,995	$	1,825,293	$	1,743,105

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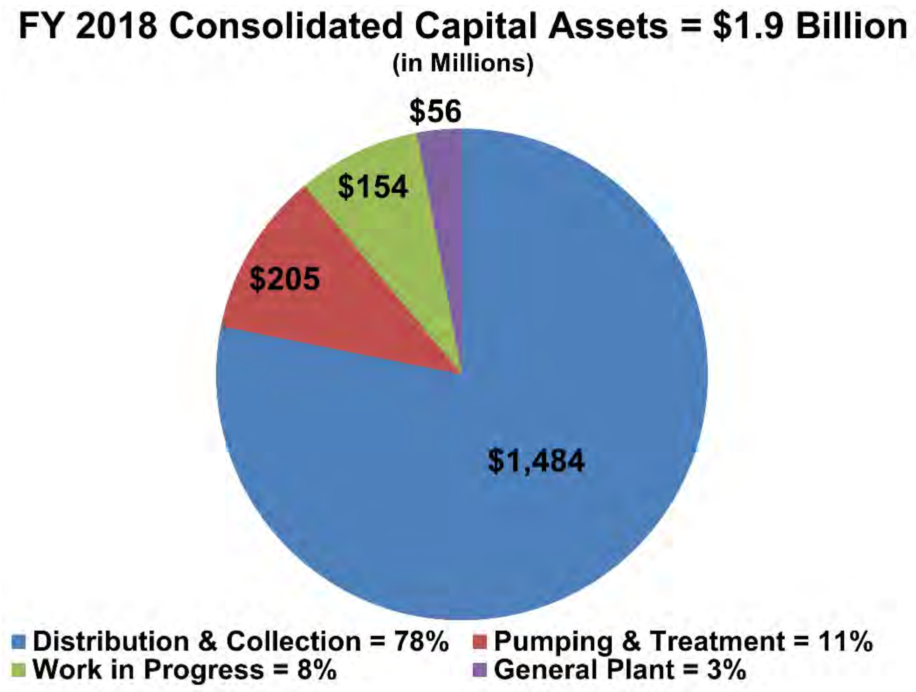
Fiscal Year 2018 Compared to Fiscal Year 2017

As of June 30, 2018, KUB had $1.9 billion invested in capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of $72.7 million or 4 percent over the end of the last fiscal year.

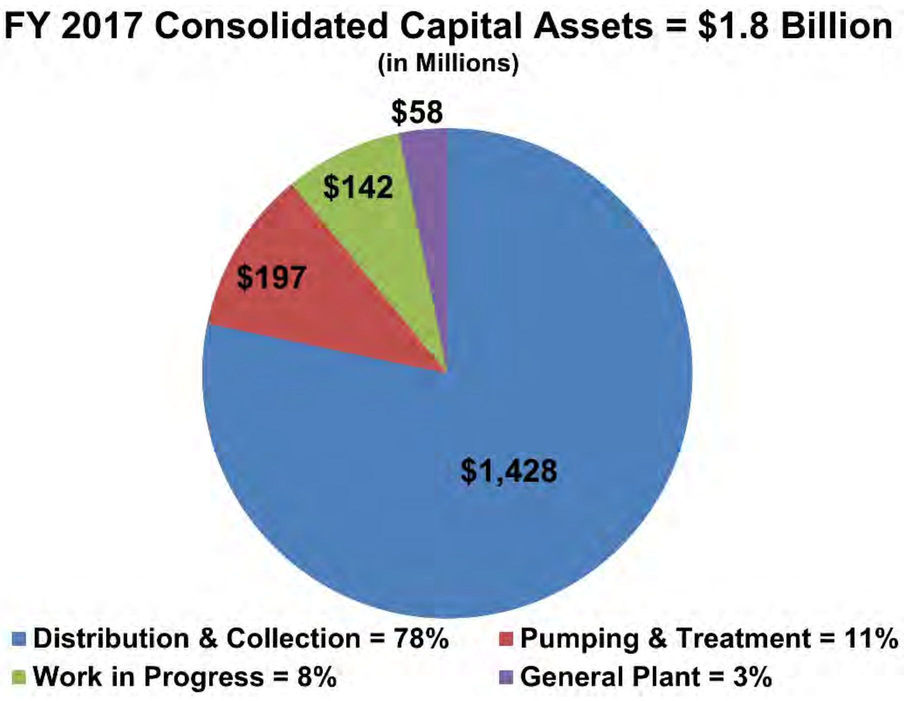


Major capital asset additions during the year were as follows:

- $31.3 million for various electric distribution system improvements
- $26.7 million related to wastewater Century II projects
  - $12.9 million for wastewater treatment plant upgrades
  - $7.2 million for sewer mini-basin rehabilitation and replacement
  - $4.9 million for sewer trunk line rehabilitation and replacement
  - $1.7 million for pump station construction and improvements
- $12.4 million for water plant and system improvements
- $10.1 million for Grid Modernization and advanced metering, including SCADA system upgrades, for the electric, gas and water systems
- $8.9 million for replacement and relocation of utility assets for the gas and water system to accommodate TDOT highway improvement projects
- $8.6 million for pole replacements for the electric system

Fiscal Year 2017 Compared to Fiscal Year 2016

As of June 30, 2017, KUB had $1.8 billion invested in capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of $82.2 million or 4.7 percent over the end of the last fiscal year.



Major capital asset additions during the year were as follows:

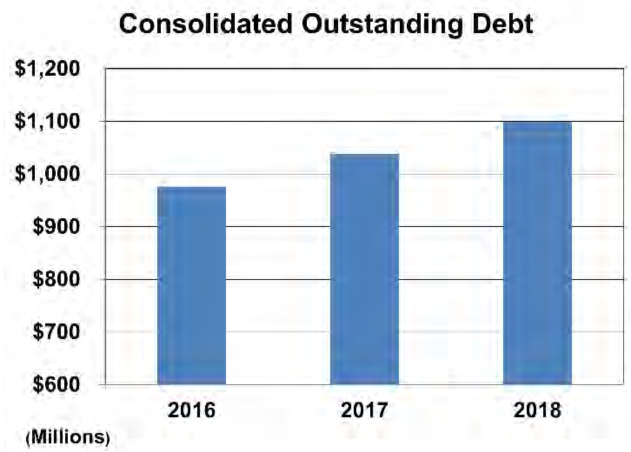
- $34.4 million for various electric distribution system improvements
- $30.9 million related to wastewater Century II projects
  - $12.4 million for wastewater treatment plant upgrades
  - $10.6 million for sewer trunk line rehabilitation and replacement
  - $5.3 million for sewer mini-basin rehabilitation and replacement
  - $2.6 million for pump station construction and improvements
- $9.2 million for water plant and system improvements
- $8.3 million for pole replacements for the electric system
- $7.7 million for main replacement for the water system
- $7.3 million for construction of gas mains and service extensions
- $6.2 million for replacement and relocation of utility assets for the gas and water system to accommodate TDOT highway improvement projects
- $5.2 million for trucks and equipment

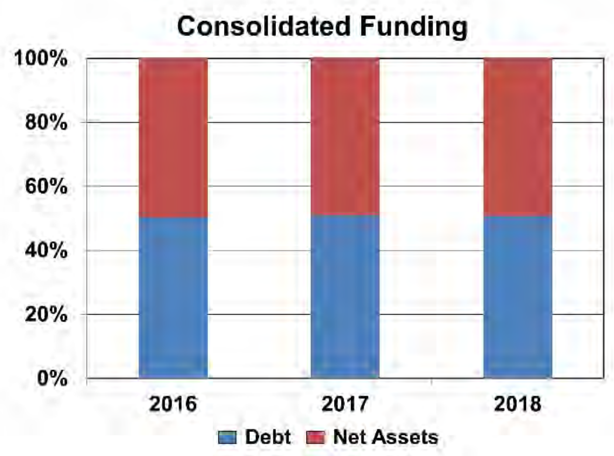
Debt Administration

KUB's outstanding debt was $1.1 billion at June 30, 2018. Debt as a percentage of capital structure was 50.8 percent in 2018, 51 percent in 2017, and 50.4 percent at the end of fiscal year 2016.

Outstanding Debt
As of June 30

(in thousands of dollars)	**2018**	**2017**	**2016**
Revenue bonds	$ 1,099,795	$ 1,037,500	$ 976,430
Total outstanding debt	$ 1,099,795	$ 1,037,500	$ 976,430





KUB will pay $425.4 million in principal payments over the next ten years, representing 38.7 percent of outstanding bonds.

Fiscal Year 2018 Compared to Fiscal Year 2017

As of June 30, 2018, KUB had $1.1 billion in outstanding debt (including the current portion of revenue bonds) compared to $1.04 billion last year, an increase of $62.3 million. The increase is attributable to new revenue bonds issued during the fiscal year offset by the scheduled repayment of debt. KUB's weighted average cost of debt as of June 30, 2018 was 3.81 percent (3.60 percent including the impact of Build America Bonds rebates).

KUB sold $40 million in electric system revenue bonds in August 2017 for the purpose of funding electric system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.08 percent.

KUB sold $12 million in gas system revenue bonds in August 2017 for the purpose of funding gas system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.07 percent.

KUB sold $20 million in water system revenue bonds in August 2017 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 3.05 percent.

KUB sold $25 million in wastewater system revenue bonds in August 2017 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 3.08 percent.

KUB's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2018, Standard & Poor's rated the revenue bonds of the Water Division AAA, the Electric and Wastewater Divisions AA+ and the revenue bonds of 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 2017 Compared to Fiscal Year 2016

As of June 30, 2017, KUB had $1.04 billion in outstanding debt (including the current portion of revenue bonds) compared to $976.4 million last year, an increase of $61.1 million. KUB's weighted average cost of debt as of June 30, 2017 was 3.85 percent (3.62 percent including the impact of Build America Bonds rebates).

KUB sold $40 million in electric system revenue bonds in July 2016 for the purpose of funding electric system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.75 percent.

KUB sold $23.4 million in electric system revenue refunding bonds in March 2017 for the purpose of refinancing existing electric system bonds at lower interest rates. KUB will realize a total debt service savings of $3.2 million over the life of the bonds ($2.8 million on a net present value basis). The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.18 percent.

KUB sold $12 million in gas system revenue bonds in July 2016 for the purpose of funding gas system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.78 percent.

KUB sold $8.1 million in gas system revenue refunding bonds in March 2017 for the purpose of refinancing existing gas system bonds at lower interest rates. KUB will realize a total debt service savings of $1.2 million over the life of the bonds ($1 million on a net present value basis). The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.09 percent.

KUB sold $25 million in water system revenue bonds in July 2016 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 2.72 percent.

KUB sold $20.9 million in water system revenue refunding bonds in July 2016 for the purpose of refinancing existing debt at lower interest rates. KUB will realize a total debt service savings of $2.5 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 2.07 percent.

KUB sold $5.3 million in water system revenue refunding bonds in March 2017 for the purpose of refinancing existing debt at lower interest rates. KUB will realize a total debt service savings of $0.7 million over the life of the bonds ($0.6 million on a net present value basis). The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.14 percent.

KUB sold $20 million in wastewater system revenue bonds in July 2016 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 2.72 percent.

KUB sold $12 million in wastewater system revenue refunding bonds in March 2017 for the purpose of refinancing existing wastewater system bonds at lower interest rates. KUB will realize a total debt service savings of $1.4 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 1.95 percent.

KUB's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2017, Standard & Poor's rated the revenue bonds of the Water Division AAA, the Electric and Wastewater Divisions AA+ and the revenue bonds of the Gas Division AA. Moody's Investors Service rated the bonds of the Electric, Gas and Wastewater Divisions Aa2.

As part of the rating process for the $25 million in water revenue bonds and $20.9 million in water revenue refunding bonds, Moody's upgraded its rating on KUB's water system bonds to Aa1 from Aa2. Aa1 is the second to highest bond credit rating assigned by Moody's Investors Service. In its formal rating report, Moody's stated "the upgrade to Aa1 reflects the well-managed financial operations of the water system that continues to provide for solid debt service coverage and liquidity, a mature service area, and a manageable debt profile." The AAA bond rating from Standard and Poor's was reaffirmed. In its formal rating report on the water bonds, Standard and Poor's noted "based on our financial management assessment we view KUB to be '1' on a scale of 1-6, with '1' being the strongest."

Impacts on Future Financial Position

KUB anticipates a net increase of 3,550 customers during fiscal year 2019.

In June 2017, the KUB Board adopted the next three years of rate increases for all four utility Divisions to help fund the ongoing Century II infrastructure programs for each system. The second of those rate increases go into effect during fiscal year 2019.

The second approved electric rate increase will be effective October 2018. The rate increase will provide $11.2 million in additional annual Electric Division revenue.

The second approved natural gas rate increase will be effective October 2018. The rate increase will result in $2.3 million in additional annual Gas Division revenue.

The second approved water rate increase will be effective July 2018. The rate increase will result in additional annual Water Division revenue of $3.1 million.

The second approved wastewater rate increase will be effective July 2018. The rate increase will provide additional annual Wastewater Division revenue of $4.2 million.

KUB sold $40 million in electric system revenue bonds in August 2018 for the purpose of funding electric system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.42 percent.

KUB sold $8 million in gas system revenue bonds in August 2018 for the purpose of funding gas system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.49 percent.

KUB sold $20 million in water system revenue bonds in August 2018 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 3.46 percent.

KUB sold $12 million in wastewater system revenue bonds in August 2018 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 3.49 percent.

All ratings by Standard & Poor's and Moody's Investors Service were reaffirmed as part of the issuance process for the aforementioned bonds.

KUB long-term debt includes $123.8 million of 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 6.6 percent. Any future actions by Congress may also affect the anticipated rebates for future fiscal years.

The Pension Plan actuarial valuation for the Plan year ending December 31, 2017 resulted in an actuarially determined contribution of $3,156,661 for the fiscal year ending June 30, 2019, based on the Plan's current funding policy. Subsequent to June 30, 2018, the actuarial valuation for the Plan year ending December 31, 2018 was completed. The actuarial valuation resulted in an actuarially determined contribution of $2,585,824 for the fiscal year ending June 30, 2020, based on the Plan's current funding policy. For the Plan year ending December 31, 2018, the Plan's actuarial funded ratio was 107.84 percent.

The OPEB Plan actuarial valuation as of January 1, 2017 resulted in an actuarially determined contribution of zero for the fiscal year ending June 30, 2019, based on the Plan's current funding policy. Subsequent to June 30, 2018, the actuarial valuation as of January 1, 2018 was completed. The actuarial valuation resulted in an actuarially determined contribution of $311,324 for the fiscal year ending June 30, 2020, based on the Plan's current funding policy. The Plan's actuarial funded ratio was 102.78 percent.

GASB Statement No. 83, *Certain Asset Retirement Obligations,* is effective for fiscal years beginning after June 15, 2018. GASB Statement No. 84, *Fiduciary Activities*, is effective for fiscal years beginning after December 15, 2018. GASB Statement No. 87, *Leases*, is effective for fiscal years beginning after December 15, 2019. GASB Statement No. 88, *Certain Disclosure Related to Debt, Including Direct Borrowings and Direct Placements,* is effective for fiscal years beginning after June 15, 2018. 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, 2019. 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 2018.

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 ending June 30, 2018 and 2017. 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, 2018 and 2017

	2018	2017
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	$ 128,217,924	$ 78,955,536
Short-term investments	2,485,400	14,967,295
Short-term contingency fund investments	30,057,546	43,754,509
Other current assets	2,862,353	3,395,190
Accrued interest receivable	123,231	78,019
Accounts receivable, less allowance of uncollectible accounts of $681,624 in 2018 and $652,627 in 2017	82,097,279	74,433,839
Inventories	23,191,810	18,475,991
Prepaid expenses	866,295	868,425
Gas storage	7,037,629	7,884,634
Total current assets	276,939,467	242,813,438
Restricted assets:		
Bond funds	33,506,454	30,864,965
Other funds	21,446	31,434
TVA contract proceeds	-	74,619
Total restricted assets	33,527,900	30,971,018
Plant in service	2,616,728,074	2,522,407,685
Less accumulated depreciation	(872,419,331)	(838,877,792)
	1,744,308,743	1,683,529,893
Retirement in progress	2,855,990	2,070,321
Construction in progress	150,829,851	139,692,725
Net plant in service	1,897,994,584	1,825,292,939
Other assets:		
Net pension asset	19,778,372	123,941
Net OPEB asset	3,751,068	-
Long-term contingency fund investments	73,744,762	54,728,134
TVA conservation program receivable	4,301,001	6,022,815
Under recovered purchased gas cost	-	3,744,086
Other	12,519,454	11,916,691
Total other assets	114,094,657	76,535,667
Total assets	2,322,556,608	2,175,613,062
Deferred outflows of resources:		
Pension outflow	1,947,863	9,090,810
OPEB outflow	662,384	-
Unamortized bond refunding costs	22,933,336	24,403,793
Total deferred outflows of resources	25,543,583	33,494,603
Total assets and deferred outflows of resources	$ 2,348,100,191	$ 2,209,107,665

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

Knoxville Utilities Board
Consolidated Statements of Net Position
June 30, 2018 and 2017

	2018	2017
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	$ 36,845,000	$ 34,055,000
Sales tax collections payable	1,373,433	1,309,383
Accounts payable	51,528,545	57,143,487
Accrued expenses	22,420,724	20,709,745
Customer deposits plus accrued interest	19,239,531	18,447,639
Accrued interest on revenue bonds	14,092,280	12,994,768
Total current liabilities	145,499,513	144,660,022
Other liabilities:		
TVA conservation program	4,431,219	6,236,061
Accrued compensated absences	8,497,960	9,074,278
Customer advances for construction	4,927,837	3,295,196
Net pension liability - QEBA	280,341	185,077
Over recovered purchased power cost	4,706,715	3,957,673
Over recovered purchased gas cost	1,466,723	-
Other	155,411	124,777
Total other liabilities	24,466,206	22,873,062
Long-term debt:		
Revenue bonds	1,062,950,000	1,003,445,000
Unamortized premiums/discounts	34,146,236	34,177,284
Total long-term debt	1,097,096,236	1,037,622,284
Total liabilities	1,267,061,955	1,205,155,368
Deferred inflows of resources:		
Pension inflow	13,937,341	5,267,517
OPEB inflow	321,637	-
Total deferred inflows of resources	14,258,978	5,267,517
Total liabilities and deferred inflows of resources	1,281,320,933	1,210,422,885
Net position		
Net investment in capital assets	794,382,860	786,361,325
Restricted for:		
Debt service	19,414,174	17,870,197
Other	21,446	106,053
Unrestricted	252,960,778	194,347,205
Total net position	1,066,779,258	998,684,780
Total liabilities, deferred inflows, and net position	$ 2,348,100,191	$ 2,209,107,665

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, 2018 and 2017

	2018	2017
Operating revenues		
Electric	$ 553,212,568	$ 539,569,078
Gas	114,248,463	91,610,079
Water	53,836,154	50,234,004
Wastewater	94,246,807	88,082,619
Total operating revenues	815,543,992	769,495,780
Operating expenses		
Purchased power	421,104,855	417,004,982
Purchased gas	55,933,211	43,589,444
Treatment	15,951,179	16,211,491
Distribution and collection	63,867,520	65,309,186
Customer service	13,327,372	14,150,687
Administrative and general	30,890,738	34,897,376
Provision for depreciation	77,665,810	72,022,197
Taxes and tax equivalents	34,504,209	33,482,117
Total operating expenses	713,244,894	696,667,480
Operating income	102,299,098	72,828,300
Non-operating revenues (expenses)		
Contributions in aid of construction	9,219,259	4,328,656
Interest and dividend income	4,062,762	2,139,753
Interest expense	(41,961,682)	(40,468,883)
Amortization of debt costs	170,641	(204,369)
Write-down of plant for costs recovered through contributions	(9,219,259)	(4,328,656)
Other	(1,466,504)	(211,826)
Total non-operating revenues (expenses)	(39,194,783)	(38,745,325)
Change in net position before capital contributions	63,104,315	34,082,975
Capital contributions	467,468	2,007,985
Change in net position	63,571,783	36,090,960
Net position, beginning of year, as previously reported	998,684,780	962,593,820
Change in method of accounting for OPEB	4,522,695	-
Net position, beginning of year, as restated	1,003,207,475	962,593,820
Net position, end of year	$ 1,066,779,258	$ 998,684,780

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

Knoxville Utilities Board
Consolidated Statements of Cash Flows
June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash receipts from customers	$ 802,335,926	$ 765,083,462
Cash receipts from other operations	13,706,479	12,678,406
Cash payments to suppliers of goods or services	(557,199,870)	(544,820,189)
Cash payments to employees for services	(58,281,778)	(58,297,150)
Payment in lieu of taxes	(29,925,260)	(29,127,961)
Cash receipts from collections of TVA conservation loan program participants	2,013,974	2,525,020
Cash payments for TVA Conservation loan program	(2,097,002)	(2,571,436)
Net cash provided by operating activities	170,552,469	145,470,152
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	97,923,109	172,176,578
Principal paid on revenue bonds and notes payable	(34,705,000)	(105,590,000)
Interest paid on revenue bonds and notes payable	(40,864,170)	(40,229,968)
Acquisition and construction of plant	(167,594,705)	(158,857,535)
Changes in bond funds, restricted	(2,641,489)	(1,929,520)
Customer advances for construction	1,695,867	1,071,598
Proceeds received on disposal of plant	5,963,771	242,537
Cash received from developers and individuals for capital purposes	9,219,259	4,328,656
Net cash used in capital and related financing activities	(131,003,358)	(128,787,654)
Cash flows from investing activities:		
Purchase of investment securities	(52,384,101)	(44,751,575)
Maturities of investment securities	58,785,002	25,633,000
Interest received	3,909,645	2,024,860
Other property and investments	(597,269)	420,356
Net cash provided by (used in) investing activities	9,713,277	(16,673,359)
Net increase (decrease) in cash and cash equivalents	49,262,388	9,139
Cash and cash equivalents, beginning of year	78,955,536	78,946,397
Cash and cash equivalents, end of year	$ 128,217,924	$ 78,955,536
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 102,299,098	$ 72,828,300
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	80,114,269	74,082,536
Changes in operating assets and liabilities:		
Accounts receivable	(7,663,441)	(1,488,519)
Inventories	(4,715,819)	(7,951,162)
Prepaid expenses	849,135	143,757
TVA conservation program receivable	1,721,814	2,130,377
Other assets	701,622	(2,709,883)
Sales tax collections payable	64,050	70,867
Accounts payable and accrued expenses	(7,795,795)	5,635,936
TVA conservation program payable	(1,804,842)	(2,176,792)
Unrecovered purchased power cost	749,042	5,337,316
Underrecovered gas costs	5,210,809	(1,565,433)
Customer deposits plus accrued interest	791,892	1,311,748
Other liabilities	30,635	(178,896)
Net cash provided by operating activities	$ 170,552,469	$ 145,470,152
Noncash capital activities:		
Acquisition of plant assets through developer contributions	$ 467,468	$ 2,007,985

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

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 June 2015, the GASB issued GASB Statement No. 75 (Statement No. 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Statement addresses reporting by governments that provide OPEB to their employees. Statement No. 75 is effective for fiscal years beginning after June 15, 2017.

In March 2017, the GASB issued GASB Statement No. 85 (Statement No. 85), *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. Statement No. 85 is effective for fiscal years beginning after June 15, 2017.

In May 2017, the GASB issued GASB Statement No. 86 (Statement No. 86), *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The Statement provides guidance for transactions in which cash and other monetary assets acquired with existing resources or resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. Statement No. 86 is effective for fiscal years beginning after June 15, 2017.

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 $2,448,459 in fiscal year 2018 and $2,060,340 in fiscal year 2017. 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 $2,158,897 in fiscal year 2018 and $1,524,318 in fiscal year 2017.

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.

- 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.

Change in method of accounting for OPEB

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide OPEB to their employees. This standard was adopted by KUB in 2018 and resulted in a restatement of beginning net position of $4,522,695 to increase the net OPEB asset by $4,522,695 based on revised actuarial assumptions to conform with GASB 75.

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 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, 2018 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB’s measurements as of June 30, 2018 are based on a June 30, 2018 measurement date.

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, 2018 and 2017 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2018 and 2017 are based on a December 31, 2017 and 2016 measurement date, respectively. The net pension asset is $19,778,372 as of June 30, 2018 and $123,941 as of June 30, 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 (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, 2018 and 2017 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2018 and 2017 will be based on the December 31, 2017 and 2016 measurement dates. The total pension liability of the QEBA is $280,341 as of June 30, 2018 and $185,077 as of June 30, 2017.

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 Statement No. 68 and Statement No. 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.

TVA Conservation Program

KUB previously served as a fiscal intermediary for 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

KUB has evaluated events and transactions through October 25, 2018, the date these financial statements were issued, for items that should potentially be recognized or disclosed. KUB sold $40 million in electric system revenue bonds in August 2018 for the purpose of funding electric system capital improvements in fiscal year 2019. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.42 percent. Annual debt service payments including principal and interest range from $426,345 to $2,190,937 with final maturity in fiscal year 2048. KUB sold $8 million in gas system revenue bonds in August 2018 for the purpose of funding gas system capital improvements in fiscal year 2019. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.49 percent. Annual debt service payments including principal and interest range from $342,571 to $432,319 with final maturity in fiscal year 2048. KUB sold $20 million in water system revenue bonds in August 2018 for the purpose of funding water system capital improvements in fiscal year 2019. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.46 percent. Annual debt service payments including principal and interest range from $868,539 to $1,094,550 with final maturity in fiscal year 2048. KUB sold $12 million in wastewater system revenue bonds in August 2018 for the purpose of funding wastewater system capital improvements in fiscal year 2019. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.49 percent. Annual debt service payments including principal and interest range from $513,941 to $648,756 with final maturity in fiscal year 2048.

Reclassifications

Certain reclassifications have been made to the fiscal year 2017 balances to conform to fiscal year 2018 presentation.

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.

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 the KUB's electric customers. The amount of over/(under) recovered cost was $4,706,715 at June 30, 2018 and $3,957,673 at June 30, 2017.

Purchased Gas Adjustment

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

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

Under the PGA mechanism, KUB tracks the actual over/(under) recovered amount in the Over/(Under) Recovered Purchased Gas Cost accounts. These accounts are rolled into the PGA rate adjustment on June 30 of each year thereby ensuring that any over/(under) recovered amounts are passed on to KUB's gas system customers. The amount of over/(under) recovered cost was $1,466,723 at June 30, 2018 and ($3,744,086) at June 30, 2017.

Recently Issued Accounting Pronouncements

In November 2016, the GASB issued GASB Statement No. 83 (Statement No. 83), *Certain Asset Retirement Obligations*. The objective of this Statement is to define asset retirement obligations as a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations is required to perform future asset retirement activities related to its tangible capital assets to recognize a liability based on the guidance in this Statement. Statement No. 83 is effective for fiscal years beginning after June 15, 2018.

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, 2018.

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 December 15, 2019.

In April 2018, the GASB issued GASB Statement No. 88 (Statement No. 88), *Certain Disclosure Related to Debt, Including Direct Borrowings and Direct Placements.* The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. Statement No. 88 is effective for fiscal years beginning after June 15, 2018.

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, 2019.

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.

Classification of deposits and investments per Statement of Net Position:

	2018	**2017**
Current assets		
Cash and cash equivalents	$ 128,217,924	$ 78,955,536
Short-term investments	2,485,400	14,967,295
Short-term contingency fund investments	30,057,546	43,754,509
Other assets		
Long-term contingency fund investments	73,287,077	54,378,356
Restricted assets		
Bond fund	33,506,454	30,864,965
Other funds	21,446	31,434
	$ 267,575,847	$ 222,952,095

The above amounts do not include accrued interest of $457,685 in fiscal year 2018 and $349,778 in fiscal year 2017. 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, 2018:

	Deposit and Investment Maturities (in Years)		
	Fair Value	**Less Than 1**	**1-5**
Supersweep NOW and Other Deposits	$ 131,254,923	$ 131,254,923	$ -
State Treasurer's Investment Pool	8,994,072	8,994,072	-
Agency Bonds	125,573,851	32,542,947	93,030,904
Certificates of Deposits	6,784,036	6,784,036	-
	$ 272,606,882	$ 179,575,978	$ 93,030,904

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 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, 2018:

- U.S. Agency bonds of $93,030,904, 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:

	2018	**2017**
Wholesale and retail customers		
Billed services	$ 49,764,219	$ 45,629,784
Unbilled services	29,305,291	25,250,090
Other	3,709,393	4,206,592
Allowance for uncollectible accounts	(681,624)	(652,627)
	$ 82,097,279	$ 74,433,839

5. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

	2018	**2017**
Trade accounts	$ 51,528,545	$ 57,143,487
Salaries and wages	2,843,932	2,445,767
Advances on pole rental	1,225,693	2,101,729
Self-insurance liabilities	1,822,689	1,891,789
Other current liabilities	16,528,410	14,270,460
	$ 73,949,269	$ 77,853,232

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6. Long-Term Obligations

Electric	**Balance June 30, 2017**	**Additions**	**Payments**	**Defeased**	**Balance June 30, 2018**	**Amounts Due Within One Year**
W-2005 - 3.0 - 4.5%	$ 2,015,000	$ -	$ 2,015,000	$ -	$ -	$ -
Y-2009 - 2.5 - 5.0%	3,600,000	-	1,750,000	-	1,850,000	1,850,000
Z-2010 - 1.45 - 6.35%	22,615,000	-	1,330,000	-	21,285,000	1,355,000
AA-2012 - 3.0 - 5.0%	31,310,000	-	2,670,000	-	28,640,000	2,805,000
BB-2012 - 3.0 - 4.0%	32,550,000	-	700,000	-	31,850,000	725,000
CC-2013 - 3.0 - 4.0%	9,035,000	-	475,000	-	8,560,000	475,000
DD-2014 - 2.0 - 4.0%	38,625,000	-	725,000	-	37,900,000	775,000
EE-2015 - 2.0 - 5.0%	28,275,000	-	150,000	-	28,125,000	150,000
FF-2015 - 2.0 - 5.0%	34,325,000	-	700,000	-	33,625,000	725,000
GG-2016 - 2.0 - 5.0%	40,000,000	-	775,000	-	39,225,000	825,000
HH-2017 - 2.5 - 5.0%	23,445,000	-	55,000	-	23,390,000	1,890,000
II-2017 - 3.0 - 5.0%	-	40,000,000	-	-	40,000,000	700,000
Total bonds	$ 265,795,000	$ 40,000,000	$ 11,345,000	$ -	$ 294,450,000	$ 12,275,000
Unamortized Premium	12,080,941	841,629	891,528	-	12,031,042	-
Total long term debt	$ 277,875,941	$ 40,841,629	$ 12,236,528	$ -	$ 306,481,042	$ 12,275,000
Gas						
P-2010 - 3.3 - 6.2%	$ 11,460,000	$ -	$ 570,000	$ -	$ 10,890,000	$ 595,000
Q-2012 - 2.0 - 4.0%	20,580,000	-	2,125,000	-	18,455,000	2,190,000
R-2012 - 2.0 - 4.0%	9,000,000	-	425,000	-	8,575,000	425,000
S-2013 - 2.0 - 4.0%	10,860,000	-	595,000	-	10,265,000	615,000
T-2013 - 2.0 - 4.6%	23,900,000	-	500,000	-	23,400,000	500,000
U-2015 - 2.0 - 5.0%	11,580,000	-	615,000	-	10,965,000	660,000
V-2016 - 2.125 - 5.0%	11,775,000	-	225,000	-	11,550,000	250,000
W-2017 - 5.0%	8,065,000	-	675,000	-	7,390,000	670,000
X-2017 - 2.0 - 5.0%	-	12,000,000	200,000	-	11,800,000	235,000
Total bonds	$ 107,220,000	$ 12,000,000	$ 5,930,000	$ -	$ 113,290,000	$ 6,140,000
Unamortized Premium	4,671,708	222,730	383,615	-	4,510,823	-
Total long term debt	$ 111,891,708	$ 12,222,730	$ 6,313,615	$ -	$ 117,800,823	$ 6,140,000
Water						
U-2009 - 3.0 - 4.5%	$ 1,875,000	$ -	$ 925,000	$ -	$ 950,000	$ 950,000
W-2011 - 2.0 - 4.0%	22,250,000	-	550,000	-	21,700,000	550,000
X-2012 - 3.0 - 5.0%	8,150,000	-	535,000	-	7,615,000	565,000
Y-2013 - 3.0 - 4.0%	8,690,000	-	300,000	-	8,390,000	320,000
Z-2013 - 2.0 - 5.0%	23,175,000	-	500,000	-	22,675,000	525,000
AA-2014 - 2.0 - 4.0%	7,575,000	-	150,000	-	7,425,000	150,000
BB-2015 - 2.0 - 5.0%	22,735,000	-	865,000	-	21,870,000	885,000
CC-2015 - 2.0 - 4.0%	19,275,000	-	400,000	-	18,875,000	425,000
DD-2016 - 3.0 - 5.0%	24,725,000	-	475,000	-	24,250,000	500,000
EE-2016 - 2.0 - 5.0%	20,875,000	-	100,000	-	20,775,000	100,000
FF-2017 - 3.0 - 5.0%	5,310,000	-	470,000	-	4,840,000	465,000
GG-2017 - 2.125 - 5.0%	-	20,000,000	200,000	-	19,800,000	380,000
Total bonds	$ 164,635,000	$ 20,000,000	$ 5,470,000	$ -	$ 179,165,000	$ 5,815,000
Unamortized Premium	5,357,304	735,453	348,779	-	5,743,978	-
Total long term debt	$ 169,992,304	$ 20,735,453	$ 5,818,779	$ -	$ 184,908,978	$ 5,815,000
Wastewater						
2008 - 4.0 - 6.0%	$ 1,950,000	$ -	$ 1,950,000	$ -	$ -	$ -
2010 - 6.3 - 6.5%	30,000,000	-		-	30,000,000	-
2010C - 1.18 - 6.1%	63,100,000	-	1,500,000	-	61,600,000	1,550,000
2012A - 2.0 - 4.0%	13,755,000	-	985,000	-	12,770,000	970,000
2012B - 1.25 - 5.0%	61,375,000	-	1,000,000	-	60,375,000	1,050,000
2013A - 2.0 - 4.0%	111,095,000	-	635,000	-	110,460,000	660,000
2014A - 2.0 - 4.0%	28,750,000	-	475,000	-	28,275,000	475,000
2015A - 3.0 - 5.0%	129,235,000	-	2,835,000	-	126,400,000	5,010,000
2015B - 3.0 - 5.0%	28,975,000	-	475,000	-	28,500,000	500,000
2016 - 2.0 - 5.0%	19,650,000	-	450,000	-	19,200,000	450,000
2017A - 3.0 - 5.0%	11,965,000	-	1,405,000	-	10,560,000	1,460,000
2017B - 2.0 - 5.0%	-	25,000,000	250,000	-	24,750,000	490,000
Total bonds	$ 499,850,000	$ 25,000,000	$ 11,960,000	$ -	$ 512,890,000	$ 12,615,000
Unamortized Premium	12,067,331	473,638	680,576	-	11,860,393	-
Total long term debt	$ 511,917,331	$ 25,473,638	$ 12,640,576	$ -	$ 524,750,393	$ 12,615,000
Consolidated						
Total bonds	$ 1,037,500,000	$ 97,000,000	$ 34,705,000	$ -	$ 1,099,795,000	$ 36,845,000
Total unamortized premium	34,177,284	2,273,450	2,304,498	-	34,146,236	-
Total long term debt	$ 1,071,677,284	$ 99,273,450	$ 37,009,498	$ -	$ 1,133,941,236	$ 36,845,000

Electric	Balance June 30, 2016	Additions	Payments	Defeased	Balance June 30, 2017	Amounts Due Within One Year
W-2005 - 3.0 - 4.5%	$ 29,480,000	$ -	$ 1,940,000	$ 25,525,000	$ 2,015,000	$ 2,015,000
Y-2009 - 2.5 - 5.0%	5,275,000	-	1,675,000	-	3,600,000	1,750,000
Z-2010 - 1.45 - 6.35%	23,920,000	-	1,305,000	-	22,615,000	1,330,000
AA-2012 - 3.0 - 5.0%	33,850,000	-	2,540,000	-	31,310,000	2,670,000
BB-2012 - 3.0 - 4.0%	33,225,000	-	675,000	-	32,550,000	700,000
CC-2013 - 3.0 - 4.0%	9,485,000	-	450,000	-	9,035,000	475,000
DD-2014 - 2.0 - 4.0%	39,325,000	-	700,000	-	38,625,000	725,000
EE-2015 - 2.0 - 5.0%	28,425,000	-	150,000	-	28,275,000	150,000
FF-2015 - 2.0 - 5.0%	35,000,000	-	675,000	-	34,325,000	700,000
GG-2016 - 2.0-5.0%	-	40,000,000	-	-	40,000,000	775,000
HH-2017 - 2.5-5.0%	-	23,445,000	-	-	23,445,000	55,000
Total bonds	$ 237,985,000	$ 63,445,000	$ 10,110,000	$ 25,525,000	$ 265,795,000	$ 11,345,000
Unamortized Premium	9,728,282	3,222,526	697,187	172,680	12,080,941	-
Total long term debt	$ 247,713,282	$ 66,667,526	$ 10,807,187	$ 25,697,680	$ 277,875,941	$ 11,345,000
Gas						
L-2005 - 3.0 - 4.75%	$ 10,020,000	$ -	$ 725,000	$ 9,295,000	$ -	$ -
N-2007 - 4.0 - 5.0%	550,000	-	550,000	-	-	-
P-2010 - 3.3 - 6.2%	12,000,000	-	540,000	-	11,460,000	570,000
Q-2012 - 2.0 - 4.0%	22,645,000	-	2,065,000	-	20,580,000	2,125,000
R-2012 - 2.0 - 4.0%	9,400,000	-	400,000	-	9,000,000	425,000
S-2013 - 2.0 - 4.0%	11,430,000	-	570,000	-	10,860,000	595,000
T-2013 - 2.0 - 4.6%	24,400,000	-	500,000	-	23,900,000	500,000
U-2015 - 2.0 - 5.0%	11,680,000	-	100,000	-	11,580,000	615,000
V-2016 - 2.125-5.0%	-	12,000,000	225,000	-	11,775,000	225,000
W-2017 - 5.0%	-	8,065,000	-	-	8,065,000	675,000
Total bonds	$ 102,125,000	$ 20,065,000	$ 5,675,000	$ 9,295,000	$ 107,220,000	$ 5,730,000
Unamortized Premium	3,488,853	1,595,609	289,649	123,105	4,671,708	-
Total long term debt	$ 105,613,853	$ 21,660,609	$ 5,964,649	$ 9,418,105	$ 111,891,708	$ 5,730,000
Water						
S-2005 - 3.5 - 5.0%	$ 6,295,000	$ -	$ 465,000	$ 5,830,000	$ -	$ -
T-2007 - 4.0 - 5.5%	750,000	-	750,000	-	-	-
U-2009 - 3.0 - 4.5%	22,625,000	-	875,000	19,875,000	1,875,000	925,000
W-2011 - 2.0 - 4.0%	22,800,000	-	550,000	-	22,250,000	550,000
X-2012 - 3.0 - 5.0%	8,665,000	-	515,000	-	8,150,000	535,000
Y-2013 - 3.0 - 4.0%	8,970,000	-	280,000	-	8,690,000	300,000
Z-2013 - 2.0 - 5.0%	23,675,000	-	500,000	-	23,175,000	500,000
AA-2014 - 2.0 - 4.0%	7,725,000	-	150,000	-	7,575,000	150,000
BB-2015 - 2.0 - 5.0%	22,835,000	-	100,000	-	22,735,000	865,000
CC-2015 - 2.0 - 4.0%	19,650,000	-	375,000	-	19,275,000	400,000
DD-2016 - 3.0-5.0%	-	25,000,000	275,000	-	24,725,000	475,000
EE-2016 - 2.0-5.0%	-	20,875,000	-	-	20,875,000	100,000
FF-2017 - 3.0-5.0%	-	5,310,000	-	-	5,310,000	470,000
Total bonds	$ 143,990,000	$ 51,185,000	$ 4,835,000	$ 25,705,000	$ 164,635,000	$ 5,270,000
Unamortized Premium	2,702,182	3,085,193	270,448	159,623	5,357,304	-
Total long term debt	$ 146,692,182	$ 54,270,193	$ 5,105,448	$ 25,864,623	$ 169,992,304	$ 5,270,000
Wastewater						
2005 B - 3.0 - 5.0%	$ 14,635,000	$ -	$ 1,470,000	$ 13,165,000	$ -	$ -
2008 - 4.0 - 6.0%	6,550,000	-	4,600,000	-	1,950,000	1,950,000
2010 - 6.3 - 6.5%	30,000,000	-	-	-	30,000,000	-
2010C - 1.18 - 6.1%	64,500,000	-	1,400,000	-	63,100,000	1,500,000
2012A - 2.0 - 4.0%	14,595,000	-	840,000	-	13,755,000	985,000
2012B - 1.25 - 5.0%	62,350,000	-	975,000	-	61,375,000	1,000,000
2013A - 2.0 - 4.0%	111,715,000	-	620,000	-	111,095,000	635,000
2014A - 2.0 - 4.0%	29,200,000	-	450,000	-	28,750,000	475,000
2015A - 3.0 - 5.0%	129,360,000	-	125,000	-	129,235,000	2,835,000
2015B - 3.0 - 5.0%	29,425,000	-	450,000	-	28,975,000	475,000
2016 - 2.0 - 5.0%	-	20,000,000	350,000	-	19,650,000	450,000
2017A - 3.0 - 5.0%	-	11,965,000	-	-	11,965,000	1,405,000
Total bonds	$ 492,330,000	$ 31,965,000	$ 11,280,000	$ 13,165,000	$ 499,850,000	$ 11,710,000
Unamortized Premium	11,066,224	1,684,616	600,100	83,409	12,067,331	-
Total long term debt	$ 503,396,224	$ 33,649,616	$ 11,880,100	$ 13,248,409	$ 511,917,331	$ 11,710,000
Consolidated						
Total bonds	$ 976,430,000	$ 166,660,000	$ 31,900,000	$ 73,690,000	$ 1,037,500,000	$ 34,055,000
Total unamortized premium	26,985,541	9,587,944	1,857,384	538,817	34,177,284	-
Total long term debt	$ 1,003,415,541	$ 176,247,944	$ 33,757,384	$ 74,228,817	$ 1,071,677,284	$ 34,055,000

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

Fiscal Year	**Principal**	**Interest**	**Total**
2019	$ 36,845,000	$ 41,628,710	$ 78,473,710
2020	38,425,000	40,074,247	78,499,247
2021	40,015,000	38,431,897	78,446,897
2022	41,820,000	36,639,119	78,459,119
2023	43,585,000	34,766,547	78,351,547
2024-2028	224,745,000	148,077,700	372,822,700
2029-2033	206,465,000	109,347,770	315,812,770
2034-2038	180,215,000	75,560,065	255,775,065
2039-2043	185,095,000	40,815,046	225,910,046
2044-2048	97,810,000	8,896,622	106,706,622
2049-2050	4,775,000	248,975	5,023,975
Total	$ 1,099,795,000	$ 574,486,698	$ 1,674,281,698

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, 2018 these requirements had been satisfied.

During fiscal year 2006, KUB's Electric Division issued Series W 2005 bonds in part to retire certain existing debt and fund electric system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series U 2001 bonds, as such amounts mature. During fiscal year 2009, KUB's Electric Division issued Series Y 2009 bonds to fund electric system capital improvements. During fiscal year 2011, KUB's Electric Division issued series Z 2010 bonds to fund electric system capital improvements. The 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. Effective October 1, 2017 these bonds became subject to a 6.6 percent 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. During fiscal year 2012, KUB's Electric Division issued Series AA 2012 bonds to retire a portion of outstanding Series V 2004 bonds. During fiscal year 2013, KUB's Electric Division issued Series BB 2012 bonds to fund electric system capital improvements. KUB's Electric Division also issued Series CC 2013 bonds to retire a portion of outstanding Series X 2006 bonds. During fiscal year 2015, KUB's Electric Division issued Series EE 2015 bonds to retire a portion of outstanding Series Y 2009 bonds. KUB's Electric Division also issued Series DD 2014 and Series FF 2015 to fund electric system capital improvements. During fiscal year 2017, KUB's Electric Division issued Series GG 2016 bonds to fund electric system capital improvements. KUB's Electric Division also issued Series HH 2017 bonds to retire a portion of outstanding Series W 2005 bonds. During fiscal year 2018, KUB's Electric Division issued Series II 2017 bonds to fund electric system capital improvements. In prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $27.5 million at June 30, 2018, and the trust account assets are not included in the financial statements.

During fiscal year 2011, KUB's Gas Division issued Series P 2010 bonds to fund gas system capital improvements. The 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. Effective October 1, 2017, these bonds became subject to a 6.6 percent 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. During fiscal year 2012, KUB's Gas Division issued Series Q 2012 bonds to retire Series K

2004 bonds. During fiscal year 2013, KUB's Gas Division issued Series R 2012 bonds to fund gas system capital improvements. KUB's Gas Division also issued Series S 2013 bonds to retire Series M 2006 outstanding bonds. During fiscal year 2014, KUB's Gas Division issued Series T 2013 to fund gas system capital improvements. During fiscal year 2015, KUB's Gas Division issued Series U 2015 bonds to retire Series N 2007 outstanding bonds. During fiscal year 2017, KUB's Gas Division issued Series V 2016 bonds to fund gas system capital improvements. KUB's Gas Division also issued Series W 2017 bonds to retire outstanding Series L 2005 bonds. During fiscal year 2018, KUB's Gas Division issued Series X 2017 bonds to fund gas system capital improvements.

During fiscal year 2010, KUB's Water Division issued Series U 2009 bonds to fund water system capital improvements. During fiscal year 2012, KUB's Water Division issued Series W 2011 bonds to fund water system capital improvements. KUB's Water Division also issued Series X 2012 bonds to retire Series Q 2004 bonds. During fiscal year 2013, KUB's Water Division issued Series Y 2013 bonds to retire a portion of outstanding Series R 2005 bonds. During fiscal year 2014, KUB's Water Division issued Series Z 2013 bonds to fund water system capital improvements. During fiscal year 2015, KUB's Water Division issued Series BB 2015 bonds to retire a portion of outstanding Series T 2007 bonds. KUB's Water Division also issued Series AA 2014 and Series CC 2015 bonds to fund water system capital improvements. During fiscal year 2017, KUB's Water Division issued Series DD 2016 bonds to fund water system capital improvements. KUB's Water Division also issued Series EE 2016 bonds to retire a portion of outstanding Series U 2009 bonds. KUB's Water Division also issued Series FF 2017 bonds to retire outstanding Series S 2005 bonds. During fiscal year 2018, KUB's Water Division issued GG 2017 bonds to fund water system capital improvements. In prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $19.9 million at June 30, 2018, and the trust account assets are not included in the financial statements.

During fiscal year 2009, KUB's Wastewater Division issued Series 2008 bonds to fund wastewater system capital improvements. During fiscal year 2010, KUB's Wastewater Division issued Series 2010 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. Effective October 1, 2017, these bonds became subject to a 6.6 percent 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. 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. Effective October 1, 2017, these bonds became subject to a 6.6 percent 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. During fiscal year 2012, KUB's Wastewater Division issued Series 2012A bonds to retire Series 2004A bonds. During fiscal year 2013, KUB's Wastewater Division issued Series 2012B bonds to fund wastewater system capital improvements. KUB's Wastewater Division also issued Series 2013A bonds to retire a portion of outstanding Series 2005A bonds. During fiscal year 2015, KUB's Wastewater Division issued Series 2015A bonds to retire a portion of outstanding Series 2005A, Series 2007, and Series 2008 bonds. KUB's Wastewater Division also issued Series 2014A and Series 2015B bonds to fund wastewater system capital improvements. During fiscal year 2017, KUB's Wastewater Division issued Series 2016 bonds to fund wastewater system capital improvements. KUB's Wastewater Division also issued Series 2017A bonds to retire outstanding Series 2005B bonds. During fiscal year 2018, KUB's Wastewater Division issued Series 2017B bonds to fund wastewater system capital improvements.

Other liabilities consist of the following:

	Balance June 30, 2017	**Increase**	**Decrease**	**Balance June 30, 2018**
TVA conservation program	$ 6,236,061	$ 329,922	$ (2,134,764)	$ 4,431,219
Accrued compensated absences	9,074,278	16,585,797	(17,162,115)	8,497,960
Customer advances for construction	3,295,196	2,792,954	(1,160,313)	4,927,837
Other	124,777	247,352	(216,718)	155,411
	$ 18,730,312	$ 19,956,025	$ (20,673,910)	$ 18,012,427

	Balance June 30, 2016	**Increase**	**Decrease**	**Balance June 30, 2017**
TVA conservation program	$ 8,412,853	$ 469,575	$ (2,646,367)	$ 6,236,061
Accrued compensated absences	9,061,226	15,234,380	(15,221,328)	9,074,278
Customer advances for construction	2,247,599	2,267,651	(1,220,054)	3,295,196
Other	303,673	193,396	(372,292)	124,777
	$ 20,025,351	$ 18,165,002	$ (19,460,041)	$ 18,730,312

7. Lease Commitments

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

2019	$ 326,280
2020	229,300
Total operating minimum lease payments	$ 555,580

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8. Capital Assets

Capital asset activity was as follows:

	Balance June 30, 2017	Increase	Decrease	Balance June 30, 2018
Production Plant (Intakes)	$ 742,503	$ -	$ -	$ 742,503
Pumping and Treatment Plant	305,202,535	15,992,521	(2,620,577)	318,574,479
Distribution and Collection Plant				
Mains and metering	994,257,571	43,058,700	(4,366,076)	1,032,950,195
Services and meters	177,936,752	29,715,666	(5,479,886)	202,172,532
Electric station equipment	154,663,731	5,396,733	(1,681,763)	158,378,701
Poles, towers and fixtures	160,365,582	18,548,854	(2,021,696)	176,892,740
Overhead conductors	143,937,397	13,259,176	(2,031,041)	155,165,532
Line transformers	99,293,217	3,464,337	(762,671)	101,994,883
Other accounts	307,402,309	7,617,156	(26,274,336)	288,745,129
Total Distribution & Collection Plant	$ 2,037,856,559	$ 121,060,622	$ (42,617,469)	$ 2,116,299,712
General Plant	178,606,088	8,201,012	(5,695,720)	181,111,380
Total Plant Assets	$ 2,522,407,685	$ 145,254,155	$ (50,933,766)	$ 2,616,728,074
Less Accumulated Depreciation	(838,877,792)	(80,244,970)	46,703,431	(872,419,331)
Net Plant Assets	$ 1,683,529,893	$ 65,009,185	$ (4,230,335)	$ 1,744,308,743
Work In Progress	141,763,046	155,166,276	(143,243,481)	153,685,841
Total Net Plant	$ 1,825,292,939	$ 220,175,461	$ (147,473,816)	$ 1,897,994,584

	Balance June 30, 2016	Increase	Decrease	Balance June 30, 2017
Production Plant (Intakes)	$ 742,503	$ -	$ -	$ 742,503
Pumping and Treatment Plant	297,973,884	10,152,622	(2,923,971)	305,202,535
Distribution and Collection Plant				
Mains and metering	934,793,860	68,837,071	(9,373,360)	994,257,571
Services and meters	160,978,776	24,804,848	(7,846,872)	177,936,752
Electric station equipment	152,233,167	3,292,850	(862,286)	154,663,731
Poles, towers and fixtures	148,060,617	13,309,400	(1,004,435)	160,365,582
Overhead conductors	136,774,702	9,610,604	(2,447,909)	143,937,397
Line transformers	96,843,152	3,281,186	(831,121)	99,293,217
Other accounts	300,410,274	8,641,296	(1,649,261)	307,402,309
Total Distribution & Collection Plant	$ 1,930,094,548	$ 131,777,255	$ (24,015,244)	$ 2,037,856,559
General Plant	168,612,148	14,760,666	(4,766,726)	178,606,088
Total Plant Assets	$ 2,397,423,083	$ 156,690,543	$ (31,705,941)	$ 2,522,407,685
Less Accumulated Depreciation	(797,524,421)	(74,213,237)	32,859,866	(838,877,792)
Net Plant Assets	$ 1,599,898,662	$ 82,477,306	$ 1,153,925	$ 1,683,529,893
Work In Progress	143,206,489	154,828,582	(156,272,025)	141,763,046
Total Net Plant	$ 1,743,105,151	$ 237,305,888	$ (155,118,100)	$ 1,825,292,939

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, 2018 and June 30, 2017, the amount of these liabilities was $1,822,689 and $1,891,789, respectively, resulting from the following changes:

	2018	2017
Balance, beginning of year	$ 1,891,789	$ 1,758,352
Current year claims and changes in estimates	15,713,124	16,041,816
Claims payments	(15,782,224)	(15,908,379)
Balance, end of year	$ 1,822,689	$ 1,891,789

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, 2017 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). The Plan is designed to provide retirement, disability and death benefits to KUB employees. KUB administers the Plan through an Administrative Committee consisting of seven KUB employees that are appointed by KUB's President and CEO. Any amendments to the Plan involving costs not approved in the operating budget must be adopted by KUB's Board of Commissioners, upon recommendation by KUB's President and CEO. All other amendments to the Plan may be approved by KUB's President and CEO upon 60 days notification to the Board's Audit and Finance Committee. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017.

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

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

	2017	2016
Inactive plan members:		
Terminated vested participants	34	43
Retirees and beneficiaries	602	605
Active plan members	629	662
Total	1,265	1,310

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, 2017:

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 $3,756,283 and $4,816,913 for 2016 and 2015, respectively, were made during the Plan sponsor's fiscal years ending June 30, 2018 and 2017, respectively. The fiscal year 2018 contribution was determined as part of the January 1, 2016 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability or death.

Net Pension Liability

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*("GASB 68"), which requires measurement of the net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2018 and 2017 will be based on the December 31, 2017 and 2016 measurement date, respectively.

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

	2017	2016
Total pension liability	$ 207,598,733	$ 204,390,738
Plan fiduciary net position	(227,377,105)	(204,514,679)
Plan's net pension (asset) liability	$ (19,778,372)	$ (123,941)
Plan fiduciary net position as a percentage of the total pension liability	109.50%	100.06%

Changes in Net Pension Liability are as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2016	$ 204,390,738	$ 204,514,679	$ (123,941)
Changes for the year:			
Service cost	4,607,486	-	4,607,486
Interest	15,015,282	-	15,015,282
Differences between Expected and Actual Experience	(1,087,161)	-	(1,087,161)
Changes of Assumptions	(357,633)	-	(357,633)
Contributions - employer	-	4,286,597	(4,286,597)
Contributions - rollovers	-	1,482,701	(1,482,701)
Contributions - member	-	5,931	(5,931)
Net investment income	-	32,442,458	(32,442,458)
Benefit payments	(14,969,979)	(14,969,979)	-
Administrative expense	-	(385,282)	385,282
Net changes	3,207,995	22,862,426	(19,654,431)
Balances at December 31, 2017	$ 207,598,733	$ 227,377,105	$ (19,778,372)

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2017 and 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Individual entry age
Asset valuation method	5-year smoothed market
Amortization method	Level dollar closed period with 25 years remaining as of January 1, 2016 and 26 years remaining as of January 1, 2015
Discount rate	7.5%
Salary increase	From 2.80% to 5.15% for January 1, 2016 and January 1, 2015, based on years of service
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation	2.8 %

The actuarial assumptions used in the December 31, 2017 and 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013.

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, 2017 and 2016 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.

	Long Term Expected Real Rate of Return	
Asset Class	**2017**	**2016**
Domestic equity	5.0%	5.6%
Non-U.S. equity	6.6%	7.2%
Real estate equity	5.6%	6.3%
Debt securities	1.4%	1.6%
Cash and deposits	0.7%	0.6%

Discount rate

The discount rate used to measure the total pension liability was 7.5 percent as of January 1, 2017 and 2016. 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 to changes in the discount rate

The following presents the net pension liability of the Plan as of December 31, 2017, calculated using the discount rate of 7.5 percent, as well as what the Plan’s net pension liability would be if it were calculated using a discount rate that is one percent lower (6.5 percent) or one percent higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	**Current Discount Rate (7.5%)**	**1% Increase (8.5%)**
Plan's net pension liability	$ (2,624,670)	$ (19,778,372)	$ (34,742,817)

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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, 2018, KUB recognized pension expense of ($15,659).

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, 2016, this average was 5.00 years. During the measurement year, there was an experience gain of $1,087,161 with $217,432 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $869,729. Unrecognized experience gains from prior periods were $2,921,210 of which $824,819 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $2,096,391.

During the measurement year, there were no benefit changes. There was a gain due to assumption changes of $357,633 with $71,526 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $286,107. Unrecognized assumption change gains from prior periods were $2,346,307 of which $586,577 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,759,730.

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 $17,456,614. $3,491,323 of that gain was recognized in the current year and an identical amount will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were $6,682,351 of which $1,642,445 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, 2017 of ($8,925,384). 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 $1,878,146 at June 30, 2018 for employer contributions made between December 31, 2017 and June 30, 2018.

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,966,120
Changes in assumptions	-	2,045,837
Net difference between projected and actual earnings on pension plan investments	-	8,925,385
Contributions subsequent to measurement date	1,878,146	-
Total	$ 1,878,146	$ 13,937,342

$1,878,146 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, 2019. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2019	$ (3,549,235)
2020	(1,954,655)
2021	(4,653,172)
2022	(3,780,280)
Thereafter	-

For the year ended June 30, 2017, KUB recognized pension expense of $4,674,543.

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, 2015, this average was 5.00 years. During the measurement year, there was an experience gain of $2,233,762 with $446,752 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $1,787,010. Unrecognized experience gains from prior periods were $1,512,267 of which $378,067 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,134,200.

During the measurement year, there were no benefit changes. There was a gain due to assumption changes of $2,932,884 with $586,577 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $2,346,307.

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 $802,197. $160,439 of that loss was recognized in the current year and an identical amount will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were $7,522,599 of which $1,482,006 was recognized as an increase in pension expense in the current year. The combination of unrecognized investment losses 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, 2016 of $6,682,351. 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 $2,408,459 at June 30, 2017 for employer contributions made between December 31, 2016 and June 30, 2017.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,921,210
Changes in assumptions	-	2,346,307
Net difference between projected and actual earnings on pension plan investments	6,682,351	-
Contributions subsequent to measurement date	2,408,459	-
Total	$ 9,090,810	$ 5,267,517

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 not subject to cost of living adjustments.

As of June 30, 2018, there are 602 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. There are no inactive employees or retirees currently in 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.

Implementation of GASB 73

In fiscal year 2016, KUB adopted 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, 2018 and 2017 will be based on the December 31, 2017 and 2016 measurement dates, respectively.

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

	2017	**2016**
Total pension liability	$280,341	$185,077
Deferred outflows	(69,716)	-
Deferred inflows	-	-
Net impact on Statement of Net Position	$210,625	$185,077
Covered payroll	$43,309,374	$44,437,747
Total pension liability as a % of covered payroll	0.65%	0.42%

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

	Increase (Decrease) Total Pension Liability
Balances at December 31, 2016	$ 185,077
Changes for the year:	
Service cost	584
Interest	7,535
Changes of Benefits	-
Differences between Expected and Actual Experience	13,684
Changes of Assumptions	73,461
Contributions – employer	-
Contributions – rollovers	-
Contributions – member	-
Net investment income	-
Benefit payments	-
Net changes	95,264
Balances at December 31, 2017	$ 280,341

Actuarial Assumptions

The total pension liability of the QEBA was determined by an actuarial valuation as of January 1, 2017 and projected to December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Individual entry age
Asset valuation method	5-year smoothed market
Amortization method	Level dollar closed period with 24 years remaining as of January 1, 2017 and 25 years remaining as of January 1, 2016
Salary increase	From 2.80% to 5.15% for January 1, 2017 and January 1, 2016, based on years of service
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation	2.8 percent

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013.

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 3.44% at December 31, 2017.

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, 2017, calculated using the discount rate of 3.44 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 (2.44 percent) or one percent higher (4.44 percent) than the current rate:

	1% Decrease (2.44%)	Current Discount Rate (3.44%)	1% Increase (4.44%)
QEBA's total pension liability	$ 307,013	$ 280,341	$ 257,483

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

For the year ended June 30, 2018, KUB recognized pension expense of $29,527 for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA ($3,979), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [$210,625 - $185,077 + $3,979].

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, 2016, this average was 5 years. During the measurement year, there was an experience loss of $13,684 with approximately $2,737 recognized in the current year and each of the next four years, resulting in a deferred outflow of $10,947.

During the measurement year, there were no benefit changes. There was an increase in the total pension liability due to assumption changes of $73,461 with approximately $14,692 recognized in the current year and each of the next four years, resulting in a deferred outflow of $58,769.

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The table below summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 10,947	$ -
Changes in assumptions	58,769	-
Total	$ 69,716	$ -

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

Year ended June 30:	
2019	$ 17,429
2020	17,429
2021	17,429
2022	17,429
Thereafter	-

For the year ended June 30, 2017, KUB recognized pension expense of $185,077 for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA ($0), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions.

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, 2015, this average was 5 years. During the measurement year, there were no assumption changes or experience gains or losses. The benefit change of $0.2 million is due to the implementation of the QEBA. Benefit changes are reflected immediately in the total pension liability of the QEBA.

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 from 3 percent to 6 percent, depending on years of service, whether they contribute or not.

Matching contributions were previously remitted to the KUB Pension Plan (a separate defined benefit plan) in the name of the participant for employees hired prior to January 1, 2011. As of December 9, 2015, these Pension match assets moved from the KUB Pension Plan to the 401(k) Plan. Effective December 9, 2015, all matching contributions are remitted to the 401(k) Plan. The match and nonelective contributions for employees hired on or after January 1, 2011 are paid directly by KUB. KUB funded 401(k) matching contributions and nonelective contributions of $2,174,711 and $1,963,541, respectively, for the years ended June 30, 2018 and 2017.

13. Other Post-Employment Benefits (OPEB)

Description of Trust

The Knoxville Utilities Board Other Post Employment Benefits Trust (the Trust) is a single-employer Other Post Employment Benefits Plan (OPEB Plan) established by the Knoxville Utilities Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. 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:

	2018	**2017**
Retirees	562	567
Dependents of retirees	561	580
Eligible active employees	309	334
Total	1,432	1,481

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 $250 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 $250 for single coverage and $500 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, 2018:

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%

Contributions of zero and $620,015 were made to the OPEB Trust for the fiscal years ending June 30, 2018 and 2017, respectively, based on the OPEB Plan's actuarial valuations as of January 1, 2016, and 2015.

Implementation of GASB 75

In fiscal year 2018, KUB adopted 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, 2018 are based on the reporting date for the KUB Other Post-Employment Benefits Plan which is June 30, 2018. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2018 and the Total OPEB Liability as of the valuation date, January 1, 2017, updated to June 30, 2018.

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

	2018	**2017**
Total OPEB liability	$ 45,604,431	$ 44,477,738
Plan fiduciary net position	49,355,499	49,000,433
Net OPEB (asset) liability	$ (3,751,068)	$ (4,522,695)
Plan fiduciary net position as a percentage of the total OPEB liability	108.23%	110.17%

Changes in Net OPEB Liability are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2017	$ 44,477,738	$ 49,000,433	$ (4,522,695)
Changes for the year:			
Service cost	202,603	-	202,603
Interest	3,295,240	-	3,295,240
Differences between Expected and Actual Experience	1,324,769	-	1,324,769
Changes of Assumptions	(397,180)	-	(397,180)
Contributions - employer	-	-	-
Contributions - member	-	-	-
Net investment income	-	3,705,473	(3,705,473)
Benefit payments	(3,298,739)	(3,298,739)	-
Administrative expense	-	(51,668)	51,668
Net changes	1,126,693	355,066	771,627
Balances at June 30, 2018	$ 45,604,431	$ 49,355,499	$ (3,751,068)

Actuarial assumptions
The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, updated to June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate:	7.5%
Healthcare cost trend rates:	Pre-Medicare: 7.83% grading down to 4.5% over 20 years; Medicare: 6.88% grading down to 4.5% over 20 years; Administrative expenses: 3.0% per year
Salary increases:	From 2.80% to 5.15%, based on years of service
Mortality:	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation	2.8%

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013, with subsequent revisions to retirement and termination assumptions based upon a special experience study, which reflected experience through December 31, 2016.

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.

	Long Term Expected Real Rate of Return	
Asset Class	**2018**	**2017**
Domestic equity	5.1%	5.5%
International equity	6.6%	6.8%
Real estate equity	5.8%	6.0%
Debt securities	1.6%	1.4%
Cash and deposits	0.8%	0.6%

Discount rate
The discount rate used to measure the total OPEB liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate.
The following presents the net OPEB liability of the Trust as of June 30, 2018, calculated using the discount rate of 7.5 percent, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is 1 percent lower (6.5 percent) or 1 percent higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net OPEB liability (asset)	$1,172,935	$(3,751,068)	$(7,892,399)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.
The following presents the net OPEB liability of the Trust as of June 30, 2018, as well as what the Trust's net OPEB liability 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 Trend	1% Increase
Net OPEB liability (asset)	$(8,393,131)	$(3,751,068)	$1,703,576

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

For the year ended June 30, 2018, KUB recognized OPEB expense of $430,880.

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 $1,324,769 with $662,385 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 $662,384.

During the measurement year, there were no benefit changes. There was a decrease in the Total OPEB Liability due to assumption changes of $397,180 with $198,590 of that recognized in the current year and in the next year, resulting in a deferred inflow of $198,590.

The impact of investment gains or losses is recognized over a period of five year. During the measurement year, there was an investment gain of $153,809. $30,762 of that was recognized in the current year and $123,047 will become a deferred inflow of resources recognized over the next four years. The table below summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 662,384	$ -
Changes in assumptions	-	198,590
Net difference between projected and actual earnings on OPEB plan investments	-	123,047
Total	$ 662,384	$ 321,637

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

Year ended June 30:	
2019	$ 433,032
2020	(30,762)
2021	(30,762)
2022	(30,761)
Thereafter	-

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, 2018 and 2017 are summarized as follows:

	2018	**2017**
City of Knoxville		
Amounts billed by KUB for utilities and related services	$ 15,524,288	$ 15,360,561
Payments by KUB in lieu of property tax	19,144,877	18,524,684
Payments by KUB for services provided	1,114,977	2,561,261

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

	2018	**2017**
Accounts receivable	$ 991,023	$ 1,136,541

15. Natural Gas Supply Contract Commitments

For fiscal year 2018, the Gas Division hedged 50 percent of its total gas purchases via gas supply contracts. As of June 30, 2018, the Gas Division had hedged the price on approximately 7 percent of its anticipated gas purchases for fiscal year 2019.

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

	2019	2020	2021	2022	2023
Transportation					
Tennessee Gas Pipeline	$ 3,271,320	$ 1,090,440	$ -	$ -	$ -
East Tennessee Natural Gas	10,066,388	2,748,496	-	-	-
Storage					
Tennessee Gas Pipeline	1,787,976	595,992	-	-	-
East Tennessee Natural Gas	757,460	-	-	-	-
Saltville Natural Gas	1,870,560	1,483,600	1,290,120	1,290,120	967,590
Demand Total	$ 17,753,704	$ 5,918,528	$ 1,290,120	$ 1,290,120	$ 967,590

Firm obligations related to purchased gas – commodity

	2019	2020	2021	2022	2023
Baseload					
ConocoPhillips	$ 513,820	$ -	$ -	$ -	$ -
Shell Energy	1,056,168	-	-	-	-
BP Energy Company	7,107,913	1,619,500	-	-	-
CNX Gas	1,243,042	-	-	-	-
Sequent Energy	651,721				
NJR Energy Services	898,762	-	-	-	-
Commodity Total	$ 11,471,426	$ 1,619,500	$ -	$ -	$ -

The total commodity values presented here are based upon firm supply obligations with each individual natural gas supplier. The firm obligations value for ConocoPhillips, Shell Energy, and BP Energy Company are based upon firm supply obligations and locked prices with those suppliers. The firm obligations value for BP Energy Company, Sequent, CNX Gas, and NJR Energy Services are based upon firm supply obligations and the applicable NYMEX strip prices on June 30, 2018.

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.

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 by June 30, 2018 and at the Kuwahee treatment plant by June 30, 2021. KUB successfully completed the installation of the BEHRC system at the Fourth Creek treatment plant ahead of schedule in April 2018. Work is currently ongoing at the Kuwahee treatment plant and remains on schedule for completion before the deadline of June 30, 2021. The total cost of such improvements is estimated to be approximately $58 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, 2018, the Wastewater Division had issued $530 million in bonds to fund 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 effective October 2014, October 2015 and October 2016 and three 5 percent rate increases 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 approximately 368.8 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 83 percent reduction in SSOs.

As of June 30, 2018, the Wastewater Division had completed its 14th full year under the Consent Decree, spending $536.9 million on capital investments to meet Consent Decree requirements.

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17. 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

	2018			
	Electric	**Gas**	**Water**	**Wastewater**
Assets and Deferred Outflows of Resources				
Current assets	$ 130,784,113	$ 53,677,817	$ 27,346,382	$ 65,131,156
Restricted assets	17,738,339	3,499,668	4,052,965	8,236,928
Net capital assets	581,742,407	278,095,447	318,177,240	719,979,490
Other assets	43,578,498	18,210,394	18,868,526	33,437,239
Total assets	$ 773,843,357	$ 353,483,326	$ 368,445,113	$ 826,784,813
Deferred outflows of resources	4,456,959	1,437,457	3,537,637	16,111,529
Total assets and deferred outflows of resources	$ 778,300,316	$ 354,920,783	$ 371,982,750	$ 842,896,342
Liabilities and Deferred Inflows of Resources				
Current liabilities	$ 95,619,157	$ 17,331,159	$ 11,626,083	$ 20,923,114
Other liabilities	16,615,433	4,800,729	1,568,701	1,481,343
Long-term debt	294,206,042	111,660,823	179,093,978	512,135,393
Total liabilities	$ 406,440,632	$ 133,792,711	$ 192,288,762	$ 534,539,850
Deferred inflows of resources	6,844,310	2,424,026	1,853,667	3,136,975
Total liabilities and deferred inflows of resources	$ 413,284,942	$ 136,216,737	$ 194,142,429	$ 537,676,825
Net position				
Net investment in capital assets	$ 278,370,404	$ 161,294,129	$ 138,681,584	$ 216,036,743
Restricted	12,285,419	2,050,413	1,941,221	3,158,568
Unrestricted	74,359,551	55,359,504	37,217,516	86,024,206
Total net position	$ 365,015,374	$ 218,704,046	$ 177,840,321	$ 305,219,517

Condensed Statement of Net Position

	2017			
	Electric	**Gas**	**Water**	**Wastewater**
Assets and Deferred Outflows of Resources				
Current assets	$ 126,944,697	$ 37,997,762	$ 28,286,134	$ 49,584,845
Restricted assets	16,094,418	3,221,379	3,663,847	7,991,374
Net capital assets	548,723,543	271,284,847	298,532,602	706,751,947
Other assets	26,644,185	14,128,546	11,279,052	24,483,884
Total assets	$ 718,406,843	$ 326,632,534	$ 341,761,635	$ 788,812,050
Deferred outflows of resources	7,909,536	2,645,831	4,607,518	18,331,718
Total assets and deferred outflows of resources	$ 726,316,379	$ 329,278,365	$ 346,369,153	$ 807,143,768
Liabilities and Deferred Inflows of Resources				
Current liabilities	$ 95,388,231	$ 19,167,104	$ 10,304,921	$ 19,799,766
Other liabilities	16,615,024	3,047,328	1,622,907	1,587,803
Long-term debt	266,530,941	106,161,708	164,722,304	500,207,331
Total liabilities	$ 378,534,196	$ 128,376,140	$ 176,650,132	$ 521,594,900
Deferred inflows of resources	2,528,408	895,478	684,777	1,158,854
Total liabilities and deferred inflows of resources	$ 381,062,604	$ 129,271,618	$ 177,334,909	$ 522,753,754
Net position				
Net investment in capital assets	$ 275,291,471	$ 160,724,983	$ 134,010,490	$ 216,334,381
Restricted	11,360,213	1,874,535	1,732,368	3,009,134
Unrestricted	58,602,091	37,407,229	33,291,386	65,046,499
Total net position	$ 345,253,775	$ 200,006,747	$ 169,034,244	$ 284,390,014

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Condensed Statement of Revenues, Expenses and Changes in Net Position

	2018			
	Electric	**Gas**	**Water**	**Wastewater**
Operating revenues	$560,110,507	$ 114,539,188	$ 54,365,215	$ 94,715,764
Operating expenses	497,857,357	80,099,775	29,830,805	35,977,830
Provision for depreciation	35,430,800	12,717,222	10,379,928	19,137,860
Total operating expenses	533,288,157	92,816,997	40,210,733	55,115,690
Operating income	26,822,350	21,722,191	14,154,482	39,600,074
Non-operating expense	(9,351,637)	(3,813,875)	(5,985,484)	(20,043,786)
Change in net position before capital contributions	17,470,713	17,908,316	8,168,998	19,556,288
Capital contributions	119,992	20,125	49,129	278,222
Change in net position	17,590,705	17,928,441	8,218,127	19,834,510
Net position				
Beginning of year, as previously reported	345,253,775	200,006,747	169,034,244	284,390,014
Change in method of accounting for OPEB	2,170,894	768,858	587,950	994,993
Net position, beginning of year, as restated	347,424,669	200,775,605	169,622,194	285,385,007
End of year	$365,015,374	$ 218,704,046	$ 177,840,321	$ 305,219,517

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2017			
	Electric	**Gas**	**Water**	**Wastewater**
Operating revenues	$546,364,012	$ 91,868,316	$ 50,769,639	$ 88,517,210
Operating expenses	497,323,835	69,495,685	29,123,189	36,725,972
Provision for depreciation	31,450,260	12,261,903	9,792,630	18,517,403
Total operating expenses	528,774,095	81,757,588	38,915,819	55,243,375
Operating income	17,589,917	10,110,728	11,853,820	33,273,835
Non-operating expense	(8,324,347)	(4,020,718)	(5,937,091)	(20,463,169)
Change in net position before capital contributions	9,265,570	6,090,010	5,916,729	12,810,666
Capital contributions	1,420,361	-	123,840	463,784
Change in net position	10,685,931	6,090,010	6,040,569	13,274,450
Net position				
Beginning of year	334,567,844	193,916,737	162,993,675	271,115,564
End of year	$345,253,775	$ 200,006,747	$ 169,034,244	$ 284,390,014

Condensed Statement of Cash Flows

	2018			
	Electric	Gas	Water	Wastewater
Net cash provided by operating activities	$ 51,557,302	$ 35,529,580	$ 25,748,290	$ 57,717,293
Net cash used in capital and related financing activities	(50,954,932)	(18,097,897)	(21,982,580)	(39,967,945)
Net cash provided by (used in) investing activities	2,536,758	613,141	989,073	5,574,305
Net increase (decrease) in cash and cash equivalents	3,139,128	18,044,824	4,754,783	23,323,653
Cash and cash equivalents, beginning of year	37,195,215	13,391,230	9,395,231	18,973,860
Cash and cash equivalents, end of year	$ 40,334,343	$ 31,436,054	$ 14,150,014	$ 42,297,513

Condensed Statement of Cash Flows

	2017			
	Electric	Gas	Water	Wastewater
Net cash provided by operating activities	$ 58,301,306	$ 20,879,095	$ 16,704,257	$ 49,585,495
Net cash used in capital and related financing activities	(49,016,710)	(17,822,101)	(12,212,926)	(49,735,917)
Net cash provided by (used in) investing activities	(6,881,167)	(701,913)	(4,488,917)	(4,601,363)
Net increase (decrease) in cash and cash equivalents	2,403,429	2,355,081	2,414	(4,751,785)
Cash and cash equivalents, beginning of year	34,791,786	11,036,149	9,392,817	23,725,645
Cash and cash equivalents, end of year	$ 37,195,215	$ 13,391,230	$ 9,395,231	$ 18,973,860

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Knoxville Utilities Board

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

June 30, 2018

(Unaudited)

	*Year ended December 31			
	2017	**2016**	**2015**	**2014**
Total pension liability				
Service cost	$ 4,607,486	$ 4,226,985	$ 4,157,062	$ 4,092,808
Interest	15,015,282	14,966,559	14,812,784	14,698,657
Differences between expected and actual experience	(1,087,161)	(2,233,762)	(1,890,334)	-
Changes of assumptions	(357,633)	(2,932,883)	-	-
Benefit payments, including refunds of member contributions	(14,969,979)	(14,138,511)	(15,350,926)	(15,533,167)
Net change in total pension liability	3,207,995	(111,612)	1,728,586	3,258,298
Total pension liability - beginning	204,390,738	204,502,350	202,773,764	199,515,466
Total pension liability - ending (a)	$ 207,598,733	$ 204,390,738	$ 204,502,350	$ 202,773,764
Plan fiduciary net position				
Contributions - employer	$ 4,286,597	$ 5,243,146	$ 5,991,887	$ 5,908,541
Contributions - participants	1,488,632	555,075	487,546	475,854
Net investment income	32,360,219	13,788,263	(95,430)	22,292,369
Other additions	82,239	45,848	30,879	29,733
Benefit payments, including refunds of member contributions	(14,895,979)	(14,044,511)	(15,274,926)	(15,405,167)
Administrative expense	(385,282)	(441,332)	(397,160)	(378,085)
Death benefits	(74,000)	(94,000)	(76,000)	(128,000)
Net change in plan fiduciary net position**	22,862,426	5,052,489	(9,333,204)	12,795,245
Plan fiduciary net position - beginning**	204,514,679	199,462,190	208,795,394	196,000,149
Plan fiduciary net position - ending (b)**	$ 227,377,105	$ 204,514,679	$ 199,462,190	$ 208,795,394
Plan's net pension liability - ending (a) - (b)	$ (19,778,372)	$ (123,941)	$ 5,040,160	$ (6,021,630)
Plan fiduciary net position as a percentage of the total pension liability	109.53%	100.06%	97.54%	102.97%
Covered payroll	$ 43,309,374	$ 44,437,747	$ 44,446,743	$ 44,076,351
Plan's net pension liability as a percentage of covered payroll	(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.

Knoxville Utilities Board

Required Supplementary Information - Schedule of Employer Pension Contributions

June 30, 2018

(Unaudited)

	*Year ended December 31 2017	2016	2015	2014
Actuarially determined contribution	$ 4,286,597	$ 5,243,146	$ 5,991,887	$ 5,908,541
Contribution in relation to the actuarially determined contribution	4,286,597	5,243,146	5,991,887	5,908,541
Contribution deficiency	$ -	$ -	$ -	$ -
Covered payroll	$ 43,309,374	$ 44,437,747	$ 44,446,743	$ 44,076,351
Contributions as a percentage of covered payroll	9.90%	11.80%	13.48%	13.41%

Notes to Schedule:

Valuation Dates:	January 1, 2012 - 2016
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.

Key methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry age normal at January 1, 2012; Individual entry age of January 1, 2013 - 2016
Asset valuation method:	5-year smoothed market
Amortization method:	Level dollar closed period with 25 years remaining as of January 1, 2016
Discount rate:	8% at January 1, 2012 - 2013, 7.5% at January 1, 2014 - 2016
Salary increases:	From 2.58% to 7.92% for January 1, 2012 - 2013 and from 2.80% to 5.15% for January 1, 2014 - 2016, based on years of service
Mortality:	Sex distinct RP-2000 Combined Mortality projected to 2018 using Scale AA for the January 1, 2012 - 2013 valuations. Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA for the January 1, 2014 - 2016 valuations.
Inflation:	2.8 percent

* 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.

Knoxville Utilities Board

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

June 30, 2018

(Unaudited)

		*Year ended June 30 2018
Total OPEB liability		
Service cost	$	202,603
Interest		3,295,240
Differences between expected and actual experience		1,324,769
Changes of assumptions		(397,180)
Benefit payments		(3,298,739)
Net change in total OPEB liability		1,126,693
Total OPEB liability - beginning		44,477,738
Total OPEB liability - ending (a)	$	45,604,431
Plan fiduciary net position		
Contributions - employer	$	-
Net investment income		3,705,473
Benefit payments		(3,298,739)
Administrative expense		(51,668)
Net change in plan fiduciary net position		355,066
Plan fiduciary net position - beginning		49,000,433
Plan fiduciary net position - ending (b)	$	49,355,499
Net OPEB liability - ending (a) - (b)	$	(3,751,068)
Plan fiduciary net position as a percentage of the total OPEB liability		108.23%
Covered employee payroll	$	23,677,080
Net OPEB liability as a percentage of covered employee payroll		(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.

Knoxville Utilities Board
Required Supplementary Information – Schedule of Employer OPEB Contributions
June 30, 2018
(Unaudited)

	*Year ended June 30 2018
Actuarially determined contribution	$ -
Contribution in relation to the annual required contribution	-
Contribution deficiency/(excess)	$ -
Covered employee payroll	$ 23,677,080
Contributions as a percentage of covered employee payroll	0.00%

Notes to Schedule:

Valuation Date:	January 1, 2016
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, closed period with 20 years remaining as of January 1, 2016
Discount rate:	7.5%
Healthcare cost trend rate:	Pre-Medicare: 8.00% to 4.50 % grading down over 20 years Medicare: 7.00% to 4.50% grading down over 20 years Administrative expenses: 3.0% per year

* 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.

Knoxville Utilities Board
Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement
Schedule of Changes in Total Pension Liability and Related Ratios
June 30, 2018
(Unaudited)

	*Year ended December 31	
	2017	**2016**
Total pension liability		
Service cost	$ 584	$ -
Interest (includes interest on service cost)	7,535	-
Changes of benefit terms	-	185,077
Differences between expected and actual experience	13,684	-
Changes of assumptions	73,461	-
Benefit payments, including refunds of member contributions	-	-
Net change in total pension liability	95,264	185,077
Total pension liability - beginning	185,077	-
Total pension liability - ending	$ 280,341	$ 185,077
Covered payroll	$ 43,309,374	$ 44,437,747
Total pension liability as a percentage of covered payroll	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.

Knoxville Utilities Board

Supplemental Information –
Schedule of Expenditures of Federal Awards and State Financial Assistance

June 30, 2018 Schedule 1

Federal Grantor/ Pass-Through Grantor	Program Name	CFDA Number	Contract Number	Expenditures
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	34101-19618	$ 878,634
		Total Program 97.036		$ 878,634
		Total Federal Awards		$ 878,634

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 year 2017. In accordance with the requirements of CFDA 97.036, the expenditures have been reported in fiscal year 2018 when the grant was approved by the Federal Emergency Management Association. KUB did not elect to use 10% de minimis indirect cost rate.

Section I -- Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting: Material weakness(es) identified?	None reported
Significant deficiency(s) identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements:	None reported

Federal Awards

Internal control over major programs: Material weakness(es) identified?	None reported	
Significant deficiency(s) identified not considered to be material weaknesses?	None reported	
Type of auditors' report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations Part 200?	None reported	
Identification of major programs:	CFDA	Name of Program
	97.036	Disaster Grants – Public Assistance
Dollar threshold used to distinguish between Type A and Type B programs:	$750,000	
Auditee qualified as low-risk auditee?	No	

Section II -- Financial Statement Findings

None reported.

Section III -- Federal Award Findings and Questioned Costs

None reported.

Section IV – Summary Schedule of Prior Year Audit Findings

Not applicable as there were no prior year findings reported.

Section V – Corrective Action Plan

Not applicable as there were no current year findings reported.

Knoxville Utilities Board
Supplemental Information - Schedule of Insurance in Force
June 30, 2018
(Unaudited) Schedule 3

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; $1,000,000 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 - $1,500,000 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 $500,000 per individual participant.

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Report of Independent Auditors 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, 2018, 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, 2018.

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) to determine the 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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 determination of financial statement amounts. 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 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, 2018

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Report of Independent Auditors on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Report on Compliance for the Major Federal Program

We have audited the compliance of the Knoxville Utilities Board (KUB), a component unit of the City of Knoxville, Tennessee, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2018. KUB's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for KUB's major federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about KUB's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of KUB's compliance.

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Opinion

In our opinion, KUB complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of KUB is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered KUB's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of KUB's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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

Coulter & Justus, P.C.

Knoxville, Tennessee
October 25, 2018

Knoxville Utilities Board

Electric Division

Financial Statements and Supplemental Information
June 30, 2018 and 2017

Management

Mintha Roach
President and
Chief Executive Officer

Mark Walker
Senior Vice President and
Chief Financial Officer

Susan Edwards
Senior Vice President and
Chief Administrative Officer

Gabe Bolas
Senior Vice President and
Chief Engineer

Eddie Black
Senior Vice President

Derwin Hagood
Senior Vice President of Operations

Mike Bolin
Vice President

Julie Childers
Vice President

John Gresham
Vice President

Dawn Mosteit
Vice President

Paul Randolph
Vice President

Knoxville Utilities Board Electric Division
Index
June 30, 2018 and 2017

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Independent Auditors' 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, 2018 and 2017, 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, 2018 and 2017, 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.

Change in Accounting Principle

As discussed in Note 13 to the financial statements, effective July 1, 2017, the Division adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to that matter.

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 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 Schedule of Expenditures of Federal Awards and State Financial Assistance, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), 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 supplemental information on Schedules 3 through 5 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, 2018 and 2017, 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, 2018, 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, 2018

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 and the Governmental Accounting Standards Board, 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, 2018 and 2017, 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 ending June 30, 2018 activities, resulting changes and current known facts, and should be read in conjunction with the Division's financial statements.

Electric Division Highlights

System Highlights

KUB serves 206,433 electric customers over a 688 square mile service area and maintains 5,362 miles of service lines and 63 electric substations to provide 5.7 million megawatt hours to its customers annually.

KUB's electric system experienced a record peak in demand of 1,328 megawatt hours in February 2015.

KUB's electric system had a strong year for reliability with only 1.77 hours of service interruption for the average customer in fiscal year 2018.

KUB has added 5,581 electric system customers over the past three years representing annual growth of one percent. In fiscal year 2018, 1,345 customers were added.

The typical residential customer's average monthly electric bill was $106.93 as of June 30, 2018, representing a very modest $0.03 increase compared to June 30, 2017. The slight increase in the monthly bill during fiscal year 2018 was the net result of the flow through of TVA wholesale rate adjustments, previously over recovered wholesale power costs and the October 2017 electric rate increase.

KUB's electric system was impacted by a storm event in May 2017 that resulted in a cost of $1.2 million to the system. KUB received $0.9 million in reimbursements in fiscal year 2018 from the Federal Emergency Management Agency (FEMA) to offset the cost of the 2017 event.

KUB's electric system received 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 the 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.

KUB's Century II programs were resumed in 2011, after a break due to the economic recession. At that time, the KUB Board endorsed a ten-year funding plan for the Electric Division, which includes a combination of rate increases and debt issues to fully fund the electric system's Century II program.

In April 2014, KUB management provided the Board an updated assessment of the overall condition of each utility system, including a recommendation for annual rate increases for each division for the next three fiscal years.

In June 2014, the Board approved three annual rate increases for the Electric Division to support the Century II program. The July 2014, July 2015 and July 2016 rate increases each provided an additional $5 million in annual revenue to help fund the Electric Division.

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. As of June 30, 2018, KUB completed its second year of the advanced meter deployment. KUB replaced approximately 40 percent of its electric meters, spending $24.8 million on the deployment.

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 first of the three approved electric rate increases went into effect in October 2017, generating $10.9 million in additional annual revenue. The remaining two rate increases are effective in October 2018 and October 2019 and are expected to provide an additional $11.2 million and $5.7 million in annual revenue, respectively, to assist with the funding of the Electric Division.

During the fiscal year, KUB replaced 2,418 poles, exceeding the target level of 2,400, and replaced 15 miles of underground electric cable while staying on track with Century II goals and within the Electric Division's total capital budget.

Financial Highlights

Fiscal Year 2018 Compared to Fiscal Year 2017

The Division's Change in Net Position increased $17.6 million in fiscal year 2018. A restatement to the fiscal year 2018 beginning net position, based on a change in method of accounting for Other Post-Employment Benefits (OPEB), increased the total net position by an additional $2.2 million. The change resulted in a total increase of $19.8 million in the Division's net position. Comparatively, net position increased by $10.7 million in fiscal year 2017.

Operating revenue increased $13.7 million or 2.5 percent over the prior fiscal year. The increase in operating revenue was the result of additional revenue from KUB's October 2017 electric rate increase, the flow through of TVA rate adjustments, a 1.5 percent increase in billed sales and the flow through of prior year over recovered purchased power costs to KUB's electric customers. KUB flows changes to wholesale power rates directly through to its retail electric rates via its Purchased Power Adjustment.

Seventy eight percent of Electric Division sales revenue was used to purchase electric power from TVA for the fiscal year ended June 30, 2018. Purchased power expense increased $4.1 million compared to last fiscal year. Mild summer and spring months offset a colder winter in the electric system's service territory to result in a 1.5 percent increase in billed power sales compared to fiscal year 2017.

Margin on electric sales (operating revenue less purchased power expense) increased $9.6 million or 7.7 percent, reflecting additional revenue from the KUB electric rate increase.

Operating expenses (excluding purchased power expense) increased $0.4 million. Operating and maintenance (O&M) expenditures decreased $4.4 million or 7.5 percent. Depreciation expense increased $4 million or 12.7 percent. Taxes and tax equivalents were $0.8 million, or 4.7 percent, higher than the prior fiscal year.

Interest income was $0.7 million more than the prior fiscal year, due to higher investment returns. Interest expense increased $0.7 million or 7.4 percent, due to the net effect of interest expense on long-term bonds issued in August 2017 and savings on refunding of outstanding bonds.

Capital contributions decreased $1.3 million, reflecting a lower level of electric system assets provided to KUB during the fiscal year.

Total capital assets (net) increased $33 million or 6 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 2018, KUB sold $40 million in electric system revenue bonds for the purpose of funding electric system capital improvements.

Long-term debt represented 44.7 percent of the Division's capital structure as of June 30, 2018, compared to 43.5 percent last year. Capital structure equals long-term debt (including the current and long-term portion of any revenue bonds and notes) 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 3.74. Maximum debt service coverage was 3.47.

Fiscal Year 2017 Compared to Fiscal Year 2016

The Division's net position during the year increased $10.7 million compared to an $10.9 million increase last fiscal year.

Operating revenue increased $25 million or 4.8 percent over the prior fiscal year. The increase in operating revenue was the result of additional revenue from KUB's one percent electric rate increase, the flow through of TVA rate adjustments, and the flow through of prior year under recovered purchased power costs to KUB's electric customers. KUB flows changes to wholesale power rates directly through to its retail electric rates via its Purchased Power Adjustment.

Seventy nine percent of Electric Division sales revenue was used to purchase electric power from TVA for the fiscal year ended June 30, 2017. Purchased power expense increased $19.1 million compared to last fiscal year. Warmer summer and spring months offset a very mild winter in the electric system's service territory to result in a 0.3 percent increase in billed power sales compared to fiscal year 2016.

Margin on electric sales (operating revenue less purchased power expense) increased $5.9 million or 4.9 percent, reflecting additional revenue from the KUB electric rate increase.

Operating expenses (excluding purchased power expense) increased $7.3 million or 7.3 percent. Operating and maintenance (O&M) expenditures increased $4.2 million or 7.7 percent. Depreciation expense increased $2 million or 6.6 percent. Taxes and tax equivalents were $1.1 million, or 7 percent, higher than the prior fiscal year.

Interest income was $0.4 million more than the prior fiscal year. Interest expense increased $0.7 million or 7.5 percent, primarily due to interest expense on long-term bonds issued in July 2016.

Capital contributions increased $1.2 million, reflecting a higher level of electric system assets provided to KUB during the fiscal year.

Total capital assets (net) increased $37.4 million or 7.3 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 2017, KUB sold $40 million in electric system revenue bonds for the purpose of funding electric system capital improvements and also sold $23.4 million in electric system revenue refunding bonds to refinance existing electric system bonds at lower interest rates. The refunding produced total debt service savings of $3.2 million over the life of the bonds ($2.8 million on a net present value basis).

Long-term debt represented 43.5 percent of the Division's capital structure as of June 30, 2017, compared to 41.6 percent last year. Capital structure equals long-term debt (including the current and long-term portion of any revenue bonds and notes) 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 3.29. Maximum debt service coverage was 3.10.

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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.

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

(in thousands of dollars)	2018	2017	2016
Current, restricted and other assets	$ 192,101	$ 169,683	$ 157,010
Capital assets, net	581,742	548,724	511,260
Deferred outflows of resources	4,457	7,909	8,544
Total assets and deferred outflows of resources	778,300	726,316	676,814
Current and other liabilities	112,235	112,004	103,918
Long-term debt outstanding	294,206	266,531	237,603
Deferred inflows of resources	6,844	2,528	726
Total liabilities and deferred inflows of resources	413,285	381,063	342,247
Net position			
Net investment in capital assets	278,370	275,291	268,462
Restricted	12,285	11,360	10,120
Unrestricted	74,360	58,602	55,985
Total net position	$ 365,015	$ 345,253	$ 334,567

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.

Impacts and Analysis

Current, Restricted and Other Assets

Fiscal Year 2018 Compared to Fiscal Year 2017

Current, restricted and other assets increased $22.4 million or 13.2 percent. The change reflects an increase in the actuarially determined net pension asset of $9.4 million, an increase in accounts receivable of $5.3 million. an increase in inventories of $4.2 million and a net increase in operating contingency reserves of $3.4 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 $1.9 million.

Fiscal Year 2017 Compared to Fiscal Year 2016

Current, restricted and other assets increased $12.7 million or 8.1 percent. The change reflects an increase in general fund cash (consisting of cash and cash equivalents, short-term investments, and long-term investments) of $9.9 million, an increase in inventories of $4.2 million primarily due to Grid Modernization materials and a net increase in operating contingency reserves of $0.8 million.

KUB under recovered $1.4 million in purchased power costs from its customers through its Purchased Power Adjustment mechanism in fiscal year 2016, as compared to a $4 million over recovery in fiscal year 2017. Fiscal year 2016's under recovery of costs was collected from customers during fiscal year 2017 through adjustments to rates via the Purchased Power Adjustment.

Capital Assets

Fiscal Year 2018 Compared to Fiscal Year 2017

Capital assets, net of depreciation, increased $33 million or 6 percent. Major capital expenditures included $31.3 million for distribution system improvements, $8.6 million for pole replacements, $7.5 million for building improvements, $7 million for Grid Modernization including Supervisory Control and Data Acquisition (SCADA) system upgrades and $3.5 million for installation or replacement of electric services.

Fiscal Year 2017 Compared to Fiscal Year 2016

Capital assets, net of depreciation, increased $37.4 million or 7.3 percent. Major capital expenditures included $34.4 million for distribution system improvements, $8.3 million for pole replacements, $4.7 million for installation or replacement of electric services, $2.2 million for trucks and equipment, $1.8 million for upgrades to various information systems, $1.7 million for tools and equipment, $1.7 million for the purchase of property, and $1.3 million for Grid Modernization Supervisory Control and Data Acquisition (SCADA) system upgrades.

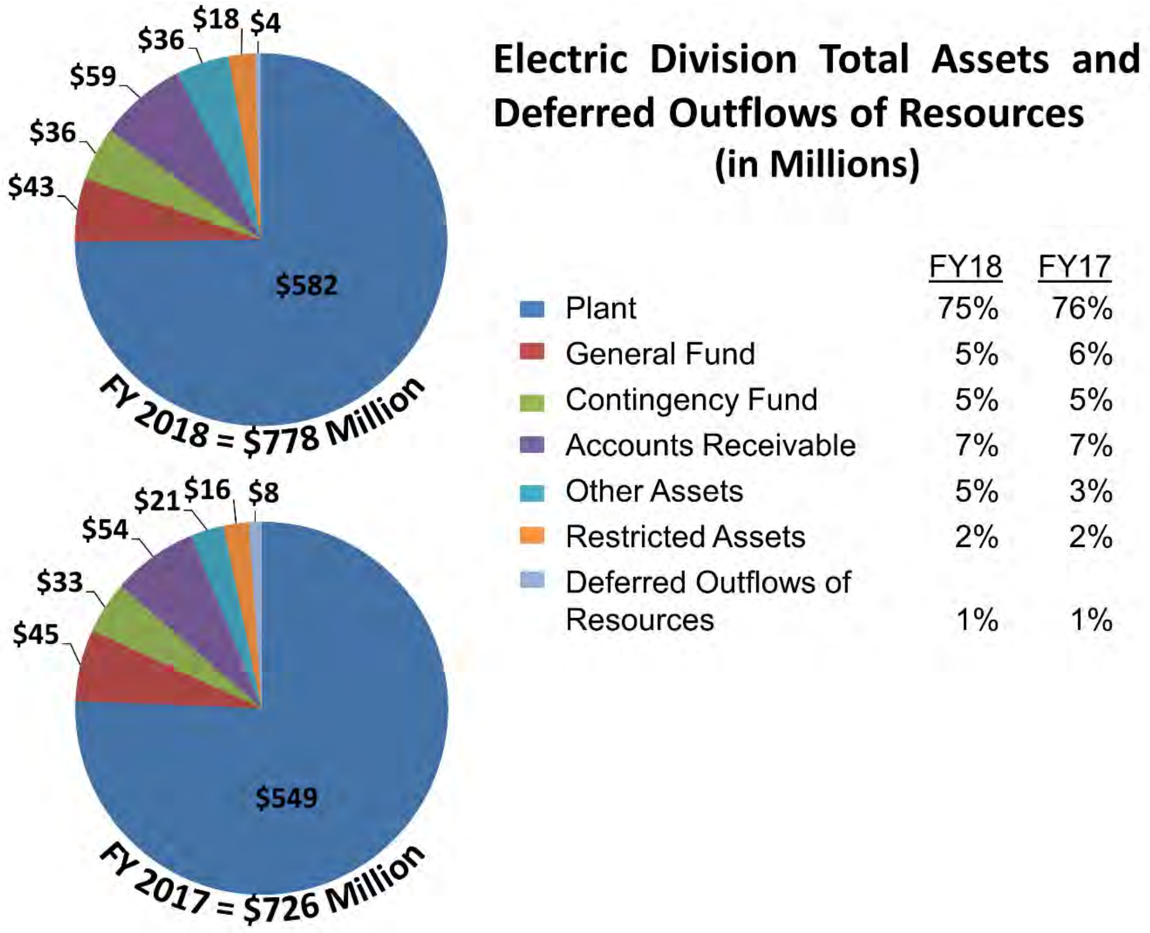
Deferred Outflows of Resources

Fiscal Year 2018 Compared to Fiscal Year 2017

Deferred outflows of resources decreased $3.5 million compared to the prior fiscal year primarily due to a decrease in pension outflow of $3.4 million.

Fiscal Year 2017 Compared to Fiscal Year 2016

Deferred outflows of resources decreased $0.6 million compared to the prior fiscal year primarily due to a decrease in pension outflow of $0.6 million.



Electric Division Total Assets and Deferred Outflows of Resources (in Millions)

	FY18	FY17
🟦 Plant	75%	76%
🟥 General Fund	5%	6%
🟩 Contingency Fund	5%	5%
🟪 Accounts Receivable	7%	7%
🟦 Other Assets	5%	3%
🟧 Restricted Assets	2%	2%
🟦 Deferred Outflows of Resources	1%	1%

Current and Other Liabilities

Fiscal Year 2018 Compared to Fiscal Year 2017

Current and other liabilities increased $0.2 million. Accrued expenses increased $1.6 million, the current portion of revenue bonds and associated accrued interest increased $1.6 million and customer advances for construction increased $1.3 million. These increases were offset by a decline in accounts payable of $3.6 million. The outstanding balance on TVA conservation loans declined by $1.8 million, as KUB ceased issuance of any new loans in fiscal year 2016.

KUB over recovered $4.7 million in wholesale power costs from its customers in fiscal year 2018, as compared to a $4 million over recovery in fiscal year 2017. 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 2017 Compared to Fiscal Year 2016

Current and other liabilities increased $8.1 million or 7.8 percent. Accounts payable increased $6.8 million, which was offset by a decline in the actuarially determined net pension obligation of $2.4 million and a $1.3 million decrease in accrued expenses. The outstanding balance on TVA conservation loans declined by $2.2 million, as KUB ceased issuance of any new loans in fiscal year 2016.

KUB over recovered $4 million in wholesale power costs from its customers in fiscal year 2017, as compared to a $1.4 million under recovery in fiscal year 2016. 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 2018 Compared to Fiscal Year 2017

Long-term debt increased $27.7 million or 10.4 percent. Electric system revenue bonds of $40 million, sold in August 2017, were offset by the scheduled repayment of debt.

Fiscal Year 2017 Compared to Fiscal Year 2016

Long-term debt increased $28.9 million or 12.2 percent. $40 million in new revenue bonds issue in July 2016 added to KUB's outstanding debt. In March 2017, revenue refunding bonds of $23.4 million were issued to refinance bonds sold in 2005. The additional issuances offset by the defeased bonds and scheduled debt repayments accounted for the change in long-term debt.

Deferred Inflows of Resources

Fiscal Year 2018 Compared to Fiscal Year 2017

Deferred inflows increased $4.3 million compared to the prior fiscal year due to differences in pension inflows.

Fiscal Year 2017 Compared to Fiscal Year 2016

Deferred inflows increased $1.8 million compared to the prior fiscal year due to differences in pension inflows.

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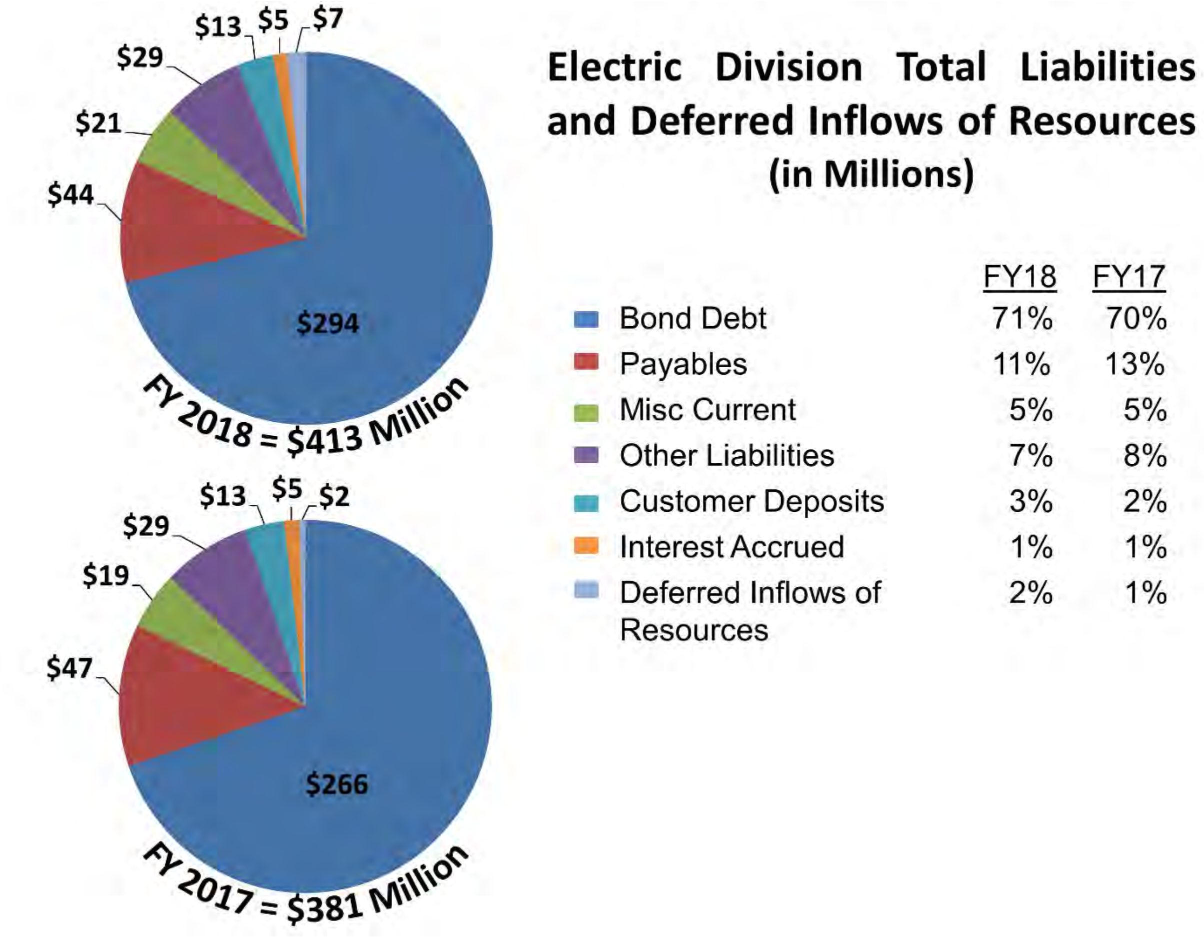

Net Position

Fiscal Year 2018 Compared to Fiscal Year 2017

Unrestricted net position increased $15.8 million, primarily due to the $20.8 million increase in current and other assets. Net investment in capital assets increased by $3.1 million or 1.1 percent. The increase was primarily the result of an increase of $33 million in net electric plant additions offset by an increase in the current portion of revenue bonds and total long-term debt of $28.6 million. Restricted net position increased $0.9 million due to the net increase of the electric bond fund and the associated interest payable.

Fiscal Year 2017 Compared to Fiscal Year 2016

Net investment in capital assets increased by $6.8 million or 2.5 percent. The increase was primarily the result of an increase of $37.4 million in net electric plant additions offset by an increase in the current portion of revenue bonds and total long-term debt of $30.2 million. Unrestricted net position increased $2.6 million, primarily due to the $11.3 million increase in current and other assets. Restricted net position increased $1.2 million due to the net increase of the electric bond fund and the associated interest payable.

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

(in thousands of dollars)	2018	2017	2016
Operating revenues	$ 560,111	$ 546,364	$ 521,369
Less: Purchased power expense	425,841	421,727	402,604
Margin from sales	134,270	124,637	118,765
Operating expenses			
Distribution	35,020	36,526	33,062
Customer service	6,124	6,641	6,589
Administrative and general	13,173	15,522	14,856
Depreciation	35,431	31,450	29,490
Taxes and tax equivalents	17,700	16,908	15,795
Total operating expenses	107,448	107,047	99,792
Operating income	26,822	17,590	18,973
Interest income	1,635	899	549
Interest expense	(10,692)	(9,954)	(9,258)
Other income/(expense)	(294)	731	438
Change in net position before capital contributions	17,471	9,266	10,702
Capital contributions	120	1,420	178
Change in net position	$ 17,591	$ 10,686	$ 10,880

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.

- Interest expense on debt is impacted by the level of outstanding debt and the interest rates on the outstanding debt.

- Other income/(expenses) 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 2018 Compared to Fiscal Year 2017

The Division's Change in Net Position increased $17.6 million in fiscal year 2018. A restatement to the fiscal year 2018 beginning net position, based on a change in method of accounting for OPEB, increased the total net position by an additional $2.2 million. The change resulted in a total increase of $19.8 million in the Division's net position. Comparatively, net position increased by $10.7 million in fiscal year 2017.

The higher earnings were attributable to the net effect of a $9.6 million increase in margin on sales, a $0.7 million increase in interest income offset by a $0.7 million increase in interest expense and a $0.4 million increase in operating expenses.

Fiscal Year 2017 Compared to Fiscal Year 2016

The Division's net position increased $10.7 million, which was $0.2 million less than last year's $10.9 million increase. The lower earnings were attributable to the net effect of a $5.9 million increase in margin on sales, a $1.2 million increase in capital contributions, a $0.4 million increase in interest income offset by a $7.3 million rise in operating expenses, and a $0.7 million increase in interest expense.

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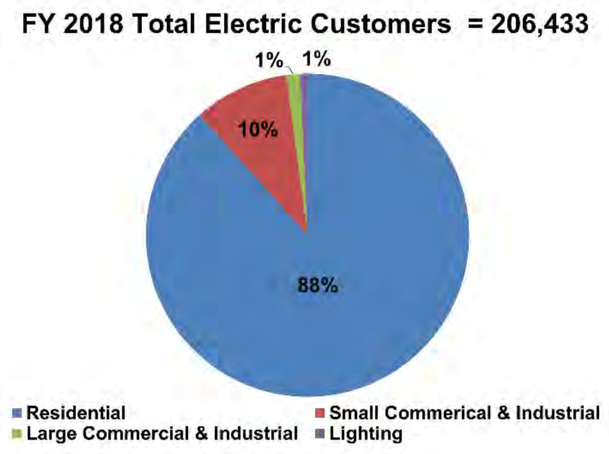
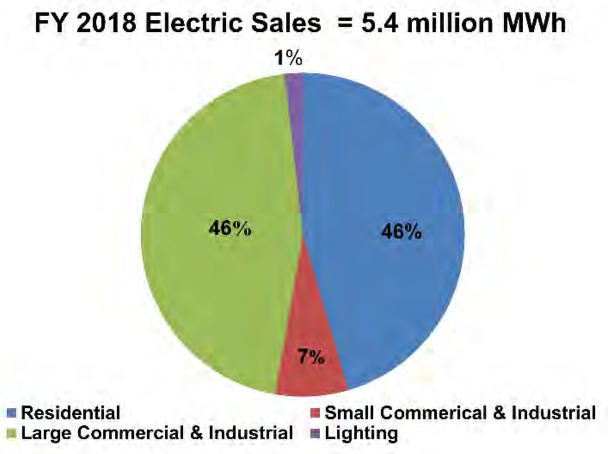
Margin from Sales

Fiscal Year 2018 Compared to Fiscal Year 2017

Margin on electric sales grew $9.6 million, reflecting increased revenue due to the October 2017 rate increase.

Operating revenue increased $13.7 million or 2.5 percent, reflecting the net result of additional revenue from KUB's October 2017 electric rate increase, the flow through of previously over recovered wholesale power costs, and the flow through of TVA rate adjustments. A colder winter experienced by the service area than the prior fiscal year resulted in a 1.5 percent increase in billed power sales volumes, which finished the fiscal year at 5.4 million MWh. Purchased power expense increased $4.1 million over last year.





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 the largest portion of total sales volumes for the year, which was consistent with the prior year due to a steady customer base. KUB's ten largest electric customers accounted for 19 percent of KUB's billed volumes. Those ten customers represent two industrial and eight commercial customers, including five governmental customers. Sales to Gerdau Ameristeel, KUB's largest industrial customer, accounted for 5.9 percent of total electric system sales.

KUB has added 5,581 electric system customers over the past three years, representing annual growth of one percent. Electric billed sales volumes have remained consistent over the past three years. Fiscal year 2018 customer growth was 1,345.

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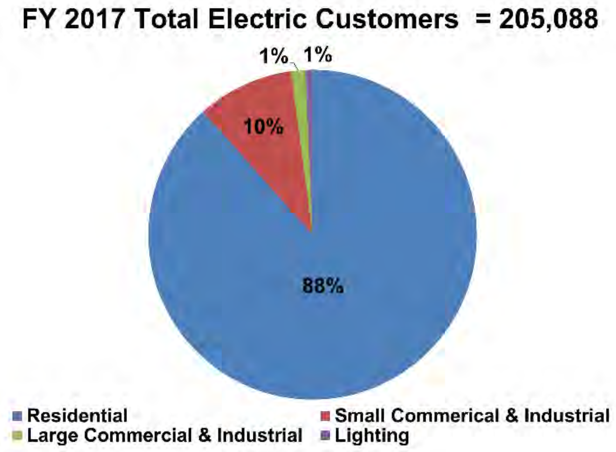
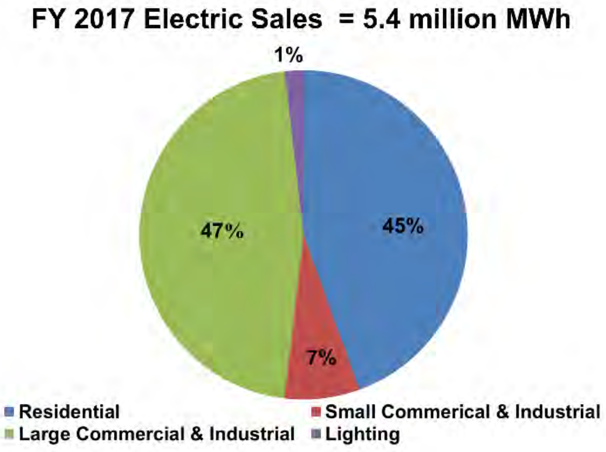
Fiscal Year 2017 Compared to Fiscal Year 2016

Margin on electric sales grew $5.9 million, reflecting increased revenue due to the July 2016 rate increase.

Operating revenue increased $25 million or 4.8 percent, reflecting the net result of additional revenue from KUB's one percent electric rate increase effective July 2016, the flow through of previously under recovered wholesale power costs, and the flow through of TVA rate adjustments. A mild winter offset by a hotter than normal summer and spring during the fiscal year resulted in a 0.3 percent increase in billed power sales volumes. Purchased power expense increased $19.1 million over last year. Power sales of 5.4 million MWh were consistent with the prior fiscal year.


FY 2017 Total Electric Customers = 205,088


FY 2017 Electric Sales = 5.4 million MWh

Residential customers represented 88 percent of total electric system customers and accounted for 45 percent of electric sales volumes for the year. Large commercial and industrial customers accounted for the largest portion of total sales volumes for the year, which was consistent with the prior year due to a steady customer base. KUB's ten largest electric customers accounted for 20.6 percent of KUB's billed volumes. Those ten customers represent two industrial and eight commercial customers, including four governmental customers. Sales to Gerdau Ameristeel, KUB's largest industrial customer, accounted for 5.4 percent of total electric system sales.

KUB has added 5,706 electric system customers over the past three years, representing annual growth of less than one percent. Fiscal year 2017 customer growth of 2,245 was the highest in nine years.

Electric billed sales volumes have remained consistent over the past three years. Fiscal year 2017 sales were impacted by a mild winter, but were offset by warmer weather during the summer and spring months.

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Operating Expenses

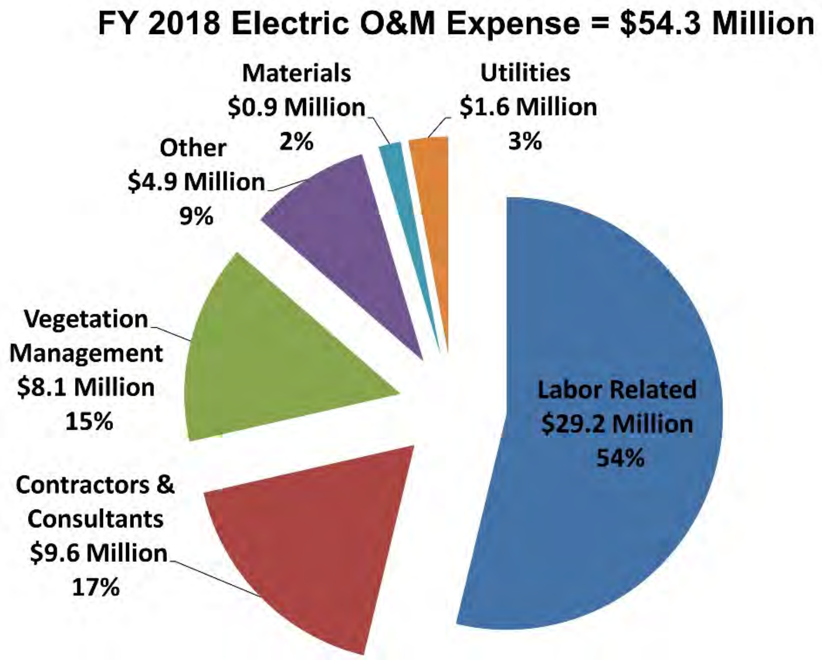
Fiscal Year 2018 Compared to Fiscal Year 2017

Operating expenses (excluding purchased power expense) increased 0.4 million, compared to fiscal year 2017. 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 $1.5 million or 4.1 percent, primarily due to lower outside contractor use.

- Customer service expenses decreased $0.5 million from the prior year, primarily due to less outside contractor use.

- Administrative and general expenses decreased $2.3 million or 15.1 percent, primarily due to lower labor related expenses.



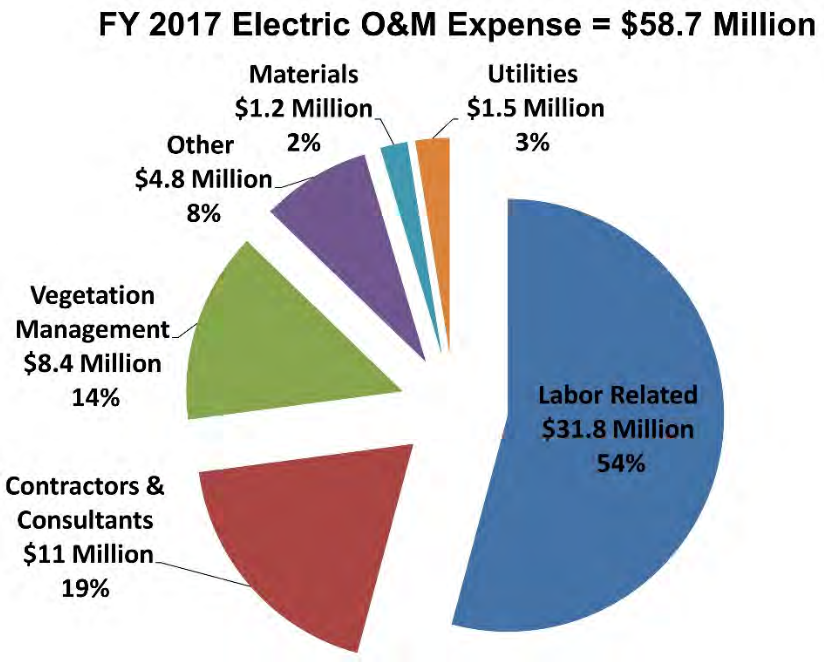
- Depreciation expense for fiscal year 2018 increased $4 million or 12.7 percent. This increase was primarily attributable to Century II initiatives and the impairment of meters due to the Grid Modernization project that calls for accelerated depreciation of meters being replaced as part of the project.

- Taxes and tax equivalents were $0.8 million higher than the prior fiscal year primarily due to increased plant in service levels.

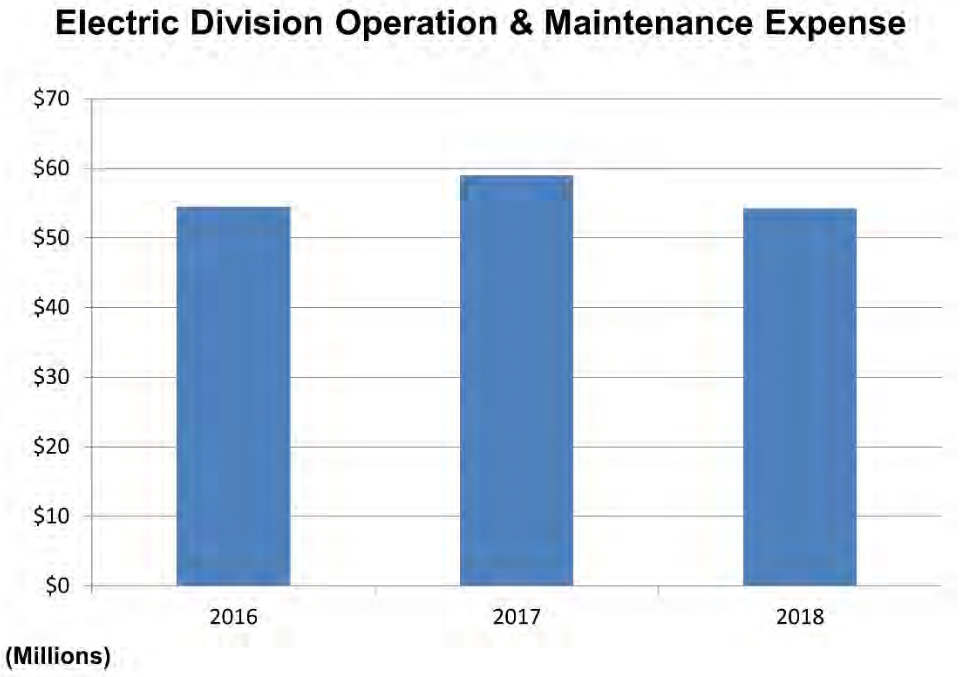
Fiscal Year 2017 Compared to Fiscal Year 2016

Operating expenses (excluding purchased power expense) increased 7.3 million, or 7.3 percent, compared to fiscal year 2016. 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 $3.5 million or 10.5 percent, primarily from increased labor related expenses from storm restoration and outside contractor use.
- Customer service expenses increased $0.1 million from the prior year.
- Administrative and general expenses increased $0.7 million or 4.5 percent, primarily due to labor related expenses.



- Depreciation expense for fiscal year 2017 increased $2 million or 6.6 percent. This increase was primarily attributable to Century II initiatives, upgrades to information systems, substation upgrades and the impairment of meters due to the Grid Modernization project that calls for accelerated depreciation of meters being replaced as part of the project.
- Taxes and tax equivalents were $1.1 million higher than the prior fiscal year primarily due to increased plant in service levels.



Other Income and Expense

Fiscal Year 2018 Compared to Fiscal Year 2017

Interest income increased $0.7 million compared to the prior fiscal year, primarily due to increases in short-term interest rates over the prior fiscal year.

Interest expense increased $0.7 million or 7.4 percent, reflecting the net effect of interest expense from new revenue bonds sold during the fiscal year and savings on refunding of outstanding bonds.

Other income (net) decreased $1 million, primarily due to the prior year recognition of $0.9 million in non-operating income for the reimbursement by FEMA to offset the cost of restoration expenses related to the May 2017 storm.

The Division's capital contributions decreased $1.3 million due to less donated assets compared to the prior fiscal year.

Fiscal Year 2017 Compared to Fiscal Year 2016

Interest income increased $0.4 million compared to the prior fiscal year, primarily due to modest increases in interest rates over the prior fiscal year.

Interest expense increased $0.7 million or 7.5 percent, primarily due to interest on bonds issued during the fiscal year.

Other income (net) increased $0.3 million, primarily due to the recognition of $0.9 million in non-operating income for future reimbursement by FEMA to offset the cost of restoration expenses related to the May 2017 storm.

The Division's capital contributions increased $1.2 million due to more donated assets compared to the prior fiscal year.

Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

(in thousands of dollars)	**2018**	**2017**	**2016**
Distribution Plant			
Services and Meters	$ 31,210	$ 22,959	$ 15,719
Electric Station Equipment	54,695	53,178	56,487
Poles, Towers and Fixtures	127,343	113,640	104,867
Overhead Conductors	99,761	90,886	84,937
Line Transformers	61,446	60,424	59,587
Other Accounts	104,435	113,948	113,141
Total Distribution Plant	$ 478,890	$ 455,035	$ 434,738
General Plant	27,821	30,532	29,590
Total Plant Assets	$ 506,711	$ 485,567	$ 464,328
Work In Progress	75,031	63,157	46,932
Total Net Plant	$ 581,742	$ 548,724	$ 511,260

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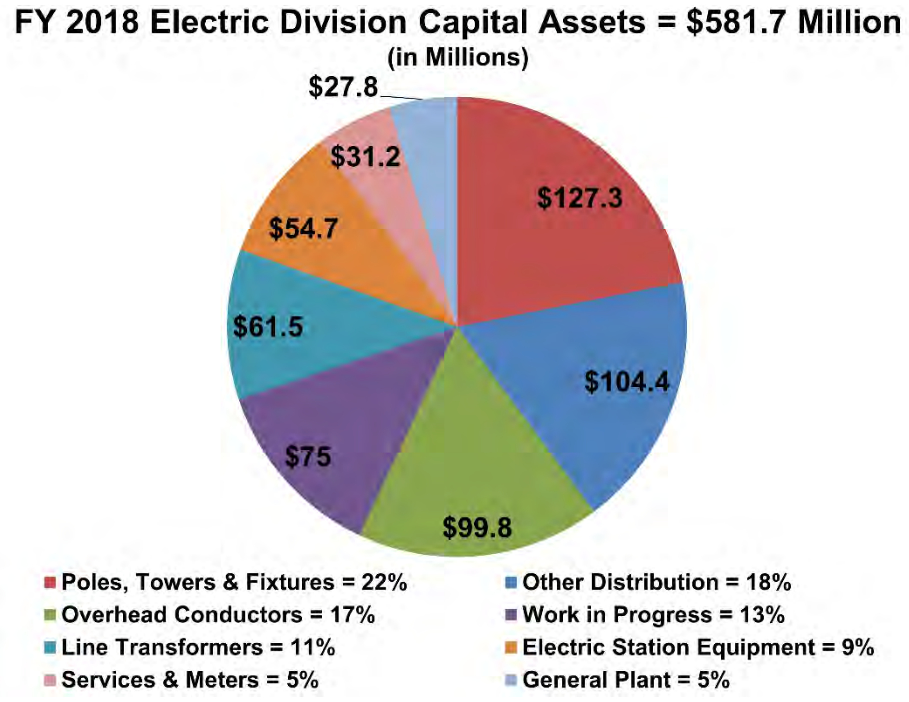
Fiscal Year 2018 Compared to Fiscal Year 2017

As of June 30, 2018, the Division had $581.7 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 $33 million or 6 percent over the end of the last fiscal year.

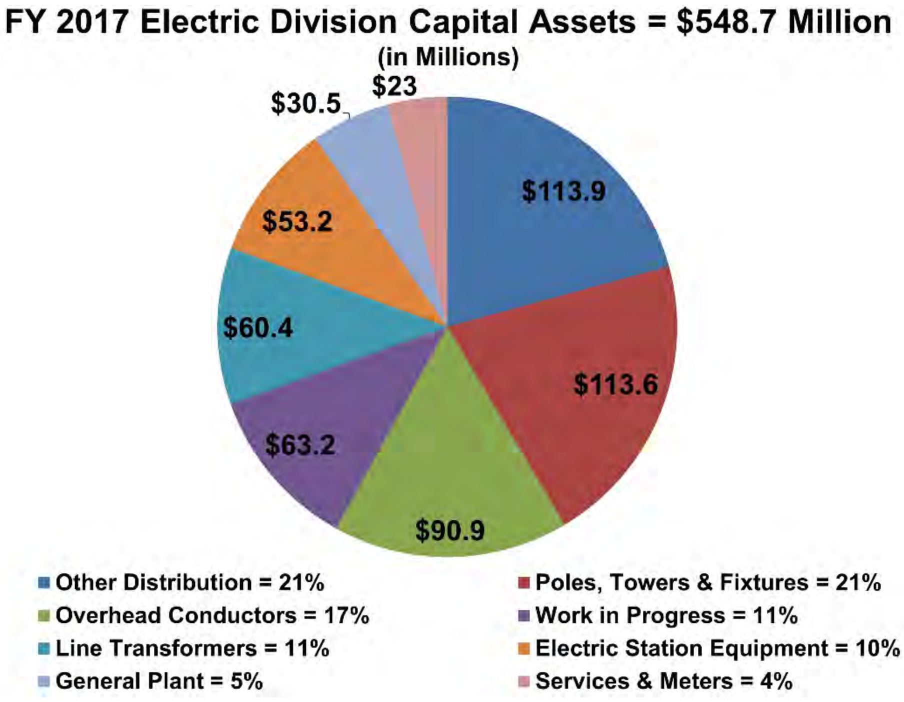


Major capital asset expenditures during the year were as follows:

- $31.3 million for electric distribution system improvements
- $8.6 million for pole replacements
- $7.5 million for building improvements
- $7 million for Grid Modernization including SCADA system upgrades
- $3.5 million for installation of new electric services and the upgrade or replacement of existing services

Fiscal Year 2017 Compared to Fiscal Year 2016

As of June 30, 2017, the Division had $548.7 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 $37.4 million or 7.3 percent over the end of the last fiscal year.



Major capital asset expenditures during the year were as follows:

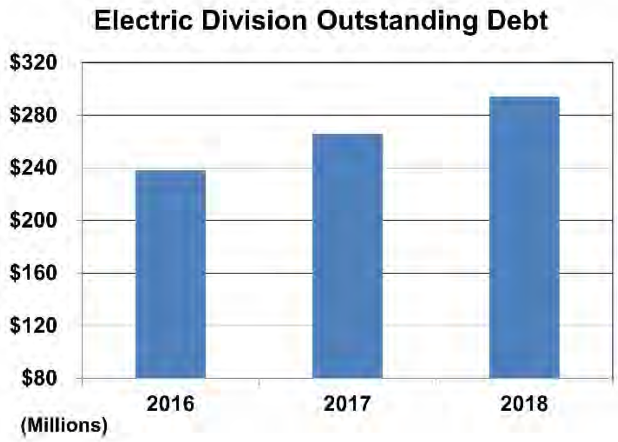
- $34.4 million for electric distribution system improvements
- $8.3 million for pole replacements
- $4.7 million for installation of new electric services and the upgrade or replacement of existing services
- $2.2 million for trucks and equipment
- $1.8 million for upgrades to various information systems
- $1.7 million for tools and equipment
- $1.7 million for the purchase of property
- $1.3 million for Grid Modernization SCADA system upgrades

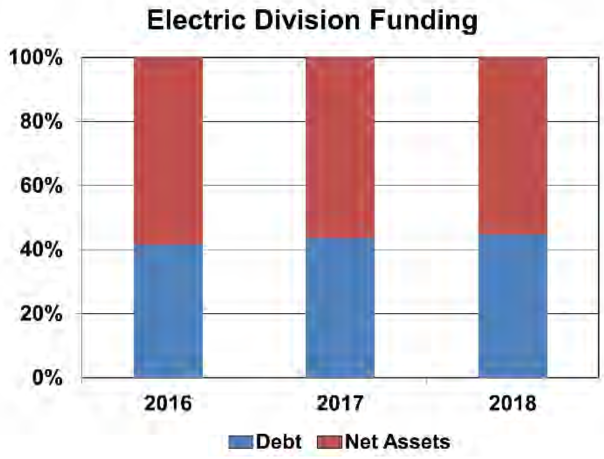
Debt Administration

The Division's outstanding debt was $294.5 million at June 30, 2018. The bonds are secured solely by revenues of the Electric Division. Debt as a percentage of the Division's capital structure was 44.7 percent in 2018, 43.5 percent in 2017, and 41.6 percent at the end of fiscal year 2016. 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)	2018	2017	2016
Revenue bonds	$ 294,450	$ 265,795	$ 237,985
Total outstanding debt	$ 294,450	$ 265,795	$ 237,985


Electric Division Outstanding Debt


Electric Division Funding

The Division will pay $140.7 million in principal payments over the next ten years, representing 47.8 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 2018 Compared to Fiscal Year 2017

As of June 30, 2018, the Division had $294.5 million in outstanding debt (including the current portion of revenue bonds), compared to $265.8 million last year, an increase of $28.7 million or 10.8 percent. The increase is attributable to new revenue bonds issued during the fiscal year offset by the scheduled repayment of debt. The Division's weighted average cost of debt at June 30, 2018 was 3.70 percent (3.58 percent including the impact of Build America Bonds rebates).

KUB sold $40 million in electric system revenue bonds in August 2017 for the purpose of funding electric system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.08 percent.

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2018, the Division's revenue bonds were rated AA+ by Standard & Poor's and Aa2 by Moody's Investors Service.

Fiscal Year 2017 Compared to Fiscal Year 2016

As of June 30, 2017, the Division had $265.8 million in outstanding debt (including the current portion of revenue bonds), compared to $238 million last year, an increase of $27.8 million or 11.7 percent. The increase is attributable to the net effect of new revenue and refunding bond issuances. The Division's weighted average cost of debt at June 30, 2017 was 3.76 percent (3.62 percent including the impact of Build America Bonds rebates).

KUB sold $40 million in electric system revenue bonds in July 2016 for the purpose of funding electric system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.75 percent.

KUB sold $23.4 million in electric system revenue refunding bonds in March 2017 for the purpose of refinancing existing electric system bonds at lower interest rates. KUB will realize a total debt service savings of $3.2 million over the life of the bonds ($2.8 million on a net present value basis). The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.18 percent.

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2017, 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 1,600 additional electric customers in fiscal year 2019.

In June 2017, the KUB Board adopted three years of rate increases for all four utility Divisions to help fund the ongoing Century II infrastructure programs for each system. The two remaining approved electric rate increases are effective October 2018 and October 2019 and are expected to provide an additional $11.2 million and $5.7 million, respectively, in annual revenue to assist with the funding of the Electric Division.

KUB sold $40 million in electric system revenue bonds in August 2018 for the purpose of funding electric system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.42 percent.

KUB long-term debt includes $21.3 million of Electric 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 6.6 percent. Any future actions by Congress may also affect the anticipated rebates for future fiscal years.

The Pension Plan actuarial valuation for the Plan year ending December 31, 2017 resulted in an actuarially determined contribution of $3,156,661 for the fiscal year ending June 30, 2019, based on the Plan's current funding policy. The Electric Division's portion of this contribution is $1,515,197. Subsequent to June 30, 2018, the actuarial valuation for the Plan year ending December 31, 2018 was completed. The actuarial valuation resulted in an actuarially determined contribution of $2,585,824 for the fiscal year ending June 30, 2020, based on the Plan's current funding policy. The Electric Division's portion of this contribution is $1,241,196. For the Plan year ending December 31, 2018, the Plan's actuarial funded ratio was 107.84 percent.

The OPEB Plan actuarial valuation as of January 1, 2017 resulted in an actuarially determined contribution of zero for the fiscal year ending June 30, 2019, based on the Plan's current funding policy. Subsequent to June 30, 2018, the actuarial valuation as of January 1, 2018 was completed. The actuarial valuation resulted in an actuarially determined contribution of $311,324 for the fiscal year ending June 30, 2020, based on the Plan's current funding policy. The Electric Division's portion of this contribution is $149,436. The Plan's actuarial funded ratio was 102.78 percent.

GASB Statement No. 83, *Certain Asset Retirement Obligations,* is effective for fiscal years beginning after June 15, 2018. GASB Statement No. 84, *Fiduciary Activities*, is effective for fiscal years beginning after December 15, 2018. GASB Statement No. 87, *Leases*, is effective for fiscal years beginning after December 15, 2019. GASB Statement No. 88, *Certain Disclosure Related to Debt, Including Direct Borrowings and Direct Placements,* is effective for fiscal years beginning after June 15, 2018. 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, 2019. 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 2018.

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 ending June 30, 2018 and 2017. 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, 2018 and 2017

	2018	2017
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	$ 40,334,343	$ 37,195,215
Short-term investments	2,485,400	7,489,575
Short-term contingency fund investments	11,238,511	15,045,262
Other current assets	402,936	397,746
Accrued interest receivable	63,510	36,910
Accounts receivable, less allowance of uncollectible accounts of $506,030 in 2018 and $489,884 in 2017	58,853,516	53,567,020
Inventories	16,710,893	12,530,569
Prepaid expenses	695,004	682,400
Total current assets	130,784,113	126,944,697
Restricted assets:		
Electric bond fund	17,728,045	16,079,330
Other funds	10,294	15,088
Total restricted assets	17,738,339	16,094,418
Electric plant in service	929,981,483	903,531,703
Less accumulated depreciation	(423,269,910)	(417,964,937)
	506,711,573	485,566,766
Retirement in progress	2,189,617	1,580,649
Construction in progress	72,841,217	61,576,128
Net plant in service	581,742,407	548,723,543
Other assets:		
Net pension asset	9,493,619	59,492
Net OPEB asset	1,800,513	-
Long-term contingency fund investments	24,849,159	17,636,387
TVA conservation program receivable	4,301,001	6,022,815
Other	3,134,206	2,925,491
Total other assets	43,578,498	26,644,185
Total assets	773,843,357	718,406,843
Deferred outflows of resources:		
Pension outflow	934,974	4,363,589
OPEB outflow	317,944	-
Unamortized bond refunding costs	3,204,041	3,545,947
Total deferred outflows of resources	4,456,959	7,909,536
Total assets and deferred outflows of resources	$ 778,300,316	$ 726,316,379

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

Knoxville Utilities Board Electric Division
Statements of Net Position
June 30, 2018 and 2017

	2018	2017
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	$ 12,275,000	$ 11,345,000
Sales tax collections payable	969,239	929,375
Accounts payable	43,788,667	47,437,569
Accrued expenses	19,629,545	18,044,293
Customer deposits plus accrued interest	13,503,785	12,897,789
Accrued interest on revenue bonds	5,452,921	4,734,205
Total current liabilities	95,619,157	95,388,231
Other liabilities:		
TVA conservation program	4,431,219	6,236,061
Accrued compensated absences	4,056,705	4,371,334
Customer advances for construction	3,236,413	1,916,046
Net pension liability - QEBA	134,564	88,837
Over recovered purchased power cost	4,706,715	3,957,673
Other	49,817	45,073
Total other liabilities	16,615,433	16,615,024
Long-term debt:		
Electric revenue bonds	282,175,000	254,450,000
Unamortized premiums/discounts	12,031,042	12,080,941
Total long-term debt	294,206,042	266,530,941
Total liabilities	406,440,632	378,534,196
Deferred inflows of resources:		
Pension inflow	6,689,924	2,528,408
OPEB inflow	154,386	-
Total deferred inflows of resources	6,844,310	2,528,408
Total liabilities and deferred inflows of resources	413,284,942	381,062,604
Net position		
Net investment in capital assets	278,370,404	275,291,471
Restricted for:		
Debt service	12,275,125	11,345,125
Other	10,294	15,088
Unrestricted	74,359,551	58,602,091
Total net position	365,015,374	345,253,775
Total liabilities, deferred inflows, and net position	$ 778,300,316	$ 726,316,379

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, 2018 and 2017

	2018	2017
Operating revenues	$ 560,110,507	$ 546,364,012
Operating expenses		
Purchased power	425,841,567	421,726,756
Distribution	35,019,674	36,525,681
Customer service	6,123,651	6,641,176
Administrative and general	13,172,673	15,522,227
Provision for depreciation	35,430,800	31,450,260
Taxes and tax equivalents	17,699,792	16,907,995
Total operating expenses	533,288,157	528,774,095
Operating income	26,822,350	17,589,917
Non-operating revenues (expenses)		
Contributions in aid of construction	2,100,439	1,773,994
Interest and dividend income	1,635,170	899,405
Interest expense	(10,692,299)	(9,954,448)
Amortization of debt costs	375,458	212,123
Write-down of plant for costs recovered through contributions	(2,100,439)	(1,773,994)
Other	(669,966)	518,573
Total non-operating revenues (expenses)	(9,351,637)	(8,324,347)
Change in net position before capital contributions	17,470,713	9,265,570
Capital contributions	119,992	1,420,361
Change in net position	17,590,705	10,685,931
Net position, beginning of year, as previously reported	345,253,775	334,567,844
Change in method of accounting for OPEB	2,170,894	-
Net position, beginning of year, as restated	347,424,669	334,567,844
Net position, end of year	$ 365,015,374	$ 345,253,775

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

Knoxville Utilities Board Electric Division
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash receipts from customers	$ 544,429,204	$ 539,470,564
Cash receipts from other operations	9,012,655	10,986,528
Cash payments to suppliers of goods or services	(459,606,233)	(450,464,944)
Cash payments to employees for services	(26,652,345)	(26,815,870)
Payment in lieu of taxes	(15,542,951)	(14,828,556)
Cash receipts from collections of TVA conservation loan program participants	2,013,974	2,525,020
Cash payments for TVA conservation loan program	(2,097,002)	(2,571,436)
Net cash provided by operating activities	51,557,302	58,301,306
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	40,340,022	65,828,379
Principal paid on revenue bonds and notes payable	(11,345,000)	(35,635,000)
Interest paid on revenue bonds and notes payable	(9,973,583)	(9,849,199)
Acquisition and construction of electric plant	(77,699,175)	(70,660,081)
Changes in electric bond fund, restricted	(1,648,715)	(1,340,249)
Customer advances for construction	1,362,957	662,158
Proceeds received on disposal of plant	5,908,123	203,288
Cash received from developers and individuals for capital purposes	2,100,439	1,773,994
Net cash used in capital and related financing activities	(50,954,932)	(49,016,710)
Cash flows from investing activities:		
Changes in deposit and investment accounts:		
Purchase of investment securities	(21,193,298)	(15,416,957)
Maturities of investment securities	22,554,390	6,931,476
Interest received	1,561,336	865,446
Other property and investments	(385,670)	738,868
Net cash provided by (used in) investing activities	2,536,758	(6,881,167)
Net increase (decrease) in cash and cash equivalents	3,139,128	2,403,429
Cash and cash equivalents, beginning of year	37,195,215	34,791,786
Cash and cash equivalents, end of year	40,334,343	$ 37,195,215
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 26,822,350	$ 17,589,917
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	36,749,149	32,630,752
Changes in operating assets and liabilities:		
Accounts receivable	(5,286,496)	401,621
Inventories	(4,180,324)	(4,171,434)
Prepaid expenses	(12,604)	2,435
TVA conservation program receivable	1,721,814	2,130,377
Other assets	118,333	(105,366)
Sales tax collections payable	39,864	47,542
Accounts payable and accrued expenses	(3,969,725)	5,566,720
Unrecovered purchased power cost	749,042	5,337,316
TVA conservation program payable	(1,804,842)	(2,176,792)
Customer deposits plus accrued interest	605,996	1,162,150
Other liabilities	4,745	(113,932)
Net cash provided by operating activities	$ 51,557,302	$ 58,301,306
Noncash capital activities:		
Acquisition of plant assets through developer contributions	$ 119,992	$ 1,420,361

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

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, 2018 and 2017, 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 June 2015, the GASB issued GASB Statement No. 75 (Statement No. 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Statement addresses reporting by governments that provide OPEB to their employees. Statement No. 75 is effective for fiscal years beginning after June 15, 2017.

In March 2017, the GASB issued GASB Statement No. 85 (Statement No. 85), *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. Statement No. 85 is effective for fiscal years beginning after June 15, 2017.

In May 2017, the GASB issued GASB Statement No. 86 (Statement No. 86), *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The Statement provides guidance for transactions in which cash and other monetary assets acquired with existing resources or resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. Statement No. 86 is effective for fiscal years beginning after June 15, 2017.

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 $1,318,349 in fiscal year 2018 and $1,180,492 in fiscal year 2017. 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 $1,563,176 in fiscal year 2018 and $1,174,673 in fiscal year 2017.

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.

- 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.

Change in method of accounting for OPEB

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide OPEB to their employees. This standard was adopted by KUB in 2018 and resulted in a restatement of beginning net position of $4,522,695 (Division’s share $2,170,894) to increase the net OPEB asset by $4,522,695 (Division’s share $2,170,894) based on revised actuarial assumptions to conform with GASB 75.

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 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, 2018 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB’s measurements as of June 30, 2018 are based on a June 30, 2018 measurement date.

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, 2018 and 2017 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2018 and 2017 are based on a December 31, 2017 and 2016 measurement date, respectively. The net pension asset is $19,778,372 (Division's share $9,493,619) as of June 30, 2018 and $123,941 (Division's share $59,492) as of June 30, 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 (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, 2018 and 2017 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2018 and 2017 will be based on the December 31, 2017 and 2016 measurement dates. The total pension liability of the QEBA is $280,341 (Division's share $134,564) as of June 30, 2018 and $185,077 (Division's share $88,837) as of June 30, 2017.

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 Statement No. 68 and Statement No. 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 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 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

KUB has evaluated events and transactions through October 25, 2018, the date these financial statements were issued, for items that should potentially be recognized or disclosed. KUB sold $40 million in electric system revenue bonds in August 2018 for the purpose of funding electric system capital improvements in fiscal year 2019. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.42 percent. Annual debt service payments including principal and interest range from $426,345 to $2,190,937 with final maturity in fiscal year 2048.

Reclassifications

Certain reclassifications have been made to the fiscal year 2017 balances to conform to fiscal year 2018 presentation.

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.

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 $4,706,715 at June 30, 2018 and $3,957,673 at June 30, 2017.

Recently Issued Accounting Pronouncements

In November 2016, the GASB issued GASB Statement No. 83 (Statement No. 83), *Certain Asset Retirement Obligations*. The objective of this Statement is to define asset retirement obligations as a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations is required to perform future asset retirement activities related to its tangible capital assets to recognize a liability based on the guidance in this Statement. Statement No. 83 is effective for fiscal years beginning after June 15, 2018.

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, 2018.

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 December 15, 2019.

In April 2018, the GASB issued GASB Statement No. 88 (Statement No. 88), *Certain Disclosure Related to Debt, Including Direct Borrowings and Direct Placements.* The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. Statement No. 88 is effective for fiscal years beginning after June 15, 2018.

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, 2019.

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:

		2018		2017
Current assets				
Cash and cash equivalents	$	40,334,343	$	37,195,215
Short-term investments		2,485,400		7,489,575
Short-term contingency fund investments		11,238,511		15,045,262
Other assets				
Long-term contingency fund investments		24,691,037		17,525,499
Restricted assets				
Electric bond fund		17,728,045		16,079,330
Other funds		10,294		15,088
	$	96,487,630	$	93,349,969

The above amounts do not include accrued interest of $158,122 in fiscal year 2018 and $110,888 in fiscal year 2017. 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, 2018:

		Deposit and Investment Maturities (in Years)				
		Fair Value		**Less Than 1**		**1-5**
Supersweep NOW and Other Deposits	$	49,644,939	$	49,644,939	$	-
State Treasurer's Investment Pool		-		-		-
Agency Bonds		48,284,874		13,723,911		34,560,963
Certificates of Deposits		-		-		-
	$	97,929,813	$	63,368,850	$	34,560,963

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 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, 2018:

- U.S. Agency bonds of $34,560,963, 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:

	2018	2017
Wholesale and retail customers		
Billed services	$ 35,480,648	$ 32,538,981
Unbilled services	21,803,140	18,560,793
Other	2,075,758	2,957,130
Allowance for uncollectible accounts	(506,030)	(489,884)
	$ 58,853,516	$ 53,567,020

5. Accounts Payable and Accruals

Accounts payable and accruals were composed of the following:

	2018	2017
Trade accounts	$ 43,788,667	$ 47,437,569
Salaries and wages	1,523,756	1,273,877
Advances on pole rental	1,225,693	2,101,729
Self-insurance liabilities	874,891	908,059
Other current liabilities	16,005,205	13,760,628
	$ 63,418,212	$ 65,481,862

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6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2017	Additions	Payments	Defeased	Balance June 30, 2018	Amounts Due Within One Year
W-2005 - 3.0 - 4.5%	$ 2,015,000	$ -	$ 2,015,000	$ -	$ -	$ -
Y-2009 - 2.5 - 5.0%	3,600,000	-	1,750,000	-	1,850,000	1,850,000
Z-2010 - 1.45 - 6.35%	22,615,000	-	1,330,000	-	21,285,000	1,355,000
AA-2012 - 3.0 - 5.0%	31,310,000	-	2,670,000	-	28,640,000	2,805,000
BB-2012 - 3.0 - 4.0%	32,550,000	-	700,000	-	31,850,000	725,000
CC-2013 - 3.0 - 4.0%	9,035,000	-	475,000	-	8,560,000	475,000
DD-2014 - 2.0 - 4.0%	38,625,000	-	725,000	-	37,900,000	775,000
EE-2015 - 2.0 - 5.0%	28,275,000	-	150,000	-	28,125,000	150,000
FF-2015 - 2.0 - 5.0%	34,325,000	-	700,000	-	33,625,000	725,000
GG-2016 - 2.0 - 5.0%	40,000,000	-	775,000	-	39,225,000	825,000
HH-2017 - 2.5 - 5.0%	23,445,000	-	55,000	-	23,390,000	1,890,000
II-2017 - 3.0 - 5.0%	-	40,000,000	-	-	40,000,000	700,000
Total bonds	$ 265,795,000	$ 40,000,000	$ 11,345,000	$ -	$ 294,450,000	$ 12,275,000
Unamortized Premium	12,080,941	841,629	891,528	-	12,031,042	-
Total long term debt	$ 277,875,941	$ 40,841,629	$ 12,236,528	$ -	$ 306,481,042	$ 12,275,000

	Balance June 30, 2016	Additions	Payments	Defeased	Balance June 30, 2017	Amounts Due Within One Year
W-2005 - 3.0 - 4.5%	$ 29,480,000	$ -	$ 1,940,000	$ 25,525,000	$ 2,015,000	$ 2,015,000
Y-2009 - 2.5 - 5.0%	5,275,000	-	1,675,000	-	3,600,000	1,750,000
Z-2010 - 1.45 - 6.35%	23,920,000	-	1,305,000	-	22,615,000	1,330,000
AA-2012 - 3.0 - 5.0%	33,850,000	-	2,540,000	-	31,310,000	2,670,000
BB-2012 - 3.0 - 4.0%	33,225,000	-	675,000	-	32,550,000	700,000
CC-2013 - 3.0 - 4.0%	9,485,000	-	450,000	-	9,035,000	475,000
DD-2014 - 2.0 - 4.0%	39,325,000	-	700,000	-	38,625,000	725,000
EE-2015 - 2.0 - 5.0%	28,425,000	-	150,000	-	28,275,000	150,000
FF-2015 - 2.0 - 5.0%	35,000,000	-	675,000	-	34,325,000	700,000
GG-2016 - 2.0-5.0%	-	40,000,000	-	-	40,000,000	775,000
HH-2017 - 2.5-5.0%	-	23,445,000	-	-	23,445,000	55,000
Total bonds	$ 237,985,000	$ 63,445,000	$ 10,110,000	$ 25,525,000	$ 265,795,000	$ 11,345,000
Unamortized Premium	9,728,282	3,222,526	697,187	172,680	12,080,941	-
Total long term debt	$ 247,713,282	$ 66,667,526	$ 10,807,187	$ 25,697,680	$ 277,875,941	$ 11,345,000

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

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, 2018, these requirements had been satisfied.

Fiscal Year	Total Principal	Interest	Grand Total
2019	$ 12,275,000	$ 10,632,278	$ 22,907,278
2020	12,825,000	10,091,635	22,916,635
2021	13,370,000	9,512,105	22,882,105
2022	14,005,000	8,895,725	22,900,725
2023	14,585,000	8,263,095	22,848,095
2024-2028	73,645,000	32,570,561	106,215,561
2029-2033	47,405,000	21,069,106	68,474,106
2034-2038	36,195,000	14,770,641	50,965,641
2039-2043	43,240,000	8,316,662	51,556,662
2044-2048	26,905,000	1,749,394	28,654,394
Total	$ 294,450,000	$ 125,871,202	$ 420,321,202

During fiscal year 2006, KUB's Electric Division issued Series W 2005 bonds in part to retire certain existing debt and to fund electric system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series U 2001 bonds, as such amounts mature.

During fiscal year 2009, KUB's Electric Division issued Series Y 2009 bonds to fund electric system capital improvements.

During fiscal year 2011, KUB's Electric Division issued Series Z 2010 bonds to fund electric system capital improvements. The 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. Effective October 1, 2017 these bonds became subject to a 6.6 percent 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.

During fiscal year 2012, KUB's Electric Division issued Series AA 2012 bonds to retire a portion of outstanding Series V 2004 bonds.

During fiscal year 2013, KUB's Electric Division issued Series BB 2012 bonds to fund electric system capital improvements. KUB's Electric Division also issued Series CC 2013 bonds to retire a portion of outstanding Series X 2006 bonds.

During fiscal year 2015, KUB's Electric Division issued Series EE 2015 bonds to retire a portion of outstanding Series Y 2009 bonds. KUB's Electric Division also issued Series DD 2014 and Series FF 2015 to fund electric system capital improvements.

During fiscal year 2017, KUB's Electric Division issued Series GG 2016 bonds to fund electric system capital improvements. KUB's Electric Division also issued Series HH 2017 bonds to retire a portion of outstanding Series W 2005 bonds.

During fiscal year 2018, KUB's Electric Division issued Series II 2017 bonds to fund electric system capital improvements.

In prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $27.5 million at June 30, 2018, and the trust account assets are not included in the financial statements.

Other liabilities consist of the following:

	Balance June 30, 2017	Increase	Decrease	Balance June 30, 2018
TVA conservation program	$ 6,236,061	$ 329,922	$ (2,134,764)	$ 4,431,219
Accrued compensated absences	4,371,334	8,062,347	(8,376,976)	4,056,705
Customer advances for construction	1,916,046	2,033,752	(713,385)	3,236,413
Other	45,073	34,887	(30,143)	49,817
	$ 12,568,514	$ 10,460,908	$ (11,255,268)	$ 11,774,154

	Balance June 30, 2016	Increase	Decrease	Balance June 30, 2017
TVA conservation program	$ 8,412,853	$ 469,575	$ (2,646,367)	$ 6,236,061
Accrued compensated absences	4,344,437	7,657,682	(7,630,785)	4,371,334
Customer advances for construction	1,262,889	1,328,520	(675,363)	1,916,046
Other	159,005	72,044	(185,976)	45,073
	$ 14,179,184	$ 9,527,821	$ (11,138,491)	$ 12,568,514

7. Lease Commitments

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

2019	$ 162,452
2020	114,443
Total operating minimum lease payments	$ 276,895

8. Capital Assets

Capital asset activity was as follows:

	Balance June 30, 2017	Increase	Decrease	Balance June 30, 2018
Distribution Plant				
Services and Meters	$ 53,715,836	$ 12,185,665	$ (206,396)	$ 65,695,105
Electric Station Equipment	154,663,731	5,396,733	(1,681,763)	158,378,701
Poles, Towers and Fixtures	160,365,582	18,548,854	(2,021,696)	176,892,740
Overhead Conductors	143,937,396	13,259,176	(2,031,041)	155,165,531
Line Transformers	99,293,217	3,464,337	(762,671)	101,994,883
Other Accounts	200,455,297	6,677,050	(26,196,194)	180,936,153
Total Distribution Plant	$ 812,431,059	$ 59,531,815	$ (32,899,761)	$ 839,063,113
General Plant	91,100,644	2,857,527	(3,039,801)	90,918,370
Total Plant Assets	$ 903,531,703	$ 62,389,342	$ (35,939,562)	$ 929,981,483
Less Accumulated Depreciation	(417,964,937)	(36,855,591)	31,550,618	(423,269,910)
Net Plant Assets	$ 485,566,766	$ 25,533,751	$ (4,388,944)	$ 506,711,573
Work In Progress	63,156,777	70,636,196	(58,762,139)	75,030,834
Total Net Plant	$ 548,723,543	$ 96,169,947	$ (63,151,083)	$ 581,742,407

	Balance June 30, 2016	Increase	Decrease	Balance June 30, 2017
Distribution Plant				
Services and Meters	$ 43,551,858	$ 10,517,986	$ (354,008)	$ 53,715,836
Electric Station Equipment	152,233,167	3,292,850	(862,286)	154,663,731
Poles, Towers and Fixtures	148,060,617	13,309,400	(1,004,435)	160,365,582
Overhead Conductors	136,774,701	9,610,604	(2,447,909)	143,937,396
Line Transformers	96,843,152	3,281,186	(831,121)	99,293,217
Other Accounts	195,424,354	6,479,815	(1,448,872)	200,455,297
Total Distribution Plant	$ 772,887,849	$ 46,491,841	$ (6,948,631)	$ 812,431,059
General Plant	86,133,148	6,712,878	(1,745,382)	91,100,644
Total Plant Assets	$ 859,020,997	$ 53,204,719	$ (8,694,013)	$ 903,531,703
Less Accumulated Depreciation	(394,693,191)	(32,737,194)	9,465,448	(417,964,937)
Net Plant Assets	$ 464,327,806	$ 20,467,525	$ 771,435	$ 485,566,766
Work In Progress	46,932,330	68,722,382	(52,497,935)	63,156,777
Total Net Plant	$ 511,260,136	$ 89,189,907	$ (51,726,500)	$ 548,723,543

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, 2018 and June 30, 2017, the amount of these liabilities was $874,891 and $908,059, respectively, resulting from the following changes:

	2018	2017
Balance, beginning of year	$ 908,059	$ 843,930
Current year claims and changes in estimates	7,609,420	7,717,808
Claims payments	(7,642,588)	(7,653,679)
Balance, end of year	$ 874,891	$ 908,059

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, 2017 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). 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:

	2017	**2016**
Inactive plan members:		
Terminated vested participants	34	43
Retirees and beneficiaries	602	605
Active plan members	629	662
Total	1,265	1,310

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

Plan Funding

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

Investments

The Plan's investments are held by State Street Bank and Trust Company (the "Trustee"). The Plan's policy in regard to the allocation of invested assets is established by the Retirement System Investment Committee and approved by the KUB Board of Commissioners and may only be amended by the KUB Board of Commissioners. It is the policy of the Retirement System Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Plan's adopted asset allocation policy as of December 31, 2017:

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 $3,756,283 and $4,816,913 for 2016 and 2015, respectively, were made during the Plan sponsor's fiscal years ending June 30, 2018 and 2017, respectively. Of these amounts, $1,803,016 and $2,312,118 are attributable to the Electric Division. The fiscal year 2018 contribution was determined as part of the January 1, 2016 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability or death.

Net Pension Liability

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*("GASB 68"), which requires measurement of the net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2018 and 2017 will be based on the December 31, 2017 and 2016 measurement date, respectively. The Division's share of the net pension asset at June 30, 2018 is $9,493,619 and at June 30, 2017 is $59,492.

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

		2017		2016
Total pension liability	$	207,598,733	$	204,390,738
Plan fiduciary net position		(227,377,105)		(204,514,679)
Plan's net pension (asset) liability	$	(19,778,372)	$	(123,941)
Plan fiduciary net position as a percentage of the total pension liability		109.50%		100.06%

Changes in Net Pension Liability are as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2016	$ 204,390,738	$ 204,514,679	$ (123,941)
Changes for the year:			
Service cost	4,607,486	-	4,607,486
Interest	15,015,282	-	15,015,282
Differences between Expected and Actual Experience	(1,087,161)	-	(1,087,161)
Changes of Assumptions	(357,633)	-	(357,633)
Contributions - employer	-	4,286,597	(4,286,597)
Contributions - rollovers	-	1,482,701	(1,482,701)
Contributions - member	-	5,931	(5,931)
Net investment income	-	32,442,458	(32,442,458)
Benefit payments	(14,969,979)	(14,969,979)	-
Administrative expense	-	(385,282)	385,282
Net changes	3,207,995	22,862,426	(19,654,431)
Balances at December 31, 2017	$ 207,598,733	$ 227,377,105	$ (19,778,372)

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2017 and 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Individual entry age
Asset valuation method	5-year smoothed market
Amortization method	Level dollar closed period with 25 years remaining as of January 1, 2016 and 26 years remaining as of January 1, 2015
Discount rate	7.5%
Salary increase	From 2.80% to 5.15% for January 1, 2016 and January 1, 2015, based on years of service
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation	2.8 %

The actuarial assumptions used in the December 31, 2017 and 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013.

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, 2017 and 2016 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.

	Long Term Expected Real Rate of Return	
Asset Class	**2017**	**2016**
Domestic equity	5.0%	5.6%
Non-U.S. equity	6.6%	7.2%
Real estate equity	5.6%	6.3%
Debt securities	1.4%	1.6%
Cash and deposits	0.7%	0.6%

Discount rate
The discount rate used to measure the total pension liability was 7.5 percent as of January 1, 2017 and 2016. 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 to changes in the discount rate
The following presents the net pension liability of the Plan as of December 31, 2017, calculated using the discount rate of 7.5 percent, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one percent lower (6.5 percent) or one percent higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	**Current Discount Rate (7.5%)**	**1% Increase (8.5%)**
Plan's net pension liability	$ (2,624,670)	$ (19,778,372)	$ (34,742,817)

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

For the year ended June 30, 2018, KUB recognized pension expense of ($15,659) (Division's share ($7,516)).

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, 2016, this average was 5.00 years. During the measurement year, there was an experience gain of $1,087,161 with $217,432 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $869,729 (Division's share $417,470). Unrecognized experience gains from prior periods were $2,921,210 of which $824,819 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $2,096,391 (Division's share $1,006,268).

During the measurement year, there were no benefit changes. There was a gain due to assumption changes of $357,633 with $71,526 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $286,107 (Division's share $137,332). Unrecognized assumption change gains from prior periods were $2,346,307 of which $586,577 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,759,730 (division's share $844,670).

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 $17,456,614. $3,491,323 of that gain was recognized in the current year and an identical amount will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were $6,682,351 of which $1,642,445 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, 2017 of ($8,925,384) (Division's share ($4,284,184)). 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 $1,878,146 (Division's share $901,510) at June 30, 2018 for employer contributions made between December 31, 2017 and June 30, 2018.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,966,120
Changes in assumptions	-	2,045,837
Net difference between projected and actual earnings on pension plan investments	-	8,925,385
Contributions subsequent to measurement date	1,878,146	-
Total	$ 1,878,146	$ 13,937,342
Division's share	$ 901,510	$ 6,689,924

$1,878,146 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, 2019. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2019	$ (3,549,235)
2020	(1,954,655)
2021	(4,653,172)
2022	(3,780,280)
Thereafter	-

For the year ended June 30, 2017, KUB recognized pension expense of $4,674,543 (Division's share $2,243,781).

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, 2015, this average was 5.00 years. During the measurement year, there was an experience gain of $2,233,762 with $446,752 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $1,787,010 (Division's share $857,765). Unrecognized experience gains from prior periods were $1,512,267 of which $378,067 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,134,200 (Division's share $544,416).

During the measurement year, there were no benefit changes. There was a gain due to assumption changes of $2,932,884 with $586,577 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $2,346,307 (Division's share $1,126,227).

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 $802,197. $160,439 of that loss was recognized in the current year and an identical amount will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were $7,522,599 of which $1,482,006 was recognized as an increase in pension expense in the current year. The combination of unrecognized investment losses 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, 2016 of $6,682,351 (Division's share $3,207,529). 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 $2,408,459 (Division's share $1,156,060) at June 30, 2017 for employer contributions made between December 31, 2016 and June 30, 2017.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,921,210
Changes in assumptions	-	2,346,307
Net difference between projected and actual earnings on pension plan investments	6,682,351	-
Contributions subsequent to measurement date	2,408,459	-
Total	$ 9,090,810	$ 5,267,517
Division's share	$ 4,363,589	$ 2,528,408

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 not subject to cost of living adjustments.

As of June 30, 2018, there are 602 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. There are no inactive employees or retirees currently in 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.

Implementation of GASB 73

In fiscal year 2016, KUB adopted 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, 2018 and 2017 will be based on the December 31, 2017 and 2016 measurement dates, respectively. The Division's share of the total pension liability at June 30, 2018 is $134,564 and at June 30, 2017 is $88,837.

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

	2017	**2016**
Total pension liability	$280,341	$185,077
Deferred outflows	(69,716)	-
Deferred inflows	-	-
Net impact on Statement of Net Position	$210,625	$185,077
Covered payroll	$43,309,374	$44,437,747
Total pension liability as a % of covered payroll	0.65%	0.42%

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

	Increase (Decrease)
	Total Pension Liability
Balances at December 31, 2016	$ 185,077
Changes for the year:	
Service cost	584
Interest	7,535
Changes of Benefits	-
Differences between Expected and Actual Experience	13,684
Changes of Assumptions	73,461
Contributions – employer	-
Contributions – rollovers	-
Contributions – member	-
Net investment income	-
Benefit payments	-
Net changes	95,264
Balances at December 31, 2017	$ 280,341

Actuarial Assumptions

The total pension liability of the QEBA was determined by an actuarial valuation as of January 1, 2017 and projected to December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Individual entry age
Asset valuation method	5-year smoothed market
Amortization method	Level dollar closed period with 24 years remaining as of January 1, 2017 and 25 years remaining as of January 1, 2016
Salary increase	From 2.80% to 5.15% for January 1, 2017 and January 1, 2016, based on years of service
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation	2.8 percent

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013.

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 3.44% at December 31, 2017.

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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, 2017, calculated using the discount rate of 3.44 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 (2.44 percent) or one percent higher (4.44 percent) than the current rate:

	1% Decrease (2.44%)	Current Discount Rate (3.44%)	1% Increase (4.44%)
QEBA's total pension liability	$ 307,013	$ 280,341	$ 257,483

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

For the year ended June 30, 2018, KUB recognized pension expense of $29,527 for the QEBA (Division's share $14,173). This amount is not expected to be the same as KUB's contribution to the QEBA ($3,979), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [$210,625 - $185,077 + $3,979].

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, 2016, this average was 5 years. During the measurement year, there was an experience loss of $13,684 with approximately $2,737 recognized in the current year and each of the next four years, resulting in a deferred outflow of $10,947 (Division's share $5,255).

During the measurement year, there were no benefit changes. There was an increase in the total pension liability due to assumption changes of $73,461 with approximately $14,692 recognized in the current year and each of the next four years, resulting in a deferred outflow of $58,769 (Division's share $28,209).

The table below summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 10,947	$ -
Changes in assumptions	58,769	-
Total	$ 69,716	$ -
Division's share	$ 33,464	$ -

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

Year ended June 30:		
2019	$	17,429
2020		17,429
2021		17,429
2022		17,429
Thereafter		-

For the year ended June 30, 2017, KUB recognized pension expense of $185,077 for the QEBA (Division's share $88,837). This amount is not expected to be the same as KUB's contribution to the QEBA ($0), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions.

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, 2015, this average was 5 years. During the measurement year, there were no assumption changes or experience gains or losses. The benefit change of $0.2 million is due to the implementation of the QEBA. Benefit changes are reflected immediately in the total pension liability of the QEBA.

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 from 3 percent to 6 percent, depending on years of service, whether they contribute or not.

Matching contributions were previously remitted to the KUB Pension Plan (a separate defined benefit plan) in the name of the participant for employees hired prior to January 1, 2011. As of December 9, 2015, these Pension match assets moved from the KUB Pension Plan to the 401(k) Plan. Effective December 9, 2015, all matching contributions are remitted to the 401(k) Plan. The match and nonelective contributions for employees hired on or after January 1, 2011 are paid directly by KUB. KUB funded 401(k) matching contributions and nonelective contributions of $2,174,711 (Division's share $1,043,861) and $1,963,541 (Division's share $942,500), respectively, for the years ended June 30, 2018 and 2017.

13. Other Post-Employment Benefits (OPEB)

Description of Trust

The Knoxville Utilities Board Other Post Employment Benefits Trust (the Trust) is a single-employer Other Post Employment Benefits Plan (OPEB Plan) established by the Knoxville Utilities Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. The applicable documentation was submitted to the State Funding Board and, in December 2007, the State Funding Board approved the Trust. The Trust was also approved by the Internal Revenue Service in June 2008. KUB administers the Trust through a Board of Trustees consisting of seven KUB employees that are appointed by KUB's President and CEO. Any amendments to the Trust involving costs not approved in the operating budget must be approved by KUB's Board of Commissioners, upon recommendation by KUB's President and CEO. All other amendments to the Trust may be approved by KUB's President and CEO upon 60 days notification to the Board's Audit and Finance Committee. The investment of all deposits to the Trust is governed by an Investment Policy, which was adopted by the KUB Board and approved by the State Funding Board. The Trust issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017. For purposes of this disclosure, presentation is on a consolidated basis unless division's share is specified.

Effective 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:

	2018	**2017**
Retirees	562	567
Dependents of retirees	561	580
Eligible active employees	309	334
Total	1,432	1,481

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 $250 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 $250 for single coverage and $500 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, 2018:

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%

Contributions of zero and $620,015 were made to the OPEB Trust for the fiscal years ending June 30, 2018 and 2017, respectively, based on the OPEB Plan's actuarial valuations as of January 1, 2016, and 2015. Of these amounts, zero and $297,607 were attributable to the Electric Division.

Implementation of GASB 75

In fiscal year 2018, KUB adopted 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, 2018 are based on the reporting date for the KUB Other Post-Employment Benefits Plan which is June 30, 2018. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2018 and the Total OPEB Liability as of the valuation date, January 1, 2017, updated to June 30, 2018. The Division's share of the total net OPEB asset at June 30, 2018 is $1,800,513 and at June 30, 2017 is $2,170,894.

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

	2018	2017
Total OPEB liability	$ 45,604,431	$ 44,477,738
Plan fiduciary net position	49,355,499	49,000,433
Net OPEB (asset) liability	$ (3,751,068)	$ (4,522,695)
Plan fiduciary net position as a percentage of the total OPEB liability	108.23%	110.17%

Changes in Net OPEB Liability are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2017	$ 44,477,738	$ 49,000,433	$ (4,522,695)
Changes for the year:			
Service cost	202,603	-	202,603
Interest	3,295,240	-	3,295,240
Differences between Expected and Actual Experience	1,324,769	-	1,324,769
Changes of Assumptions	(397,180)	-	(397,180)
Contributions - employer	-	-	-
Contributions - member	-	-	-
Net investment income	-	3,705,473	(3,705,473)
Benefit payments	(3,298,739)	(3,298,739)	-
Administrative expense	-	(51,668)	51,668
Net changes	1,126,693	355,066	771,627
Balances at June 30, 2018	$ 45,604,431	$ 49,355,499	$ (3,751,068)

Actuarial assumptions

The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, updated to June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate:	7.5%
Healthcare cost trend rates:	Pre-Medicare: 7.83% grading down to 4.5% over 20 years; Medicare: 6.88% grading down to 4.5% over 20 years; Administrative expenses: 3.0% per year
Salary increases:	From 2.80% to 5.15%, based on years of service
Mortality:	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation	2.8%

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013, with subsequent revisions to retirement and termination assumptions based upon a special experience study, which reflected experience through December 31, 2016.

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.

	Long Term Expected Real Rate of Return	
Asset Class	**2018**	**2017**
Domestic equity	5.1%	5.5%
International equity	6.6%	6.8%
Real estate equity	5.8%	6.0%
Debt securities	1.6%	1.4%
Cash and deposits	0.8%	0.6%

Discount rate

The discount rate used to measure the total OPEB liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate.
The following presents the net OPEB liability of the Trust as of June 30, 2018, calculated using the discount rate of 7.5 percent, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is 1 percent lower (6.5 percent) or 1 percent higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	**Current Discount Rate (7.5%)**	**1% Increase (8.5%)**
Net OPEB liability (asset)	$1,172,935	$(3,751,068)	$(7,892,399)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.
The following presents the net OPEB liability of the Trust as of June 30, 2018, as well as what the Trust's net OPEB liability 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 Trend**	**1% Increase**
Net OPEB liability (asset)	$(8,393,131)	$(3,751,068)	$1,703,576

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

For the year ended June 30, 2018, KUB recognized OPEB expense of $430,880 (Division's share $206,822).

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 $1,324,769 with $662,385 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 $662,384 (Division's share $317,944).

During the measurement year, there were no benefit changes. There was a decrease in the Total OPEB Liability due to assumption changes of $397,180 with $198,590 of that recognized in the current year and in the next year, resulting in a deferred inflow of $198,590 (Division's share $95,323).

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 $153,809. $30,762 of that was recognized in the current year and $123,047 (Division's share $59,063) will become a deferred inflow of resources recognized over the next four years. The table below summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 662,384	$ -
Changes in assumptions	-	198,590
Net difference between projected and actual earnings on OPEB plan investments	-	123,047
Total	$ 662,384	$ 321,637
Division's share	$ 317,944	$ 154,386

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

Year ended June 30:	
2019	$ 433,032
2020	(30,762)
2021	(30,762)
2022	(30,761)
Thereafter	-

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, 2018 and 2017 are summarized as follows:

	2018	**2017**
City of Knoxville		
Amounts billed by the Division for utilities and related services	$ 9,190,195	$ 9,537,099
Payments by the Division in lieu of property tax	7,947,289	7,472,820
Payments by the Division for services provided	69,966	66,843
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	6,093,018	5,989,819
Interdivisional rental expense	-	-
Interdivisional rental income	804,921	805,115
Amounts billed to the Division by other divisions for utilities services provided	227,990	207,960

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

	2018	**2017**
Accounts receivable	$ 522,238	$ 727,226

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.

Knoxville Utilities Board Electric Division
Required Supplementary Information – Schedule of Changes in Net Pension Liability and Related Ratios
June 30, 2018
(Unaudited)

	*Year ended December 31			
	2017	**2016**	**2015**	**2014**
Total pension liability				
Service cost	$ 4,607,486	$ 4,226,985	$ 4,157,062	$ 4,092,808
Interest	15,015,282	14,966,559	14,812,784	14,698,657
Differences between expected and actual experience	(1,087,161)	(2,233,762)	(1,890,334)	-
Changes of assumptions	(357,633)	(2,932,883)	-	-
Benefit payments, including refunds of member contributions	(14,969,979)	(14,138,511)	(15,350,926)	(15,533,167)
Net change in total pension liability	3,207,995	(111,612)	1,728,586	3,258,298
Total pension liability - beginning	204,390,738	204,502,350	202,773,764	199,515,466
Total pension liability - ending (a)	$ 207,598,733	$ 204,390,738	$ 204,502,350	$ 202,773,764
Plan fiduciary net position				
Contributions - employer	$ 4,286,597	$ 5,243,146	$ 5,991,887	$ 5,908,541
Contributions - participants	1,488,632	555,075	487,546	475,854
Net investment income	32,360,219	13,788,263	(95,430)	22,292,369
Other additions	82,239	45,848	30,879	29,733
Benefit payments, including refunds of member contributions	(14,895,979)	(14,044,511)	(15,274,926)	(15,405,167)
Administrative expense	(385,282)	(441,332)	(397,160)	(378,085)
Death benefits	(74,000)	(94,000)	(76,000)	(128,000)
Net change in plan fiduciary net position**	22,862,426	5,052,489	(9,333,204)	12,795,245
Plan fiduciary net position - beginning**	204,514,679	199,462,190	208,795,394	196,000,149
Plan fiduciary net position - ending (b)**	$ 227,377,105	$ 204,514,679	$ 199,462,190	$ 208,795,394
Plan's net pension liability - ending (a) - (b)	$ (19,778,372)	$ (123,941)	$ 5,040,160	$ (6,021,630)
Plan fiduciary net position as a percentage of the total pension liability	109.53%	100.06%	97.54%	102.97%
Covered payroll	$ 43,309,374	$ 44,437,747	$ 44,446,743	$ 44,076,351
Plan's net pension liability as a percentage of covered payroll	(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.

Knoxville Utilities Board Electric Division
Required Supplementary Information – Schedule of Employer Pension Contributions
June 30, 2018
(Unaudited)

	*Year ended December 31			
	2017	**2016**	**2015**	**2014**
Actuarially determined contribution	$ 4,286,597	$ 5,243,146	$ 5,991,887	$ 5,908,541
Contribution in relation to the actuarially determined contribution	4,286,597	5,243,146	5,991,887	5,908,541
Contribution deficiency	$ -	$ -	$ -	$ -
Covered payroll	$ 43,309,374	$ 44,437,747	$ 44,446,743	$ 44,076,351
Contributions as a percentage of covered payroll	9.90%	11.80%	13.48%	13.41%

Notes to Schedule:

Valuation Dates:	January 1, 2012 - 2016
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.

Key methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry age normal at January 1, 2012; Individual entry age of January 1, 2013 - 2016
Asset valuation method:	5-year smoothed market
Amortization method:	Level dollar closed period with 25 years remaining as of January 1, 2016
Discount rate:	8% at January 1, 2012 - 2013, 7.5% at January 1, 2014 - 2016
Salary increases:	From 2.58% to 7.92% for January 1, 2012 - 2013 and from 2.80% to 5.15% for January 1, 2014 - 2016, based on years of service
Mortality:	Sex distinct RP-2000 Combined Mortality projected to 2018 using Scale AA for the January 1, 2012 - 2013 valuations. Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA for the January 1, 2014 - 2016 valuations.
Inflation:	2.8 percent

* 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.

Knoxville Utilities Board Electric Division
Required Supplementary Information – Schedule of Changes in Net OPEB Liability and Related Ratios
June 30, 2018
(Unaudited)

	*Year ended June 30 2018
Total OPEB liability	
Service cost	$ 202,603
Interest	3,295,240
Differences between expected and actual experience	1,324,769
Changes of assumptions	(397,180)
Benefit payments	(3,298,739)
Net change in total OPEB liability	1,126,693
Total OPEB liability - beginning	44,477,738
Total OPEB liability - ending (a)	$ 45,604,431
Plan fiduciary net position	
Contributions - employer	$ -
Net investment income	3,705,473
Benefit payments	(3,298,739)
Administrative expense	(51,668)
Net change in plan fiduciary net position	355,066
Plan fiduciary net position - beginning	49,000,433
Plan fiduciary net position - ending (b)	$ 49,355,499
Net OPEB liability - ending (a) - (b)	$ (3,751,068)
Plan fiduciary net position as a percentage of the total OPEB liability	108.23%
Covered employee payroll	$ 23,677,080
Net OPEB liability as a percentage of covered employee payroll	(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.

Knoxville Utilities Board Electric Division

Required Supplementary Information – Schedule of Employer OPEB Contributions

June 30, 2018

(Unaudited)

	*Year ended June 30 2018
Actuarially determined contribution	$ -
Contribution in relation to the annual required contribution	-
Contribution deficiency/(excess)	$ -
Covered employee payroll	$ 23,677,080
Contributions as a percentage of covered employee payroll	0.00%

Notes to Schedule:

Valuation Date:	January 1, 2016
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, closed period with 20 years remaining as of January 1, 2016
Discount rate:	7.5%
Healthcare cost trend rate:	Pre-Medicare: 8.00% to 4.50 % grading down over 20 years Medicare: 7.00% to 4.50% grading down over 20 years Administrative expenses: 3.0% per year

* 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.

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, 2018
(Unaudited)

	*Year ended December 31	
	2017	2016
Total pension liability		
Service cost	$ 584	$ -
Interest (includes interest on service cost)	7,535	-
Changes of benefit terms	-	185,077
Differences between expected and actual experience	13,684	-
Changes of assumptions	73,461	-
Benefit payments, including refunds of member contributions	-	-
Net change in total pension liability	95,264	185,077
Total pension liability - beginning	185,077	-
Total pension liability - ending	$ 280,341	$ 185,077
Covered payroll	$ 43,309,374	$ 44,437,747
Total pension liability as a percentage of covered payroll	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.

Federal Grantor/ Pass-Through Grantor	Program Name	CFDA Number	Contract Number	Expenditures
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	34101-19618	$ 878,634
		Total Program 97.036		$ 878,634
		Total Federal Awards		$ 878,634

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 year 2017. In accordance with the requirements of CFDA 97.036, the expenditures have been reported in fiscal year 2018 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 Findings and Questioned Costs
June 30, 2018 **Schedule 2**

Section I -- Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting: Material weakness(es) identified?	None reported
Significant deficiency(s) identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements:	None reported

Federal Awards

Internal control over major programs: Material weakness(es) identified?	None reported
Significant deficiency(s) identified not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations Part 200?	None reported

Identification of major programs:

CFDA	Name of Program
97.036	Disaster Grants – Public Assistance

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	No

Section II -- Financial Statement Findings

None reported.

Section III -- Federal Award Findings and Questioned Costs

None reported.

Section IV – Summary Schedule of Prior Year Audit Findings

Not applicable as there were no prior year findings reported.

Section V – Corrective Action Plan

Not applicable as there were no current year findings reported.

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Insurance in Force
June 30, 2018
(Unaudited) Schedule 3

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; $1,000,000 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 - $1,500,000 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 $500,000 per individual participant.

Knoxville Utilities Board Electric Division

Supplemental Information - Schedule of Debt Maturities by Fiscal Year

June 30, 2018

(Unaudited)

Schedule 4

Continued on Next Page

	Y-2009		Z-2010			AA-2012		BB-2012		CC-2013		DD-2014	
FY	Principal	Interest	Principal	Interest	Rebate*	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
18-19	1,850,000	37,000	1,355,000	1,128,729	395,055	2,805,000	1,086,838	725,000	972,000	475,000	267,600	775,000	1,314,369
19-20			1,390,000	1,070,710	374,749	2,955,000	942,838	750,000	942,500	500,000	248,100	800,000	1,298,619
20-21			1,425,000	1,007,355	352,575	3,100,000	791,463	800,000	911,500	515,000	227,800	825,000	1,282,369
21-22			1,470,000	939,300	328,756	3,270,000	632,213	825,000	879,000	540,000	206,700	875,000	1,256,619
22-23			1,515,000	866,145	303,151	3,415,000	482,163	875,000	849,375	560,000	187,500	900,000	1,221,119
23-24			1,560,000	787,710	275,698	3,540,000	360,763	900,000	822,750	575,000	170,475	950,000	1,184,119
24-25			1,615,000	703,545	246,241	3,640,000	253,063	950,000	795,000	590,000	153,000	975,000	1,145,619
25-26			1,670,000	613,180	214,614	1,105,000	180,506	975,000	766,125	640,000	134,550	1,025,000	1,110,744
26-27			1,725,000	516,395	180,739	1,140,000	144,025	1,025,000	736,125	650,000	115,200	1,075,000	1,079,244
27-28			1,785,000	413,266	144,643	1,180,000	106,325	1,075,000	704,625	670,000	95,400	1,125,000	1,046,244
28-29			1,850,000	303,738	106,308	1,225,000	65,713	1,125,000	671,625	675,000	75,225	1,175,000	1,011,744
29-30			1,925,000	187,156	65,505	1,265,000	22,138	1,175,000	637,125	710,000	54,450	1,225,000	975,744
30-31			2,000,000	63,500	22,225			1,225,000	601,125	725,000	32,925	1,275,000	938,244
31-32								1,275,000	563,625	735,000	11,025	1,325,000	897,919
32-33								1,325,000	524,625			1,375,000	854,375
33-34								1,375,000	484,125			1,450,000	808,469
34-35								1,450,000	441,750			1,500,000	759,594
35-36								1,500,000	397,500			1,575,000	707,703
36-37								1,575,000	351,375			1,650,000	652,250
37-38								1,625,000	303,375			1,725,000	593,188
38-39								1,700,000	253,500			1,800,000	531,500
39-40								1,775,000	201,375			1,875,000	462,500
40-41								1,850,000	147,000			1,950,000	386,000
41-42								1,950,000	90,000			2,025,000	306,500
42-43								2,025,000	30,375			2,125,000	223,500
43-44												2,225,000	136,500
44-45												2,300,000	46,000
45-46													
46-47													
47-48													
Total	$ 1,850,000	$ 37,000	$ 21,285,000	$ 8,600,729	$ 3,010,259	$ 28,640,000	$ 5,068,048	$ 31,850,000	$ 14,077,500	$ 8,560,000	$ 1,979,950	$ 37,900,000	$ 22,230,795

*Series Z-2010 bonds were issued as federally taxable Build America Bonds. KUB is scheduled to receive a 35 percent interest rebate payment from the United States Government for each interest payment. Effective October 1, 2017 these bonds became subject to a 6.6% 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.

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2018
(Unaudited)

Schedule 4

Continued from Previous Page

	EE-2015		FF-2015		GG-2016		HH-2017		II-2017		Total		Grand Total (P + I)	Grand Total (Less Rebate)
FY	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest		
18-19	150,000	962,450	725,000	1,411,625	825,000	1,159,562	1,890,000	953,455	700,000	1,338,650	12,275,000	10,632,278	22,907,278	22,512,223
19-20	2,075,000	937,950	750,000	1,374,750	850,000	1,117,688	1,990,000	856,455	765,000	1,302,025	12,825,000	10,091,635	22,916,635	22,541,886
20-21	2,135,000	863,825	775,000	1,336,625	900,000	1,073,938	2,090,000	754,455	805,000	1,262,775	13,370,000	9,512,105	22,882,105	22,529,530
21-22	2,235,000	788,100	800,000	1,297,250	950,000	1,027,688	2,195,000	647,330	845,000	1,221,525	14,005,000	8,895,725	22,900,725	22,571,969
22-23	2,300,000	708,250	825,000	1,256,625	1,000,000	978,938	2,305,000	534,830	890,000	1,178,150	14,585,000	8,263,095	22,848,095	22,544,944
23-24	2,415,000	590,375	850,000	1,214,750	1,050,000	927,688	2,400,000	444,205	935,000	1,132,525	15,175,000	7,635,360	22,810,360	22,534,662
24-25	2,555,000	478,900	900,000	1,171,000	1,100,000	884,938	2,460,000	380,455	985,000	1,084,525	15,770,000	7,050,045	22,820,045	22,573,804
25-26	2,670,000	387,750	925,000	1,125,375	1,125,000	857,188	2,560,000	285,705	1,035,000	1,034,025	13,730,000	6,495,148	20,225,148	20,010,534
26-27	2,735,000	306,675	950,000	1,078,500	1,150,000	834,438	2,695,000	154,330	1,075,000	992,025	14,220,000	5,956,957	20,176,957	19,996,218
27-28	2,850,000	222,900	975,000	1,030,375	1,175,000	811,188	2,805,000	43,478	1,110,000	959,250	14,750,000	5,433,051	20,183,051	20,038,408
28-29	2,955,000	135,825	1,025,000	985,500	1,200,000	787,437			1,140,000	925,500	12,370,000	4,962,307	17,332,307	17,225,999
29-30	3,050,000	45,750	1,050,000	944,000	1,200,000	762,687			1,175,000	890,775	12,775,000	4,519,825	17,294,825	17,229,320
30-31			1,100,000	901,000	1,250,000	731,187			1,215,000	854,925	8,790,000	4,122,906	12,912,906	12,890,681
31-32			1,125,000	856,500	1,275,000	693,312			1,250,000	817,950	6,985,000	3,840,331	10,825,331	10,825,331
32-33			1,175,000	810,500	1,325,000	654,312			1,285,000	779,925	6,485,000	3,623,737	10,108,737	10,108,737
33-34			1,225,000	762,500	1,350,000	614,187			1,325,000	740,775	6,725,000	3,410,056	10,135,056	10,135,056
34-35			1,250,000	713,000	1,400,000	572,937			1,365,000	700,425	6,965,000	3,187,706	10,152,706	10,152,706
35-36			1,300,000	662,000	1,450,000	535,625			1,410,000	658,800	7,235,000	2,961,628	10,196,628	10,196,628
36-37			1,350,000	609,000	1,475,000	500,875			1,450,000	615,900	7,500,000	2,729,400	10,229,400	10,229,400
37-38			1,400,000	554,000	1,525,000	459,563			1,495,000	571,725	7,770,000	2,481,851	10,251,851	10,251,851
38-39			1,450,000	497,000	1,550,000	417,313			1,540,000	526,200	8,040,000	2,225,513	10,265,513	10,265,513
39-40			1,500,000	438,000	1,600,000	377,937			1,590,000	479,250	8,340,000	1,959,062	10,299,062	10,299,062
40-41			1,550,000	377,000	1,650,000	335,250			1,635,000	430,875	8,635,000	1,676,125	10,311,125	10,311,125
41-42			1,600,000	314,000	1,675,000	289,531			1,685,000	381,075	8,935,000	1,381,106	10,316,106	10,316,106
42-43			1,675,000	248,500	1,725,000	242,781			1,740,000	329,700	9,290,000	1,074,856	10,364,856	10,364,856
43-44			1,725,000	180,500	1,775,000	194,656			1,790,000	275,631	7,515,000	787,287	8,302,287	8,302,287
44-45			1,800,000	110,000	1,825,000	142,875			1,850,000	218,756	7,775,000	517,631	8,292,631	8,292,631
45-46			1,850,000	37,000	1,900,000	87,000			1,910,000	160,006	5,660,000	284,006	5,944,006	5,944,006
46-47					1,950,000	29,250			1,970,000	98,151	3,920,000	127,401	4,047,401	4,047,401
47-48									2,035,000	33,069	2,035,000	33,069	2,068,069	2,068,069
Total	$ 28,125,000	$ 6,428,750	$ 33,625,000	$ 22,296,875	$ 39,225,000	$ 18,101,969	$ 23,390,000	$ 5,054,698	$ 40,000,000	$ 21,994,888	294,450,000	$ 125,871,202	$ 420,321,202	$ 417,310,943

Knoxville Utilities Board Electric Division

Supplemental Information - Schedule of Current Rates in Force

June 30, 2018

(Unaudited)

Schedule 5

Rate Class		Base Charge			Number of Customers
Residential		Customer Charge:	$19.10 per month, less Hydro Allocation Credit: $1.60 per month.		182,415
		Energy Charge:	Summer Period	9.002 cents per kWh per month.	
			Winter Period	8.961 cents per kWh per month.	
			Transition Period	8.961 cents per kWh per month.	
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:			19,662
		Customer Charge:	$26.00 per delivery point per month.		
		Energy Charge:	Summer Period	10.680 cents per kWh.	
			Winter Period	10.639 cents per kWh.	
			Transition Period	10.639 cents per kWh.	
	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:			2,766
		Customer Charge:	$75.00 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	$14.42 per kW.	
			Winter Period	$13.63 per kW.	
			Transition Period	$13.63 per kW.	
		Energy Charge:	Summer Period	First 15,000 kWh per month at 12.795 cents per kWh Additional kWh per month at 5.994 cents per kWh.	
			Winter Period	First 15,000 kWh per month at 12.754 cents per kWh Additional kWh per month at 5.994 cents per kWh.	
			Transition Period	First 15,000 kWh per month at 12.754 cents per kWh Additional kWh per month at 5.994 cents per kWh.	

Rate Class		Number of Customers
	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:	47

Customer Charge:	$200.00 per delivery point per month.	
Demand Charge:	Summer Period	First 1,000 kW of billing demand per month, at $15.06 per kW. Excess over 1,000 kW of billing demand per month, at $15.70 per kW, plus an additional $15.70 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.
	Winter Period	First 1,000 kW of billing demand per month, at $14.30 per kW. Excess over 1,000 kW of billing demand per month, at $14.94 per kW, plus an additional $14.94 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.
	Transition Period	First 1,000 kW of billing demand per month, at $14.30 per kW. Excess over 1,000 kW of billing demand per month, at $14.94 per kW, plus an additional $14.94 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.
Energy Charge:	Summer Period	6.728 cents per kWh.
	Winter Period	6.728 cents per kWh.
	Transition Period	6.728 cents per kWh.

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:			4
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:			
		Summer Period	Onpeak Demand	$10.64 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$5.87 per kW per month of the customer's maximum billing demand, plus	
			Excess Demand	$16.51 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	$9.70 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$5.87 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$15.57 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	$9.70 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$5.87 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$15.57 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.	

Energy Charge:

Summer Period	Onpeak	9.525 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	7.084 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.546 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.211 cents 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	8.411 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	7.300 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.546 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.211 cents 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	7.053 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	7.053 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.546 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.211 cents 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 1.703 cents 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.

Rate Class		Base Charge			Number of Customers
Commercial/ Industrial	**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:			1
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:			
		Summer Period	Onpeak Demand	$10.64 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$5.75 per kW per month of the customer's maximum billing demand, plus	
			Excess Demand	$16.39 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	$9.70 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$5.75 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$15.45 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
		Transition Period	Onpeak Demand	$9.70 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$5.75 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$15.45 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2018
(Unaudited)

Schedule 5

Energy Charge:		
Summer Period	Onpeak	9.516 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	7.075 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.537 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.202 cents 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	8.402 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	7.291 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.537 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.202 cents 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	7.044 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	7.044 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.537 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.202 cents 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 1.703 cents 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.

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2018
(Unaudited)
Schedule 5

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:	1

Customer Charge:	$1,500 per delivery point per month.
Administrative Charge:	$700 per delivery point per month.

Demand Charge:

Summer Period	Onpeak Demand	$10.64 per kW per month of the customer's onpeak billing demand, plus
	Maximum Demand	$5.62 per kW per month of the customer's maximum billing demand, plus
	Excess Demand	$16.26 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	$9.70 per kW per month of the customer's onpeak billing demand, plus
	Maximum Demand	$5.62 per kW per month of the customer's maximum billing demand plus
	Excess Demand	$15.32 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	$9.70 per kW per month of the customer's onpeak billing demand, plus
	Maximum Demand	$5.62 per kW per month of the customer's maximum billing demand plus
	Excess Demand	$15.32 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.

Energy Charge:		
Summer Period	Onpeak	9.507 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	7.066 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.415 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.193 cents 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	8.393 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	7.282 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.415 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.193 cents 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	7.035 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	7.035 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.415 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.193 cents 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 1.703 cents 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.

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2018
(Unaudited)

Schedule 5

Rate Class		Base Charge			Number of Customers
Commercial/ Industrial Time of Use	**A.**	This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 1,000 kW but not more than 5,000 kW:			6
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:			
		Summer Period	Onpeak Demand	$10.69 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$6.17 per kW per month of the customer's maximum billing demand, plus	
			Excess Demand	$16.86 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.	
		Winter Period	Onpeak Demand	$9.75 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$6.17 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$15.92 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	$9.75 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$6.17 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$15.92 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.	

Energy Charge:

Summer Period	Onpeak	10.084 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	6.813 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.663 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.368 cents 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	8.590 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	7.102 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.663 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.368 cents 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	7.219 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	7.219 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.663 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.368 cents 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 1.703 cents 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.

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2018
(Unaudited)

Schedule 5

Rate Class		Base Charge	Number of Customers
Manufacturing	**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.	1

Customer Charge:	$1,500 per delivery point per month.	
Administrative Charge:	$700 per delivery point per month.	
Demand Charge:		
Summer Period	Onpeak Demand	$10.00 per kW per month of the customer's onpeak billing demand, plus
	Maximum Demand	$2.97 per kW per month of the customer's maximum billing demand, plus
	Excess Demand	$12.97 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	$9.06 per kW per month of the customer's onpeak billing demand, plus
	Maximum Demand	$2.97 per kW per month of the customer's maximum billing demand plus
	Excess Demand	$12.03 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	$9.06 per kW per month of the customer's onpeak billing demand, plus
	Maximum Demand	$2.97 per kW per month of the customer's maximum billing demand plus
	Excess Demand	$12.03 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.

Energy Charge:		
Summer Period	Onpeak	7.610 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	5.169 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.268 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.020 cents 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	6.497 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	5.387 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.268 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.020 cents 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	5.472 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	5.472 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.268 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.020 cents 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 1.703 cents 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.

Knoxville Utilities Board Electric Division

Supplemental Information - Schedule of Current Rates in Force

June 30, 2018

(Unaudited)

Schedule 5

Rate Class		Base Charge			Number of Customers
Manufacturing	**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.			1
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:			
		Summer Period	Onpeak Demand	$10.00 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$2.85 per kW per month of the customer's maximum billing demand, plus	
			Excess Demand	$12.85 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	$9.06 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$2.85 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$11.91 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.	
		Transition Period	Onpeak Demand	$9.06 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$2.85 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$11.91 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.	

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2018
(Unaudited)
Schedule 5

Energy Charge:

Summer Period	Onpeak	7.499 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	5.057 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.404 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.404 cents 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	6.384 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	5.274 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.404 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.404 cents 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	5.359 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	5.359 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.404 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.404 cents 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 1.703 cents 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.

Knoxville Utilities Board Electric Division

Supplemental Information - Schedule of Current Rates in Force

June 30, 2018

(Unaudited)

Schedule 5

Rate Class		Base Charge			Number of Customers
Manufacturing	**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.			1
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:			
		Summer Period	Onpeak Demand	$10.00 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$2.60 per kW per month of the customer's maximum billing demand, plus	
			Excess Demand	$12.60 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	$9.06 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$2.60 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$11.66 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	$9.06 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$2.60 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$11.66 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.	

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2018
(Unaudited)
Schedule 5

Energy Charge:

Summer Period	Onpeak	7.244 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	4.802 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.207 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.149 cents 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	6.129 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	5.019 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.207 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.149 cents 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	5.104 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	5.104 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.207 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.149 cents 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 1.703 cents 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.

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2018
(Unaudited)

Schedule 5

Rate Class		Base Charge	Number of Customers
Manufacturing Time of Use	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.	4

Customer Charge:	$1,500 per delivery point per month.	
Administrative Charge:	$700 per delivery point per month.	
Demand Charge:		
Summer Period	Onpeak Demand	$10.00 per kW per month of the customer's onpeak billing demand, plus
	Maximum Demand	$4.54 per kW per month of the customer's maximum billing demand, plus
	Excess Demand	$14.54 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	$9.06 per kW per month of the customer's onpeak billing demand, plus
	Maximum Demand	$4.54 per kW per month of the customer's maximum billing demand plus
	Excess Demand	$13.60 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	$9.06 per kW per month of the customer's onpeak billing demand, plus
	Maximum Demand	$4.54 per kW per month of the customer's maximum billing demand plus
	Excess Demand	$13.60 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.

Energy Charge:		
Summer Period	Onpeak	7.624 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	5.183 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.504 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.256 cents 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	6.511 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	5.401 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.504 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.256 cents 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	5.487 cents per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	5.487 cents per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	2.504 cents per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	2.256 cents 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 1.703 cents 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.

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 54

Energy Charge:	Summer Period	7.804 cents per kWh per month.
	Winter Period	7.804 cents per kWh per month.
	Transition Period	7.804 cents per kWh per month.

Facility Charge: The annual facility charge shall be 15.28 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 1470

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	$ 4.78	$ 10.24
	400	19,100	155	6.67	18.77
	1000**	47,500	378	10.68	40.18
High Pressure Sodium	100	8,550	42	4.78	8.06
	250	23,000	105	5.67	13.86
	400	45,000	165	6.67	19.55
	1000**	126,000	385	10.68	40.73
Decorative	100	8,550	42	5.44	8.72

* 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, 7.804 cents per rated kWh per month.

Additional pole charge: $5.00 per pole.

Rate Class	Base Charge	Number of Customers
LED Outdoor Lighting		-

Charges Per Fixture Per Month

	a. Lamp Size	**Rated kWh**	**Facility Charge**	**Total Lamp Charge**
	100 WE	21	$ 5.50	$ 7.14
	250 WE	58	6.80	11.33
	400 WE	79	9.34	15.51

b. Energy Charge: For each lamp size under **a.** above, 7.804 cents per rated kWh per month.
Additional pole charge: $5.00 per pole.

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Report of Independent Auditors 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, 2018, 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, 2018.

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) to determine the 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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 determination of financial statement amounts. 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 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, 2018

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Report of Independent Auditors on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Report on Compliance for the Major Federal Program

We have audited the compliance of the Electric Division (the Division) of the Knoxville Utilities Board, a component unit of the City of Knoxville, Tennessee, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2018. The Division's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Division's major federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the Division's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Division's compliance.

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Opinion

In our opinion, the Division complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the Division is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Division's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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

Coulter & Justus, P.C.

Knoxville, Tennessee
October 25, 2018

Knoxville Utilities Board

Gas Division

Financial Statements and Supplemental Information
June 30, 2018 and 2017

KUB Board of Commissioners

Celeste Herbert - Chair

Dr. Jerry W. Askew - Vice Chair

John Worden

Kathy Hamilton

Sara Hedstrom Pinnell

Tyvi Small

Adrienne Simpson-Brown

Management

Mintha Roach
President and
Chief Executive Officer

Mark Walker
Senior Vice President and
Chief Financial Officer

Susan Edwards
Senior Vice President and
Chief Administrative Officer

Gabe Bolas
Senior Vice President and
Chief Engineer

Eddie Black
Senior Vice President

Derwin Hagood
Senior Vice President of Operations

Mike Bolin
Vice President

Julie Childers
Vice President

John Gresham
Vice President

Dawn Mosteit
Vice President

Paul Randolph
Vice President

Knoxville Utilities Board Gas Division
Index
June 30, 2018 and 2017

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Independent Auditors' 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, 2018 and 2017, 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, 2018 and 2017, 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.

Change in Accounting Principle

As discussed in Note 13 to the financial statements, effective July 1, 2017, the Division adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to that matter.

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 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 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental 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, 2018 and 2017, 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, 2018, 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, 2018

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 and the Governmental Accounting Standards Board, 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, 2018 and 2017, 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 ending June 30, 2018 activities, resulting changes and current known facts, and should be read in conjunction with the Division's financial statements.

Gas Division Highlights

System Highlights

KUB's natural gas system serves 102,199 customers, and its service territory covers 289 square miles. KUB maintains 2,444 miles of service mains to provide 13 million dekatherms of natural gas to its customers annually.

KUB's natural gas system service territory experienced colder temperatures this past winter compared to the previous year. As a result, billed natural gas sales increased 20.8 percent when compared to fiscal year 2017. Gas Division margin (operating revenue less purchased gas cost) was $10.3 million higher in fiscal year 2018. The increase is the result of higher billed sales volumes due to a colder winter and additional revenue from the natural gas system rate increase effective October 2017.

The natural gas system's peak demand occurred in January 2018 at 140,204 dekatherms. The previous natural gas system peak was 136,356 dekatherms in February 2015.

The typical residential gas customer's average monthly gas bill was $58.39 for the twelve months ending June 30, 2018. The average monthly bill increased $1.69 compared to last fiscal year, the result of the October 2017 gas rate increase and the flow-through of under recovered purchased gas costs from fiscal year 2017.

The natural gas system has added approximately 3,506 customers over the past three years representing annual growth of one percent. In fiscal year 2018, 1,176 customers were added.

KUB's Compressed Natural Gas (CNG) Public Fueling Station opened in fiscal year 2017 to promote clean burning fuel in the Knoxville area. It joined 13 other CNG stations in Tennessee cities.

KUB's natural gas system was named to the American Public Gas Association's (APGA) System Operational Achievement Recognition (SOAR) Program, reflecting KUB's focus on system integrity, continuous improvement, safety and employee development.

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 2013, the Board extended the funding approach for Century II to include the natural gas system. The Board formally endorsed by resolution a ten-year funding plan for the Gas Division, which included a combination of rate increases and debt issues to fully fund the natural gas system's Century II program.

In April 2014, KUB management provided the Board an updated assessment of the overall condition of each utility system, including a recommendation for annual rate increases for each division for the next three fiscal years.

In June 2014, the Board approved three annual rate increases for the Gas Division. The October 2014, October 2015, and October 2016 rate increases each provided an additional $1.8 million in annual revenue to help fund infrastructure replacement and maintenance.

The South Loop project that included a new 8-mile transmission main in the southwest portion of KUB's service territory was completed in October 2015. The South Loop provides additional system capacity to meet the increased natural gas demands of the University of Tennessee, in addition to other potential growth opportunities in that portion of KUB's gas service territory.

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, 2018, KUB completed its second year of the advanced meters deployment, including the installation of network communication devices on 33 percent of KUB's natural gas meters at a total cost of $6.3 million.

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 first of the three approved gas rate increases went into effect in October 2017, generating $2.2 million in additional annual revenue. The remaining two rate increases are effective in October 2018 and October 2019 and are expected to provide an additional $2.3 million each in annual revenue to assist with the funding of the Gas Division.

During the fiscal year, KUB replaced 6 miles of steel gas mains, while staying on track with Century II goals and within the Gas Division's total capital budget.

Financial Highlights

Fiscal Year 2018 Compared to Fiscal Year 2017

The Division's net position increased $17.9 million in fiscal year 2018. This increase was $11.8 million higher than the prior year's change in net position. A restatement to the fiscal year 2018 beginning net position, based on a change in method of accounting for Other Post-Employment Benefits (OPEB), increased the total net position by $0.8 million during the fiscal year 2018. The change resulted in a total increase of $18.7 million in the Division's net position.

Operating revenue increased $22.7 million or 24.7 percent. The increase is attributable to higher billed volumes of 20.8 percent, additional revenue from the October 2017 rate increase 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 $12.4 million or 28.3 percent higher primarily due to higher customer demand. Margin on gas sales (operating revenue less purchased gas expense) increased $10.3 million or 21.4 percent, reflecting the increase in gas sales volumes and additional revenue from the rate increases.

Operating expenses (excluding purchased gas expense) decreased $1.3 million or 3.4 percent. Operating and maintenance (O&M) expenses were $1.7 million less than the prior fiscal year. Depreciation expense increased $0.5 million and taxes and tax equivalents were less than $0.1 million lower than the prior year.

Wholesale purchased gas expense represented 50 percent of natural gas sales revenue for the fiscal year ended June 30, 2018.

Interest income increased $0.3 million compared to the prior fiscal year. Interest expense increased $0.1 million.

Total plant assets (net) increased $6.8 million or 2.5 percent reflecting capital investment associated with the replacement of key gas system assets and other major system projects.

KUB sold $12 million in gas system revenue bonds in August 2017 for the purpose of funding gas system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.07 percent.

Long-term debt represented 34.1 percent of the Division's capital structure as of June 30, 2018, as compared to 34.9 percent last year. Capital structure equals long-term debt (which includes the current and long-term portion of revenue bonds and notes) 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 4.10. Maximum debt service coverage was 4.00.

Fiscal Year 2017 Compared to Fiscal Year 2016

The Division's net position increased $6.1 million in fiscal year 2017. This increase was $1.5 million less than the prior year's change in net position.

Operating revenue increased $3.4 million or 3.9 percent. The increase is attributable to higher billed volumes for industrial natural gas system customers and higher wholesale gas costs, which were directly flowed through to KUB's natural gas rates through the Purchased Gas Adjustment mechanism. Purchased gas expense was $2.5 million or 6.1 percent higher due to higher natural gas commodity prices offset by reduced customer demand from the mild winter. Margin on gas sales (operating revenue less purchased gas expense) increased $0.9 million or 2 percent, reflecting the decrease in gas sales volumes partially offset by additional revenue from the rate increases.

Operating expenses (excluding purchased gas expense) increased $2.2 million or 6.2 percent. Operating and maintenance (O&M) expenses were $1.1 million more than the prior fiscal year. Depreciation expense increased $0.8 million and taxes and tax equivalents were $0.3 million higher than the prior year.

Wholesale purchased gas expense represented 49 percent of natural gas sales revenue for the fiscal year ended June 30, 2017.

Interest income increased $0.1 million compared to the prior fiscal year. Interest expense increased $0.2 million, the result of the issuance of new bonds during the fiscal year.

Total plant assets (net) increased $7.8 million or 2.9 percent reflecting capital investment associated with the replacement of key gas system assets and other major system projects.

During fiscal year 2017, KUB sold $12 million in gas system revenue bonds for the purpose of funding gas system capital improvements and also sold $8.1 million in gas system revenue refunding bonds to refinance existing gas system bonds at lower interest rates. The refunding produced total debt service savings of $1.2 million over the life of the bonds ($1 million on a net present value basis).

Long-term debt represented 34.9 percent of the Division's capital structure as of June 30, 2017, as compared to 34.5 percent last year. Capital structure equals long-term debt (which includes the current and long-term portion of revenue bonds and notes) 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 3.00. Maximum debt service coverage was 3.01.

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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.

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

(in thousands of dollars)	2018	2017	2016
Current, restricted and other assets	$ 75,388	$ 55,347	$ 47,676
Capital assets, net	278,095	271,285	263,531
Deferred outflows of resources	1,438	2,646	3,005
Total assets and deferred outflows of resources	354,921	329,278	314,212
Current and other liabilities	22,132	22,214	19,875
Long-term debt outstanding	111,661	106,162	100,164
Deferred inflows of resources	2,424	895	257
Total liabilities and deferred inflows of resources	136,217	129,271	120,296
Net position			
Net investment in capital assets	161,294	160,725	159,696
Restricted	2,050	1,875	1,820
Unrestricted	55,360	37,407	32,400
Total net position	$ 218,704	$ 200,007	$ 193,916

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.

Impacts and Analysis

Current, Restricted and Other Assets

Fiscal Year 2018 Compared to Fiscal Year 2017

Current, restricted and other assets increased $20 million or 36.2 percent, primarily due to a $18 million increase in general fund cash (consisting of cash and cash equivalents, short-term investments and long-term investments), an increase in the actuarially determined net pension asset of $3.3 million, and an increase of $1.2 million in accounts receivable.

Fiscal year 2017's $3.8 million under recovery of wholesale gas costs was collected from customers in fiscal year 2018 through adjustments to rates via the Purchased Gas Adjustment. Gas storage decreased $0.8 million, reflecting 12.9 percent lower storage volumes compared to the prior fiscal year.

Fiscal Year 2017 Compared to Fiscal Year 2016

Current, restricted and other assets increased $7.7 million or 16 percent. General fund cash (consisting of cash and cash equivalents, short-term investments and long-term investments) increased $2.4 million primarily to fund capital expenditures. Inventories increased $1.2 million due to advanced metering materials and accounts receivable increased $1.1 million compared to June 2016. Operating contingency reserves increased $0.9 million.

KUB under recovered its wholesale gas costs by $3.7 million in fiscal year 2017 compared to a $2.2 million under recovery in fiscal year 2016. The under recovery of costs will be collected from customers next fiscal year through adjustments to rates via the Purchased Gas Adjustment. Gas storage decreased $0.1 million, reflecting higher commodity prices for natural gas for 6.3 percent lower storage volumes compared to the prior fiscal year.

Capital Assets

Fiscal Year 2018 Compared to Fiscal Year 2017

Capital assets increased $6.8 million or 2.5 percent. Major capital expenditures during the year included $4.8 million for the replacement and relocation of gas system assets to accommodate Tennessee Department of Transportation (TDOT) highway improvement projects, $4.5 million for the construction of service extensions, $2.8 million for steel service replacements, $1.2 million for the deployment of advanced metering equipment and $0.6 million for trucks and equipment. The Gas Division retired $6.8 million of natural gas system assets during the fiscal year.

Fiscal Year 2017 Compared to Fiscal Year 2016

Capital assets increased $7.8 million or 2.9 percent. Major capital expenditures during the year included $7.3 million for the construction of mains and service extensions, $3.1 million for gas main replacement, $2.3 million for the replacement and relocation of gas system assets to accommodate Tennessee Department of Transportation (TDOT) highway improvement projects, $1.5 million for tools and equipment, and $1.5 million for trucks and equipment. The Gas Division retired $5.8 million of natural gas system assets during the fiscal year.

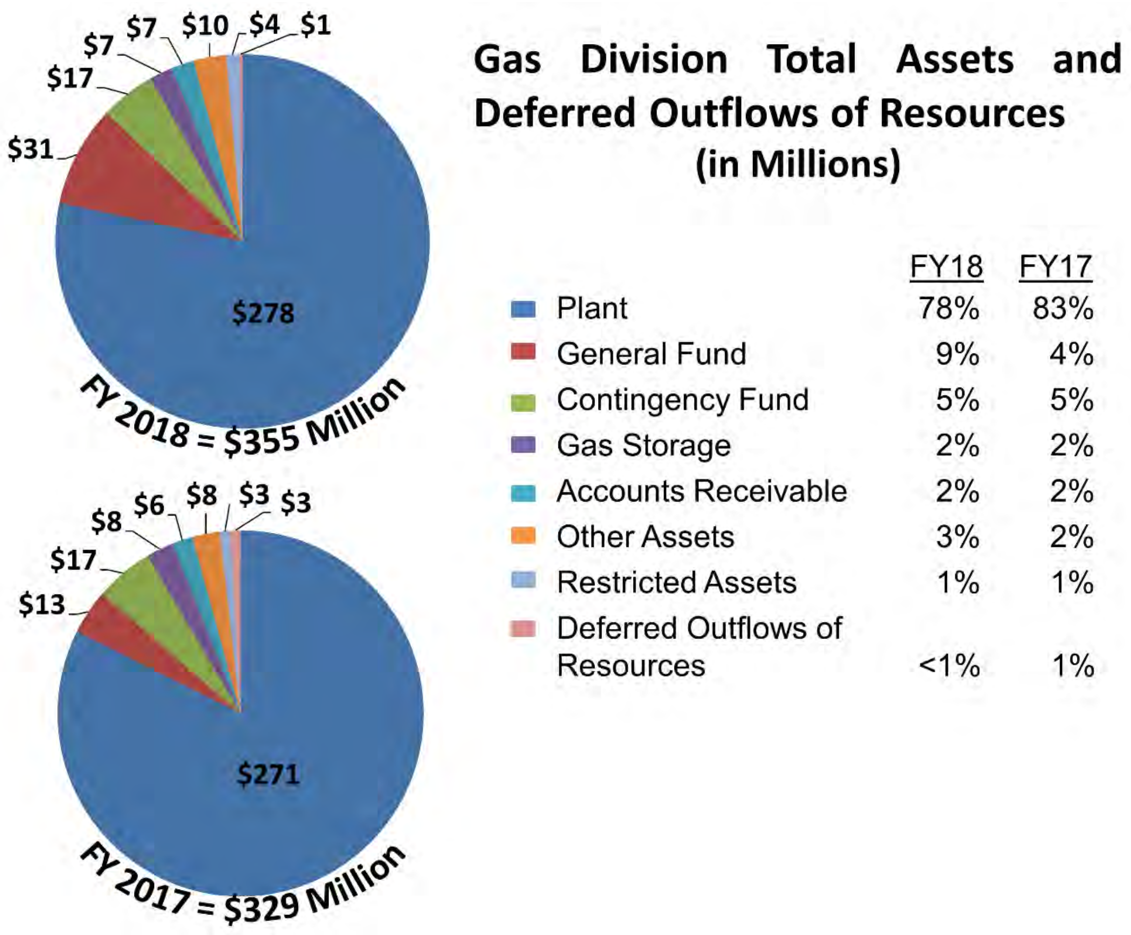
Deferred Outflows of Resources

Fiscal Year 2018 Compared to Fiscal Year 2017

Deferred outflows of resources decreased $1.2 million compared to the prior fiscal year. This decrease is attributable to a $1.2 million decrease in pension outflow.

Fiscal Year 2017 Compared to Fiscal Year 2016

Deferred outflows of resources decreased $0.4 million compared to the prior fiscal year. This decrease is attributable to a $0.2 million decrease in pension outflow and a $0.1 million decrease in unamortized bond refunding costs.



Gas Division Total Assets and Deferred Outflows of Resources (in Millions)

		FY18	FY17
🟦	Plant	78%	83%
🟥	General Fund	9%	4%
🟩	Contingency Fund	5%	5%
🟪	Gas Storage	2%	2%
🟦	Accounts Receivable	2%	2%
🟧	Other Assets	3%	2%
🟦	Restricted Assets	1%	1%
🟥	Deferred Outflows of Resources	<1%	1%

Current and Other Liabilities

Fiscal Year 2018 Compared to Fiscal Year 2017

Current and other liabilities decreased $0.1 million compared to the prior fiscal year. KUB over recovered $1.5 million in wholesale gas costs from its customers in fiscal year 2018, as compared to an under recovery in fiscal year 2017. This over recovery of costs will be flowed back to KUB's gas customers during the next fiscal year through adjustments to rates via the Purchased Gas Adjustment. The current portion of revenue bonds increased $0.4 million and customer advances for construction increased $0.3 million. These increases were offset by a decrease of $2.5 million in accounts payable compared to the prior fiscal year.

Fiscal Year 2017 Compared to Fiscal Year 2016

Current and other liabilities increased $2.3 million or 11.7 percent. Accounts payable increased $2 million compared to the prior fiscal year. Customer advances for construction increased $0.4 million and the current portion of revenue bonds increased $0.3 million. The increases were offset by a decrease of $0.8 million in the actuarially determined net pension obligation.

Long-Term Debt

Fiscal Year 2018 Compared to Fiscal Year 2017

Long-term debt was $5.5 million or 5.2 percent higher than the prior year. Natural gas system revenue bonds of $12 million, sold in August 2017, were offset by the scheduled repayment of debt.

Fiscal Year 2017 Compared to Fiscal Year 2016

Long-term debt was $6 million or 6 percent higher than the prior year. $12 million in new revenue bonds, issued in July 2016, added to KUB's outstanding debt. In March 2017, revenue refunding bonds of $8.1 million were issued to refinance bonds sold in 2005. The additional issuances offset by the defeased bonds and scheduled debt repayments accounted for the change in long-term debt.

Deferred Inflows of Resources

Fiscal Year 2018 Compared to Fiscal Year 2017

Deferred inflows of resources increased $1.5 million compared to the prior fiscal year due to differences in pension inflows.

Fiscal Year 2017 Compared to Fiscal Year 2016

Deferred inflows of resources increased $0.6 million compared to the prior fiscal year due to differences in pension inflows.

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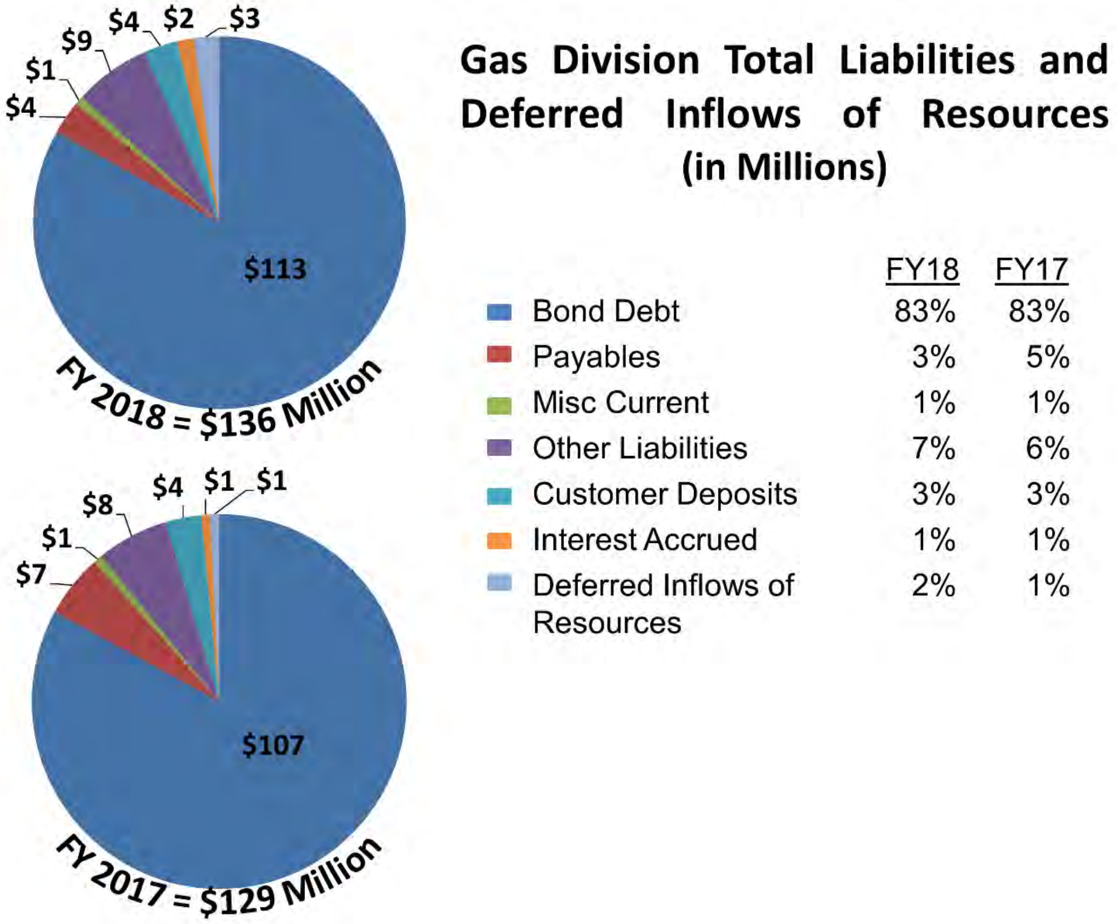

Gas Division Total Liabilities and Deferred Inflows of Resources (in Millions)

	FY18	FY17
🟦 Bond Debt	83%	83%
🟥 Payables	3%	5%
🟩 Misc Current	1%	1%
🟪 Other Liabilities	7%	6%
🟦 Customer Deposits	3%	3%
🟧 Interest Accrued	1%	1%
🟦 Deferred Inflows of Resources	2%	1%

Net Position

Fiscal Year 2018 Compared to Fiscal Year 2017

Unrestricted net position increased $18 million, primarily due to a $19.8 million increase in current and other assets compared to last fiscal year, which includes an increase of $18 million in general fund cash. Investment in capital assets, net of debt, increased $0.6 million, primarily from an increase in net plant in service of $6.8 million offset by an increase of $5.9 million in the current portion of revenue bonds and total long-term debt. Restricted net position was $0.2 million higher than the prior fiscal year, based on increases in debt service.

Fiscal Year 2017 Compared to Fiscal Year 2016

Unrestricted net position increased $5 million, primarily due to a $7.6 million increase in current and other assets compared to last fiscal year, which includes an increase of $2.4 million in general fund cash. Investment in capital assets, net of debt, increased $1 million, primarily from an increase in net plant in service of $7.8 million offset by an increase of $6.3 million in the current portion of revenue bonds and total long-term debt. Restricted net position was less than $0.1 million higher than the prior fiscal year, based on increases in debt service.

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

(in thousands of dollars)	**2018**	**2017**	**2016**
Operating revenues	$ 114,539	$ 91,868	$ 88,441
Less: Purchased gas expense	56,077	43,714	41,212
Margin from sales	58,462	48,154	47,229
Operating expenses			
Distribution	8,657	9,139	8,305
Customer service	2,486	2,718	2,676
Administrative and general	5,265	6,232	5,984
Depreciation	12,717	12,262	11,481
Taxes and tax equivalents	7,615	7,692	7,391
Total operating expenses	36,740	38,043	35,837
Operating income	21,722	10,111	11,392
Interest income	634	291	183
Interest expense	(4,260)	(4,190)	(4,033)
Other income/(expense)	(188)	(121)	34
Change in net position before capital contributions	17,908	6,091	7,576
Capital contributions	20	-	-
Change in net position	$ 17,928	$ 6,091	$ 7,576

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.

- 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 2018 Compared to Fiscal Year 2017

The Division's Change in Net Position increased $17.9 million in fiscal year 2018, reflecting a colder winter and decreased operating expenses. A restatement to the fiscal year 2018 beginning net position, based on a change in method of accounting for OPEB, increased the total net position by an additional $0.8 million. The change resulted in a total increase of $18.7 million in the Division's net position. Comparatively, net position increased by $6.1 million in fiscal year 2017.

Fiscal Year 2017 Compared to Fiscal Year 2016

The Division's net position increased $6.1 million. This was $1.5 million lower than the prior year's change in net position, reflecting the mild winter and increased operating expenses.

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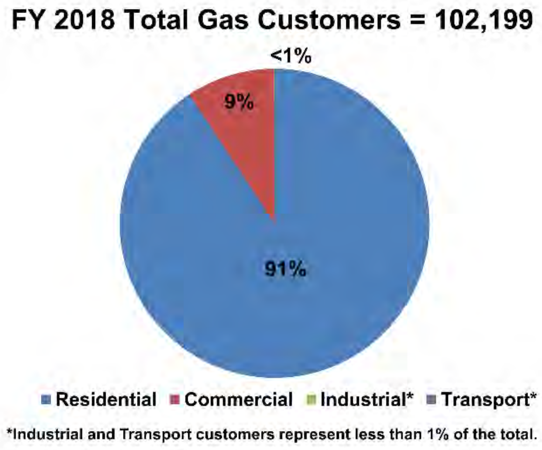
Margin from Sales

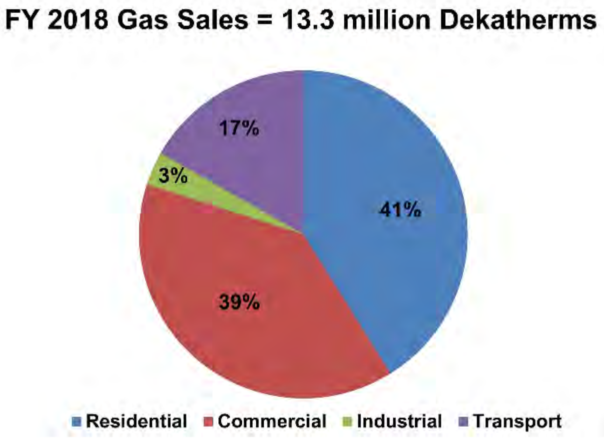
Fiscal Year 2018 Compared to Fiscal Year 2017

Margin on gas sales (operating revenue less purchased gas expense) increased $10.3 million or 21.4 percent due to revenue from the rate increase effective October 2017 and a 20.8 percent increase in billed sales volumes.

Operating revenue increased $22.7 million or 24.7 percent for the fiscal year ending June 30, 2018. The gas system service territory experienced a colder winter than the prior fiscal year's extremely mild winter. Billed sales were up 20.8 percent. The increase in operating revenue reflected increased customer demand and additional revenue from the October 2017 rate increase.

Purchased gas expense increased $12.4 million or 28.3 percent, due to increased customer demand. KUB purchased 21 percent more gas from its suppliers during the fiscal year to meet customer demand and maintain gas storage levels. This resulted in a 25.7 percent increase in total volumes delivered to KUB's gas distribution system. The Division's weighted average cost of gas purchased for fiscal year 2018 was $2.98 per dekatherm, as compared to $3.07 per dekatherm last year.





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 33 percent, commercial sales volumes increased 19.5 percent, and transport sales volumes increased 7.6 percent. Increased consumption due to normalized winter conditions experienced by the service area were offset by a 12.8 percent decline in industrial sales volumes compared to the prior fiscal year.

KUB's ten largest gas customers accounted for 23 percent of KUB's billed gas volumes. Those ten customers represent six industrial and four commercial customers, including three governmental customer.

KUB has 17 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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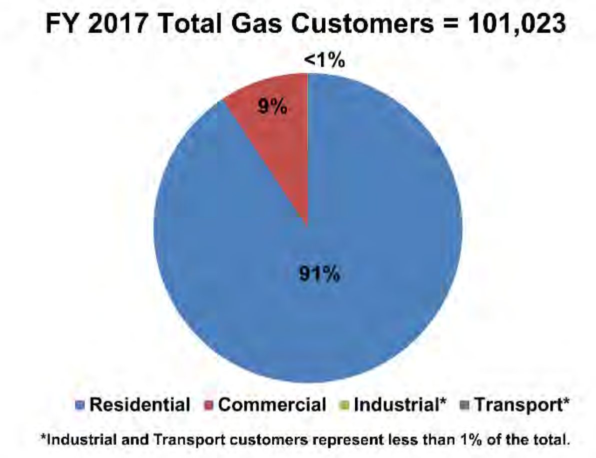
Fiscal Year 2017 Compared to Fiscal Year 2016

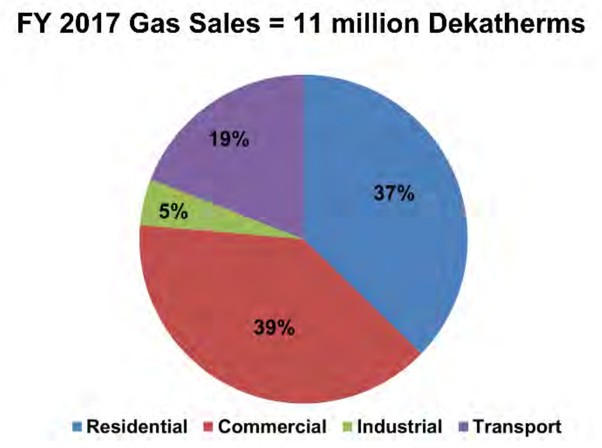
Margin on gas sales (operating revenue less purchased gas expense) increased $0.9 million or 2 percent due to revenue from the rate increase effective October 2016 offset by a 2.5 percent decrease in billed sales volumes.

Operating revenue increased $3.4 million or 3.9 percent for the fiscal year ending June 30, 2017. The gas system service territory experienced an extremely mild winter. Billed sales were down 2.5 percent due to the warm winter. The overall increase in operating revenue reflected the flow-through of higher purchased gas commodity prices, increased industrial sales, and the additional revenue from the 2016 rate increase.

Purchased gas expense increased $2.5 million or 6.1 percent, due to higher commodity prices for natural gas during the fiscal year. KUB purchased 8 percent less gas from its suppliers during the fiscal year to meet customer demand and maintain gas storage levels. The net result was a 9.5 percent decrease in total volumes delivered to KUB's gas distribution system. The Division's weighted average cost of gas purchased for fiscal year 2017 was $3.07 per dekatherm, as compared to $2.49 per dekatherm last year.


FY 2017 Total Gas Customers = 101,023

*Industrial and Transport customers represent less than 1% of the total.


FY 2017 Gas Sales = 11 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 37 percent of total volumes sold during the year.

Residential sales volumes declined 6.2 percent, transport sales volumes declined 3.3 percent and commercial sales volumes declined 1.1 percent. Consumption declines due to a mild winter were offset by a 27.3 percent increase in industrial sales volumes compared to the prior fiscal year.

KUB's ten largest gas customers accounted for 29 percent of KUB's billed gas volumes. Those ten customers represent six industrial and four commercial customers, including one governmental customer.

KUB has 17 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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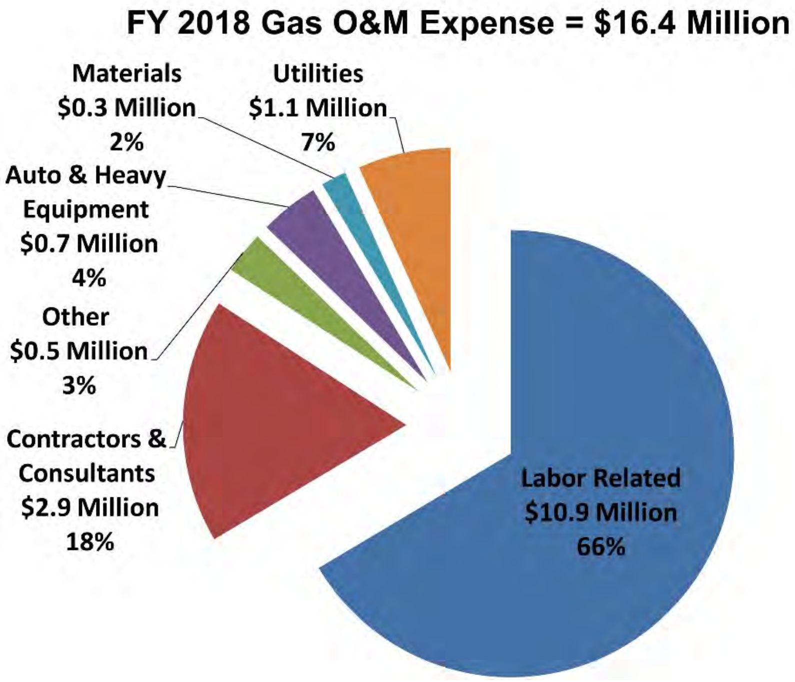
Operating Expenses

Fiscal Year 2018 Compared to Fiscal Year 2017

Operating expenses (excluding purchased gas expense) decreased $1.3 million or 3.4 percent compared to fiscal year 2017. 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 $0.5 million lower than the prior fiscal year due to a decrease in outside contractors and consultants.
- Customer service expenses were $0.2 million lower than the prior fiscal year.
- Administrative and general expenses decreased $1 million or 15.5 percent, primarily due to labor related expenses.

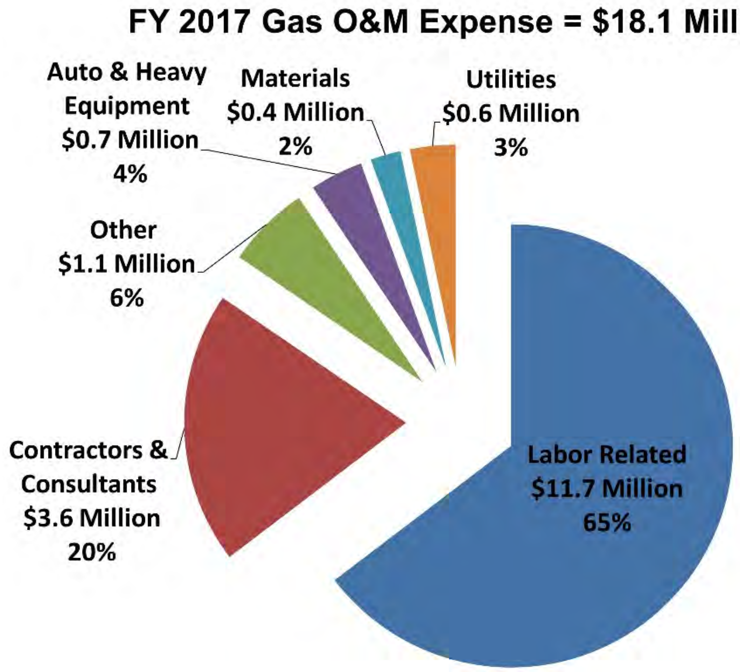


- Depreciation expense was $0.5 million higher than the prior year, primarily due to increased depreciation due to Century II replacement programs, including advanced meters.
- Taxes and tax equivalents were less than $0.1 million lower than the prior fiscal year.

Fiscal Year 2017 Compared to Fiscal Year 2016

Operating expenses (excluding purchased gas expense) increased $2.2 million or 6.2 percent compared to fiscal year 2016. 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 $0.8 million higher than the prior fiscal year due to an increase in outside contractors and an increase in labor related expenses.
- Customer service expenses were consistent with the prior fiscal year.
- Administrative and general expenses increased $0.2 million or 4.1 percent, primarily due to labor related expenses.



- Depreciation expense was $0.8 million higher than the prior year, primarily due to increased depreciation on mains due to Century II replacement programs, upgrades to various information systems and the completion of the South Loop project.
- Taxes and tax equivalents were $0.3 million higher than the prior fiscal year due to increased plant in service levels.

Other Income and Expense

Fiscal Year 2018 Compared to Fiscal Year 2017

Interest income was $0.3 million higher than the prior fiscal year, primarily due to higher short-term interest rates.

Interest expense increased $0.1 million compared with the prior year.

Other income (net) was down less than $0.1 million from the prior fiscal year.

Fiscal Year 2017 Compared to Fiscal Year 2016

Interest income was $0.1 million higher than the prior fiscal year.

Interest expense increased $0.2 million compared with the prior year, reflecting interest from new bonds issued during the fiscal year.

Other income (net) was down $0.2 million from the prior fiscal year.

Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

(in thousands of dollars)	**2018**	**2017**	**2016**
Distribution Plant			
Mains	$ 185,208	182,159	176,253
Services and Meters/Regulators	66,914	61,427	57,053
Other Accounts	841	821	845
Total Distribution Plant	252,963	$ 244,407	$ 234,151
Total General Plant	$ 9,953	9,969	8,549
Total Plant Assets	262,916	$ 254,376	$ 242,700
Work In Progress	15,179	16,909	20,831
Total Net Plant	$ 278,095	$ 271,285	$ 263,531

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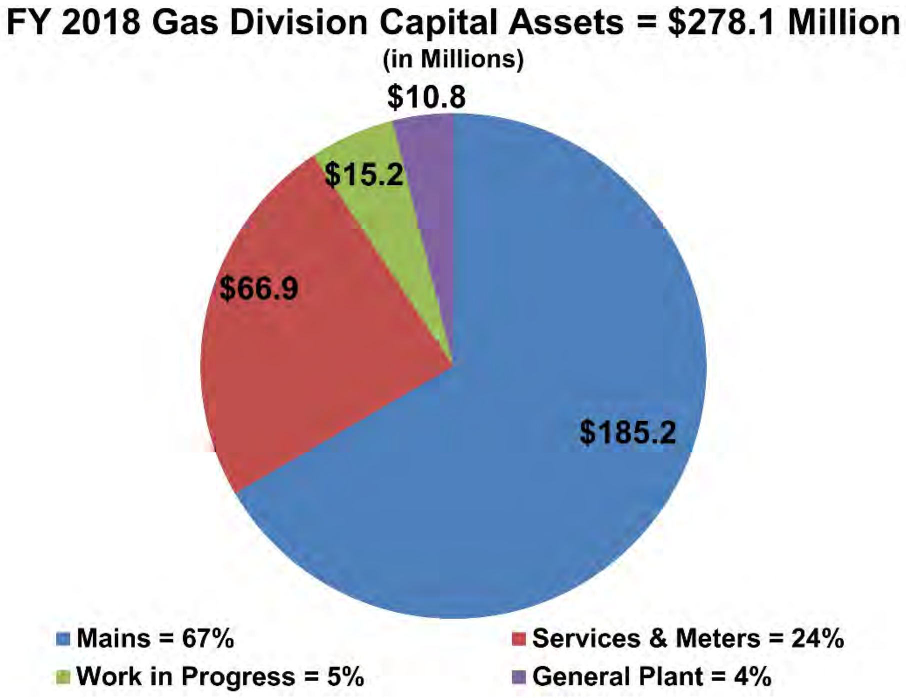
Fiscal Year 2018 Compared to Fiscal Year 2017

As of June 30, 2018, the Division had $278.1 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of $6.8 million or 2.5 percent over the end of last fiscal year.



Major capital asset expenditures during the year were as follows:

- $4.8 million for replacement and relocation of gas system assets to accommodate TDOT highway improvement projects
- $4.5 million for service extensions
- $2.8 million for steel service replacements
- $1.2 million for deployment of advanced metering equipment
- $0.6 million for trucks and equipment

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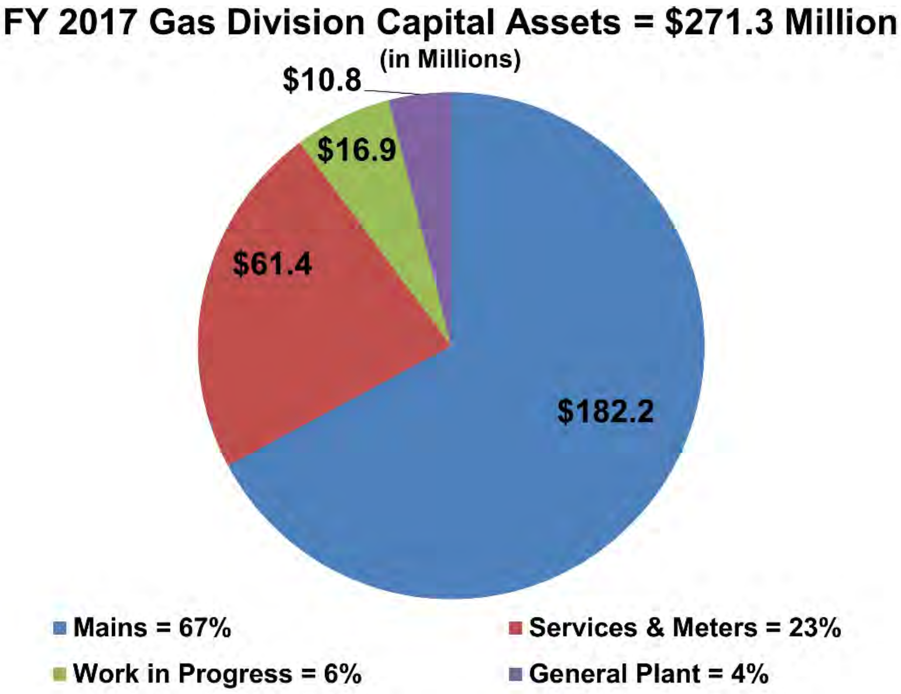
Fiscal Year 2017 Compared to Fiscal Year 2016

As of June 30, 2017, the Division had $271.3 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of $7.8 million or 2.9 percent over the end of last fiscal year.



Major capital asset expenditures during the year were as follows:

- $7.3 million for construction of mains and service extensions
- $3.1 million for main replacement
- $2.3 million for replacement and relocation of gas system assets to accommodate TDOT highway improvement projects
- $1.5 million for tools and equipment
- $1.5 million for trucks and equipment

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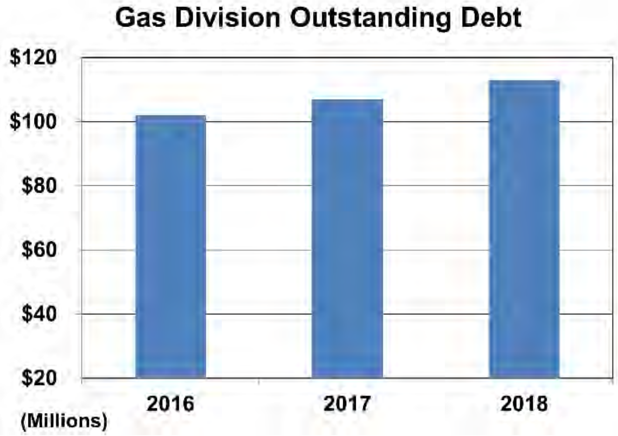
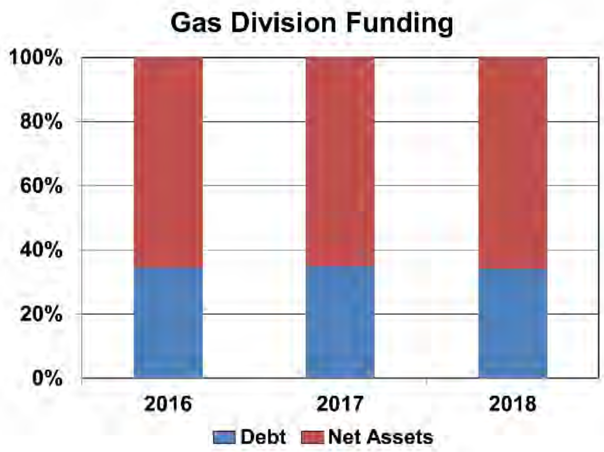
Debt Administration

As of June 30, 2018, the Gas Division had $113.3 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 34.1 percent in 2018, 34.9 percent in 2017, and 34.5 percent at the end of fiscal year 2016. 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)	2018	2017	2016
Revenue bonds	$ 113,290	$ 107,220	$ 102,125
Total outstanding debt	$ 113,290	$ 107,220	$ 102,125





The Division will pay $68.2 million in principal payments over the next ten years, representing 60.2 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 2018 Compared to Fiscal Year 2017

As of June 30, 2018, the Division had $113.3 million in outstanding debt (including current portions of revenue bonds), compared to $107.2 million last year, representing an increase of $6.1 million or 5.7 percent. The increase is attributable to new revenue bonds issued during the fiscal year offset by the scheduled repayment of debt. The Division's weighted average cost of debt as of June 30, 2018, was 3.84 percent (3.66 percent including the impact of Build America Bonds rebates).

KUB sold $12 million in gas system revenue bonds in August 2017 for the purpose of funding gas system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.07 percent.

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2018, the Division's revenue bonds were rated AA by Standard & Poor's and Aa2 by Moody's Investors Service.

Fiscal Year 2017 Compared to Fiscal Year 2016

As of June 30, 2017, the Division had $107.2 million in outstanding debt (including current portions of revenue bonds), compared to $102.1 million last year, representing an increase of $5.1 million or 5 percent. The increase is attributable to the net effect of new revenue and refunding bond issuances. The Division's weighted average cost of debt as of June 30, 2017, was 3.88 percent (3.69 percent including the impact of Build America Bonds rebates).

KUB sold $12 million in gas system revenue bonds in July 2016 for the purpose of funding gas system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.78 percent.

KUB sold $8.1 million in gas system revenue refunding bonds in March 2017 for the purpose of refinancing existing gas system bonds at lower interest rates. KUB will realize a total debt service savings of $1.2 million over the life of the bonds ($1 million on a net present value basis). The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.09 percent.

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2017, 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 1,300 new gas customers in fiscal year 2019.

In June 2017, the KUB Board adopted three years of rate increases for all four utility Divisions to help fund the ongoing Century II infrastructure programs for each system. The two remaining approved gas rate increases are effective October 2018 and October 2019 and are expected to provide an additional $2.3 million each in annual revenue to assist with the funding of the Gas Division.

KUB sold $8 million in gas system revenue bonds in August 2018 for the purpose of funding gas system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.49 percent.

KUB long-term debt includes $10.9 million of Gas 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 6.6 percent. Any future actions by Congress may also affect the anticipated rebates for future fiscal years.

The Pension Plan actuarial valuation for the Plan year ending December 31, 2017 resulted in an actuarially determined contribution of $3,156,661 for the fiscal year ending June 30, 2019, based on the Plan's current funding policy. The Gas Division's portion of this contribution is $536,632. Subsequent to June 30, 2018, the actuarial valuation for the Plan year ending December 31, 2018 was completed. The actuarial valuation resulted in an actuarially determined contribution of $2,585,824 for the fiscal year ending June 30, 2020, based on the Plan's current funding policy. The Gas Division's portion of this contribution is $439,590. For the Plan year ending December 31, 2018, the Plan's actuarial funded ratio was 107.84 percent.

The OPEB Plan actuarial valuation as of January 1, 2017 resulted in an actuarially determined contribution of zero for the fiscal year ending June 30, 2019, based on the Plan's current funding policy. Subsequent to June 30, 2018, the actuarial valuation as of January 1, 2018 was completed. The actuarial valuation resulted in an actuarially determined contribution of $311,324 for the fiscal year ending June 30, 2020, based on the Plan's current funding policy. The Gas Division's portion of this contribution is $52,925. The Plan's actuarial funded ratio was 102.78 percent.

GASB Statement No. 83, *Certain Asset Retirement Obligations,* is effective for fiscal years beginning after June 15, 2018. GASB Statement No. 84, *Fiduciary Activities*, is effective for fiscal years beginning after December 15, 2018. GASB Statement No. 87, *Leases*, is effective for fiscal years beginning after December 15, 2019. GASB Statement No. 88, *Certain Disclosure Related to Debt, Including Direct Borrowings and Direct Placements,* is effective for fiscal years beginning after June 15, 2018. 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, 2019. 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 2018.

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 ending June 30, 2018 and 2017. 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, 2018 and 2017

	2018	2017
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	$ 31,436,054	$ 13,391,230
Short-term contingency fund investments	4,602,663	8,522,367
Other current assets	1,160,707	812,562
Accrued interest receivable	8,452	7,586
Accounts receivable, less allowance of uncollectible accounts of $34,801 in 2018 and $28,971 in 2017	6,657,767	5,494,510
Inventories	2,718,546	1,824,057
Gas storage	7,037,629	7,884,634
Prepaid expenses	55,999	60,816
Total current assets	53,677,817	37,997,762
Restricted assets:		
Gas bond fund	3,496,022	3,216,035
Other funds	3,646	5,344
Total restricted assets	3,499,668	3,221,379
Gas plant in service	397,538,105	382,843,199
Less accumulated depreciation	(134,622,473)	(128,466,807)
	262,915,632	254,376,392
Retirement in progress	171,851	139,420
Construction in progress	15,007,964	16,769,035
Net plant in service	278,095,447	271,284,847
Other assets:		
Net pension asset	3,362,323	21,070
Net OPEB asset	637,682	-
Long-term contingency fund investments	12,448,693	8,696,439
Under recovered purchased gas costs	-	3,744,086
Other	1,761,696	1,666,951
Total other assets	18,210,394	14,128,546
Total assets	353,483,326	326,632,534
Deferred outflows of resources:		
Pension outflow	331,137	1,545,438
OPEB outflow	112,605	-
Unamortized bond refunding costs	993,715	1,100,393
Total deferred outflows of resources	1,437,457	2,645,831
Total assets and deferred outflows of resources	$ 354,920,783	$ 329,278,365

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

Knoxville Utilities Board Gas Division
Statements of Net Position
June 30, 2018 and 2017

	2018	2017
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	$ 6,140,000	$ 5,730,000
Sales tax collections payable	91,873	91,121
Accounts payable	4,378,905	6,897,851
Accrued expenses	1,289,179	1,239,156
Customer deposits plus accrued interest	3,981,947	3,862,132
Accrued interest on revenue bonds	1,449,255	1,346,844
Total current liabilities	17,331,159	19,167,104
Other liabilities:		
Accrued compensated absences	1,577,505	1,617,834
Customer advances for construction	1,686,824	1,379,150
Net pension liability - QEBA	47,658	31,463
Over recovered purchased gas costs	1,466,723	-
Other	22,019	18,881
Total other liabilities	4,800,729	3,047,328
Long-term debt:		
Gas revenue bonds	107,150,000	101,490,000
Unamortized premiums/discounts	4,510,823	4,671,708
Total long-term debt	111,660,823	106,161,708
Total liabilities	133,792,711	128,376,140
Deferred inflows of resources:		
Pension inflow	2,369,348	895,478
OPEB inflow	54,678	-
Total deferred inflows of resources	2,424,026	895,478
Total liabilities and deferred inflows of resources	136,216,737	129,271,618
Net position		
Net investment in capital assets	161,294,129	160,724,983
Restricted for:		
Debt service	2,046,767	1,869,191
Other	3,646	5,344
Unrestricted	55,359,504	37,407,229
Total net position	218,704,046	200,006,747
Total liabilities, deferred inflows, and net position	$ 354,920,783	$ 329,278,365

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, 2018 and 2017

	2018	2017
Operating revenues	$ 114,539,188	$ 91,868,316
Operating expenses		
Purchased gas	56,077,555	43,714,612
Distribution	8,656,548	9,138,948
Customer service	2,485,604	2,718,267
Administrative and general	5,265,333	6,231,842
Provision for depreciation	12,717,222	12,261,903
Taxes and tax equivalents	7,614,735	7,692,016
Total operating expenses	92,816,997	81,757,588
Operating income	21,722,191	10,110,728
Non-operating revenues (expenses)		
Contributions in aid of construction	3,954,439	1,129,503
Interest and dividend income	634,149	290,772
Interest expense	(4,420,436)	(4,259,626)
Amortization of debt costs	160,002	69,727
Write-down of plant for costs recovered through contributions	(3,954,439)	(1,129,503)
Other	(187,590)	(121,591)
Total non-operating revenues (expenses)	(3,813,875)	(4,020,718)
Change in net position before capital contributions	17,908,316	6,090,010
Capital contributions	20,125	-
Change in net position	17,928,441	6,090,010
Net position, beginning of year, as previously reported	200,006,747	193,916,737
Change in method of accounting for OPEB	768,858	-
Net position, beginning of year, as restated	200,775,605	193,916,737
Net position, end of year	$ 218,704,046	$ 200,006,747

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

Knoxville Utilities Board Gas Division
Statements of Cash Flows
June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash receipts from customers	$ 112,856,639	$ 90,320,835
Cash (payments to) receipts from other operations	602,728	233,101
Cash payments to suppliers of goods or services	(61,649,614)	(53,375,200)
Cash payments to employees for services	(9,420,861)	(9,312,276)
Payment in lieu of taxes	(6,859,312)	(6,987,365)
Net cash provided by operating activities	35,529,580	20,879,095
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	12,023,782	21,370,188
Principal paid on revenue bonds and notes payable	(5,930,000)	(14,970,000)
Interest paid on revenue bonds and notes payable	(4,318,025)	(4,241,869)
Acquisition and construction of gas plant	(23,878,125)	(21,462,958)
Changes in gas bond fund, restricted	(279,987)	(70,181)
Customer advances for construction	328,310	409,440
Proceeds received on disposal of plant	1,709	13,776
Cash received from developers and individuals for capital purposes	3,954,439	1,129,503
Net cash used in capital and related financing activities	(18,097,897)	(17,822,101)
Cash flows from investing activities:		
Changes in deposit and investment accounts:		
Purchase of investment securities	(8,517,352)	(4,556,524)
Maturities of investment securities	8,527,075	3,590,286
Interest received	622,003	270,992
Other property and investments	(18,585)	(6,667)
Net cash provided by (used in) investing activities	613,141	(701,913)
Net increase (decrease) in cash and cash equivalents	18,044,824	2,355,081
Cash and cash equivalents, beginning of year	13,391,230	11,036,149
Cash and cash equivalents, end of year	$ 31,436,054	$ 13,391,230
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 21,722,191	$ 10,110,728
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	13,110,866	12,551,251
Changes in operating assets and liabilities:		
Accounts receivable	(1,163,257)	(1,054,365)
Inventories	(894,489)	(1,193,522)
Prepaid expenses	851,822	130,654
Other assets	(359,177)	(580,225)
Sales tax collections payable	752	18,658
Accounts payable and accrued expenses	(3,072,890)	2,295,811
Underrecovered gas costs	5,210,809	(1,565,433)
Customer deposits plus accrued interest	119,815	184,408
Other liabilities	3,138	(18,870)
Net cash provided by operating activities	$ 35,529,580	$ 20,879,095
Noncash capital activities:		
Acquisition of plant assets through developer contributions	$ 20,125	$ -

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

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 in two 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 Gas Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2018 and 2017, 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 June 2015, the GASB issued GASB Statement No. 75 (Statement No. 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Statement addresses reporting by governments that provide OPEB to their employees. Statement No. 75 is effective for fiscal years beginning after June 15, 2017.

In March 2017, the GASB issued GASB Statement No. 85 (Statement No. 85), *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. Statement No. 85 is effective for fiscal years beginning after June 15, 2017.

In May 2017, the GASB issued GASB Statement No. 86 (Statement No. 86), *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The Statement provides guidance for transactions in which cash and other monetary assets acquired with existing resources or resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. Statement No. 86 is effective for fiscal years beginning after June 15, 2017.

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 $393,644 in fiscal year 2018 and $289,348 in fiscal year 2017. 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 $128,259 in fiscal year 2018 and $48,832 in fiscal year 2017.

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.

- 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.

Change in method of accounting for OPEB

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide OPEB to their employees. This standard was adopted by KUB in 2018 and resulted in a restatement of beginning net position of $4,522,695 (Division's share $768,858) to increase the net OPEB asset by $4,522,695 (Division's share $768,858) based on revised actuarial assumptions to conform with GASB 75.

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 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, 2018 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2018 are based on a June 30, 2018 measurement date.

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, 2018 and 2017 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2018 and 2017 are based on a December 31, 2017 and 2016 measurement date, respectively. The net pension asset is $19,778,372 (Division's share $3,362,323) as of June 30, 2018 and $123,941 (Division's share $21,070) as of June 30, 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 (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, 2018 and 2017 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2018 and 2017 will be based on the December 31, 2017 and 2016 measurement dates. The total pension liability of the QEBA is $280,341 (Division's share $47,658) as of June 30, 2018 and $185,077 (Division's share $31,463) as of June 30, 2017.

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 Statement No. 68 and Statement No. 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

KUB has evaluated events and transactions through October 25, 2018, the date these financial statements were issued, for items that should potentially be recognized or disclosed. KUB sold $8 million in gas system revenue bonds in August 2018 for the purpose of funding gas system capital improvements in fiscal year 2019. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.49 percent. Annual debt service payments including principal and interest range from $342,571 to $432,319 with final maturity in fiscal year 2048.

Reclassifications

Certain reclassifications have been made to the fiscal year 2017 balances to conform to fiscal year 2018 presentation.

Purchased Gas Adjustment

In November 1990, the Board implemented a deferred Purchased Gas (Cost) Adjustment (PGA) mechanism, which allows KUB to flow changes in purchased gas costs through to its customers. These changes in gas costs are reflected as adjustments to the base gas rates established by the

Board. The rate-setting authority vested in the Board by the City Charter meets the "self-regulated" provisions of GASB Statement No. 62 (Statement No. 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

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

Under the PGA mechanism, KUB tracks the actual over/(under) recovered amount in the Over/(Under) Recovered Purchased Gas Cost accounts. These accounts are rolled into the PGA rate adjustment on June 30 of each year thereby ensuring that any over/(under) recovered amounts are passed on to KUB's gas system customers. The amount of over/(under) recovered cost was $1,466,723 at June 30, 2018 and ($3,744,086) at June 30, 2017.

Recently Issued Accounting Pronouncements

In November 2016, the GASB issued GASB Statement No. 83 (Statement No. 83), *Certain Asset Retirement Obligations*. The objective of this Statement is to define asset retirement obligations as a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations is required to perform future asset retirement activities related to its tangible capital assets to recognize a liability based on the guidance in this Statement. Statement No. 83 is effective for fiscal years beginning after June 15, 2018.

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, 2018.

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 December 15, 2019.

In April 2018, the GASB issued GASB Statement No. 88 (Statement No. 88), *Certain Disclosure Related to Debt, Including Direct Borrowings and Direct Placements.* The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. Statement No. 88 is effective for fiscal years beginning after June 15, 2018.

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, 2019.

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:

		2018		2017
Current assets				
Cash and cash equivalents	$	31,436,054	$	13,391,230
Short-term contingency fund investments		4,602,663		8,522,367
Other assets				
Long-term contingency fund investments		12,380,543		8,639,570
Restricted assets				
Gas bond fund		3,496,022		3,216,035
Other funds		3,646		5,344
	$	51,918,928	$	33,774,546

The above amounts do not include accrued interest of $68,150 in fiscal year 2018 and $56,869 in fiscal year 2017. 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, 2018:

	Deposit and Investment Maturities (in Years)					
		Fair Value		Less Than 1		1-5
Supersweep NOW and Other Deposits	$	32,877,901	$	32,877,901	$	-
State Treasurer's Investment Pool		1,960,922		1,960,922		-
Agency Bonds		16,983,207		4,602,664		12,380,543
Certificates of Deposits		1,535,000		1,535,000		-
	$	53,357,030	$	40,976,487	$	12,380,543

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 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, 2018:

- U.S. Agency bonds of $12,380,543, 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:

	2018	2017
Wholesale and retail customers		
Billed services	$ 4,834,427	$ 3,838,388
Unbilled services	1,463,602	1,327,664
Other	394,539	357,429
Allowance for uncollectible accounts	(34,801)	(28,971)
	$ 6,657,767	$ 5,494,510

5. Accounts Payable and Accruals

Accounts payable and accruals were composed of the following:

	2018	2017
Trade accounts	$ 4,378,905	$ 6,897,851
Salaries and wages	456,117	407,720
Self-insurance liabilities	309,857	321,604
Other current liabilities	523,205	509,832
	$ 5,668,084	$ 8,137,007

6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2017	Additions	Payments	Defeased	Balance June 30, 2018	Amounts Due Within One Year
P-2010 - 3.3 - 6.2%	$ 11,460,000	$ -	$ 570,000	$ -	$ 10,890,000	$ 595,000
Q-2012 - 2.0 - 4.0%	20,580,000	-	2,125,000	-	18,455,000	2,190,000
R-2012 - 2.0 - 4.0%	9,000,000	-	425,000	-	8,575,000	425,000
S-2013 - 2.0 - 4.0%	10,860,000	-	595,000	-	10,265,000	615,000
T-2013 - 2.0 - 4.6%	23,900,000	-	500,000	-	23,400,000	500,000
U-2015 - 2.0 - 5.0%	11,580,000	-	615,000	-	10,965,000	660,000
V-2016 - 2.125 - 5.0%	11,775,000	-	225,000	-	11,550,000	250,000
W-2017 - 5.0%	8,065,000	-	675,000	-	7,390,000	670,000
X-2017 - 2.0 - 5.0%	-	12,000,000	200,000	-	11,800,000	235,000
Total bonds	$ 107,220,000	$ 12,000,000	$ 5,930,000	$ -	$ 113,290,000	$ 6,140,000
Unamortized Premium	4,671,708	222,730	383,615	-	4,510,823	-
Total long term debt	$ 111,891,708	$ 12,222,730	$ 6,313,615	$ -	$ 117,800,823	$ 6,140,000

	Balance June 30, 2016	Additions	Payments	Defeased	Balance June 30, 2017	Amounts Due Within One Year
L-2005 - 3.0 - 4.75%	$ 10,020,000	$ -	$ 725,000	$ 9,295,000	$ -	$ -
N-2007 - 4.0 - 5.0%	550,000	-	550,000	-	-	-
P-2010 - 3.3 - 6.2%	12,000,000	-	540,000	-	11,460,000	570,000
Q-2012 - 2.0 - 4.0%	22,645,000	-	2,065,000	-	20,580,000	2,125,000
R-2012 - 2.0 - 4.0%	9,400,000	-	400,000	-	9,000,000	425,000
S-2013 - 2.0 - 4.0%	11,430,000	-	570,000	-	10,860,000	595,000
T-2013 - 2.0 - 4.6%	24,400,000	-	500,000	-	23,900,000	500,000
U-2015 - 2.0 - 5.0%	11,680,000	-	100,000	-	11,580,000	615,000
V-2016 - 2.125-5.0%	-	12,000,000	225,000	-	11,775,000	225,000
W-2017 - 5.0%	-	8,065,000	-	-	8,065,000	675,000
Total bonds	$ 102,125,000	$ 20,065,000	$ 5,675,000	$ 9,295,000	$ 107,220,000	$ 5,730,000
Unamortized Premium	3,488,853	1,595,609	289,649	123,105	4,671,708	-
Total long term debt	$ 105,613,853	$ 21,660,609	$ 5,964,649	$ 9,418,105	$ 111,891,708	$ 5,730,000

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

Fiscal Year	Principal	Total Interest	Grand Total
2019	$ 6,140,000	$ 4,347,765	$ 10,487,765
2020	6,355,000	4,117,629	10,472,629
2021	6,620,000	3,841,529	10,461,529
2022	6,870,000	3,551,535	10,421,535
2023	7,160,000	3,261,536	10,421,536
2024 - 2028	35,060,000	12,176,588	47,236,588
2029 - 2033	27,355,000	5,881,976	33,236,976
2034 - 2038	8,595,000	2,063,003	10,658,003
2039 - 2043	5,100,000	1,097,909	6,197,909
2044 - 2047	4,035,000	293,500	4,328,500
Total	$ 113,290,000	$ 40,632,970	$ 153,922,970

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, 2018, these bond covenant requirements had been satisfied.

During fiscal year 2011, KUB's Gas Division issued Series P 2010 bonds to fund gas 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. Effective October 1, 2017, these bonds became subject to a 6.6 percent 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.

During fiscal year 2012, KUB's Gas Division issued Series Q 2012 bonds to retire Series K 2004 bonds.

During fiscal year 2013, KUB's Gas Division issued Series R 2012 bonds to fund gas system capital improvements. KUB's Gas Division also issued Series S 2013 bonds to retire Series M 2006 outstanding bonds.

During fiscal year 2014, KUB's Gas Division issued Series T 2013 to fund gas system capital improvements.

During fiscal year 2015, KUB's Gas Division issued Series U 2015 bonds to retire a portion of Series N 2007 outstanding bonds.

During fiscal year 2017, KUB's Gas Division issued Series V 2016 bonds to fund gas system capital improvements. KUB's Gas Division also issued Series W 2017 bonds to retire outstanding Series L 2005 bonds.

During fiscal year 2018, KUB's Gas Division issued Series X 2017 bonds to fund gas system capital improvements.

Other liabilities consist of the following:

	Balance June 30, 2017	**Increase**	**Decrease**	**Balance June 30, 2018**
Accrued compensated absences	$ 1,617,834	$ 2,861,613	(2,901,942)	$ 1,577,505
Customer advances for construction	1,379,150	754,602	(446,928)	1,686,824
Other	18,881	13,632	(10,494)	22,019
	$ 3,015,865	$ 3,629,847	$ (3,359,364)	$ 3,286,348

	Balance June 30, 2016	**Increase**	**Decrease**	**Balance June 30, 2017**
Accrued compensated absences	$ 1,531,331	$ 2,543,663	$ (2,457,160)	$ 1,617,834
Customer advances for construction	984,710	939,131	(544,691)	1,379,150
Other	37,751	12,287	(31,157)	18,881
	$ 2,553,792	$ 3,495,081	$ (3,033,008)	$ 3,015,865

7. Lease Commitments

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

2019	$ 55,467
2020	38,981
Total operating minimum lease payments	$ 94,448

8. Capital Assets

Capital asset activity was as follows:

	Balance June 30, 2017	Increase	Decrease	Balance June 30, 2018
Production Plant	$ 14,640	$ -	$ -	$ 14,640
Distribution Plant				
Mains	260,114,157	11,001,293	(1,198,818)	269,916,632
Services and Meters/Regulators	90,422,257	8,234,467	(5,014,236)	93,642,488
Other Accounts	1,428,647	46,045	(656)	1,474,036
Total Distribution Plant	$ 351,965,061	$ 19,281,805	$ (6,213,710)	$ 365,033,156
Total General Plant	30,863,498	2,166,145	(539,334)	32,490,309
Total Plant Assets	$ 382,843,199	$ 21,447,950	$ (6,753,044)	$ 397,538,105
Less Accumulated Depreciation	(128,466,807)	(13,119,621)	6,963,955	(134,622,473)
Net Plant Assets	$ 254,376,392	$ 8,328,329	$ 210,911	$ 262,915,632
Work In Progress	16,908,455	20,884,030	(22,612,670)	15,179,815
Total Net Plant	$ 271,284,847	$ 29,212,359	$ (22,401,759)	$ 278,095,447

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	Balance June 30, 2016	Increase	Decrease	Balance June 30, 2017
Production Plant	$ 14,640	$ -	$ -	$ 14,640
Distribution Plant				
Mains	247,902,074	13,527,191	(1,315,108)	260,114,157
Services and Meters/Regulators	87,482,037	6,872,563	(3,932,343)	90,422,257
Other Accounts	1,428,647	-	-	1,428,647
Total Distribution Plant	$ 336,812,758	$ 20,399,754	$ (5,247,451)	$ 351,965,061
Total General Plant	27,804,657	3,578,403	(519,562)	30,863,498
Total Plant Assets	$ 364,632,055	$ 23,978,157	$ (5,767,013)	$ 382,843,199
Less Accumulated Depreciation	(121,932,008)	(12,560,005)	6,025,206	(128,466,807)
Net Plant Assets	$ 242,700,047	$ 11,418,152	$ 258,193	$ 254,376,392
Work In Progress	20,831,373	20,302,490	(24,225,408)	16,908,455
Total Net Plant	$ 263,531,420	$ 31,720,642	$ (23,967,215)	$ 271,284,847

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, 2018 and June 30, 2017, the amount of these liabilities was $309,857 and $321,604, respectively, resulting from the following changes:

	2018	2017
Balance, beginning of year	$ 321,604	$ 300,161
Current year claims and changes in estimates	2,649,288	2,720,095
Claims payments	(2,661,035)	(2,698,652)
Balance, end of year	$ 309,857	$ 321,604

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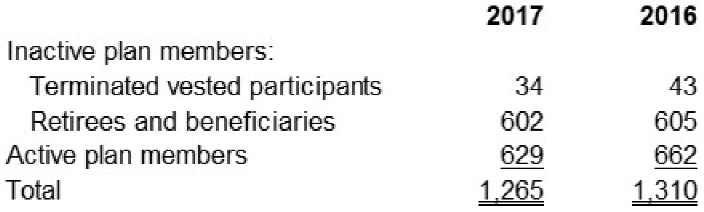
10. Pension Plan

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, 2017 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). 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:



	2017	2016
Inactive plan members:		
Terminated vested participants	34	43
Retirees and beneficiaries	602	605
Active plan members	629	662
Total	1,265	1,310

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

Plan Funding

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

Investments

The Plan’s investments are held by State Street Bank and Trust Company (the “Trustee”). The Plan’s policy in regard to the allocation of invested assets is established by the Retirement System Investment Committee and approved by the KUB Board of Commissioners and may only be amended by the KUB Board of Commissioners. It is the policy of the Retirement System Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Plan's adopted asset allocation policy as of December 31, 2017:

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 $3,756,283 and $4,816,913 for 2016 and 2015, respectively, were made during the Plan sponsor’s fiscal years ending June 30, 2018 and 2017, respectively. Of these amounts, $638,568 and $818,875 are attributable to the Gas Division. The fiscal year 2018 contribution was determined as part of the January 1, 2016 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant’s benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability or death.

Net Pension Liability

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*(“GASB 68”), which requires measurement of the net pension liability as total pension liability less the amount of the Plan’s fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB’s measurements as of June 30, 2018 and 2017 will be based on the December 31, 2017 and 2016 measurement date, respectively. The Division’s share of the net pension asset at June 30, 2018 is $3,362,323 and at June 30, 2017 is $21,070.

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

	2017	2016
Total pension liability	$ 207,598,733	$ 204,390,738
Plan fiduciary net position	(227,377,105)	(204,514,679)
Plan's net pension (asset) liability	$ (19,778,372)	$ (123,941)
Plan fiduciary net position as a percentage of the total pension liability	109.50%	100.06%

Changes in Net Pension Liability are as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2016	$ 204,390,738	$ 204,514,679	$ (123,941)
Changes for the year:			
Service cost	4,607,486	-	4,607,486
Interest	15,015,282	-	15,015,282
Differences between Expected and Actual Experience	(1,087,161)	-	(1,087,161)
Changes of Assumptions	(357,633)	-	(357,633)
Contributions - employer	-	4,286,597	(4,286,597)
Contributions - rollovers	-	1,482,701	(1,482,701)
Contributions - member	-	5,931	(5,931)
Net investment income	-	32,442,458	(32,442,458)
Benefit payments	(14,969,979)	(14,969,979)	-
Administrative expense	-	(385,282)	385,282
Net changes	3,207,995	22,862,426	(19,654,431)
Balances at December 31, 2017	$ 207,598,733	$ 227,377,105	$ (19,778,372)

Actuarial Assumptions
The total pension liability was determined by an actuarial valuation as of December 31, 2017 and 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Individual entry age
Asset valuation method	5-year smoothed market
Amortization method	Level dollar closed period with 25 years remaining as of January 1, 2016 and 26 years remaining as of January 1, 2015
Discount rate	7.5%
Salary increase	From 2.80% to 5.15% for January 1, 2016 and January 1, 2015, based on years of service
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation	2.8 %

The actuarial assumptions used in the December 31, 2017 and 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013.

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, 2017 and 2016 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.

	Long Term Expected Real Rate of Return	
Asset Class	**2017**	**2016**
Domestic equity	5.0%	5.6%
Non-U.S. equity	6.6%	7.2%
Real estate equity	5.6%	6.3%
Debt securities	1.4%	1.6%
Cash and deposits	0.7%	0.6%

Discount rate
The discount rate used to measure the total pension liability was 7.5 percent as of January 1, 2017 and 2016. 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 to changes in the discount rate
The following presents the net pension liability of the Plan as of December 31, 2017, calculated using the discount rate of 7.5 percent, as well as what the Plan's net pension liability would be if it

were calculated using a discount rate that is one percent lower (6.5 percent) or one percent higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Plan's net pension liability	$ (2,624,670)	$ (19,778,372)	$ (34,742,817)

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

For the year ended June 30, 2018, KUB recognized pension expense of ($15,659) (Division's share ($2,662)).

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, 2016, this average was 5.00 years. During the measurement year, there was an experience gain of $1,087,161 with $217,432 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $869,729 (Division's share $147,854). Unrecognized experience gains from prior periods were $2,921,210 of which $824,819 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $2,096,391 (Division's share $356,387).

During the measurement year, there were no benefit changes. There was a gain due to assumption changes of $357,633 with $71,526 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $286,107 (Division's share $48,638). Unrecognized assumption change gains from prior periods were $2,346,307 of which $586,577 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,759,730 (Division's share $299,154).

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 $17,456,614. $3,491,323 of that gain was recognized in the current year and an identical amount will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were $6,682,351 of which $1,642,445 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, 2017 of ($8,925,384) (Division's share ($1,517,315)). 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 $1,878,146 (Division's share $319,285) at June 30, 2018 for employer contributions made between December 31, 2017 and June 30, 2018.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,966,120
Changes in assumptions	-	2,045,837
Net difference between projected and actual earnings on pension plan investments	-	8,925,385
Contributions subsequent to measurement date	1,878,146	-
Total	$ 1,878,146	$ 13,937,342
Division's share	$ 319,285	$ 2,369,348

$1,878,146 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, 2019. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2019	$ (3,549,235)
2020	(1,954,655)
2021	(4,653,172)
2022	(3,780,280)
Thereafter	-

For the year ended June 30, 2017, KUB recognized pension expense of $4,674,543 (Division's share $794,672).

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, 2015, this average was 5.00 years. During the measurement year, there was an experience gain of $2,233,762 with $446,752 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $1,787,010 (Division's share $303,792). Unrecognized experience gains from prior periods were $1,512,267 of which $378,067 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,134,200 (Division's share $192,814).

During the measurement year, there were no benefit changes. There was a gain due to assumption changes of $2,932,884 with $586,577 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $2,346,307 (Division's share $398,872).

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 $802,197. $160,439 of that loss was recognized in the current year and an identical amount will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were $7,522,599 of which $1,482,006 was recognized as an increase in pension expense in the current year. The combination of unrecognized investment losses 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, 2016 of $6,682,351 (Division's share $1,136,000). 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 $2,408,459 (Division's share $409,438) at June 30, 2017 for employer contributions made between December 31, 2016 and June 30, 2017.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,921,210
Changes in assumptions	-	2,346,307
Net difference between projected and actual earnings on pension plan investments	6,682,351	-
Contributions subsequent to measurement date	2,408,459	-
Total	$ 9,090,810	$ 5,267,517
Division's share	$ 1,545,438	$ 895,478

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 not subject to cost of living adjustments.

As of June 30, 2018, there are 602 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. There are no inactive employees or retirees currently in 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.

Implementation of GASB 73

In fiscal year 2016, KUB adopted 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, 2018 and 2017 will be based on the December 31, 2017 and 2016 measurement dates, respectively. The Division's share of the total pension liability at June 30, 2018 is $47,658 and at June 30, 2017 is $31,463.

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

	2017	**2016**
Total pension liability	$280,341	$185,077
Deferred outflows	(69,716)	-
Deferred inflows	-	-
Net impact on Statement of Net Position	$210,625	$185,077
Covered payroll	$43,309,374	$44,437,747
Total pension liability as a % of covered payroll	0.65%	0.42%

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

	Increase (Decrease)
	Total Pension Liability
Balances at December 31, 2016	$ 185,077
Changes for the year:	
Service cost	584
Interest	7,535
Changes of Benefits	-
Differences between Expected and Actual Experience	13,684
Changes of Assumptions	73,461
Contributions – employer	-
Contributions – rollovers	-
Contributions – member	-
Net investment income	-
Benefit payments	-
Net changes	95,264
Balances at December 31, 2017	$ 280,341

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Actuarial Assumptions
The total pension liability of the QEBA was determined by an actuarial valuation as of January 1, 2017 and projected to December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Individual entry age
Asset valuation method	5-year smoothed market
Amortization method	Level dollar closed period with 24 years remaining as of January 1, 2017 and 25 years remaining as of January 1, 2016
Salary increase	From 2.80% to 5.15% for January 1, 2017 and January 1, 2016, based on years of service
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation	2.8 percent

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013.

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 3.44% at December 31, 2017.

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, 2017, calculated using the discount rate of 3.44 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 (2.44 percent) or one percent higher (4.44 percent) than the current rate:

	1% Decrease (2.44%)	Current Discount Rate (3.44%)	1% Increase (4.44%)
QEBA's total pension liability	$ 307,013	$ 280,341	$ 257,483

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

For the year ended June 30, 2018, KUB recognized pension expense of $29,527 for the QEBA (Division's share $5,020). This amount is not expected to be the same as KUB's contribution to the QEBA ($3,979), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [$210,625 - $185,077 + $3,979].

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, 2016, this average was 5 years. During the measurement year, there was an experience loss of $13,684 with approximately $2,737 recognized in the current year and each of the next four years, resulting in a deferred outflow of $10,947 (Division's share $1,861).

During the measurement year, there were no benefit changes. There was an increase in the total pension liability due to assumption changes of $73,461 with approximately $14,692 recognized in the current year and each of the next four years, resulting in a deferred outflow of $58,769 (Division's share $9,991).

The table below summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 10,947	$ -
Changes in assumptions	58,769	-
Total	$ 69,716	$ -
Division's share	$ 11,852	$ -

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

Year ended June 30:	
2019	$ 17,429
2020	17,429
2021	17,429
2022	17,429
Thereafter	-

For the year ended June 30, 2017, KUB recognized pension expense of $185,077 for the QEBA (Division’s share $31,463). This amount is not expected to be the same as KUB’s contribution to the QEBA ($0), but instead represents the change in the net impact on KUB’s Statement of Net Position plus employer contributions.

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, 2015, this average was 5 years. During the measurement year, there were no assumption changes or experience gains or losses. The benefit change of $0.2 million is due to the implementation of the QEBA. Benefit changes are reflected immediately in the total pension liability of the QEBA.

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 from 3 percent to 6 percent, depending on years of service, whether they contribute or not.

Matching contributions were previously remitted to the KUB Pension Plan (a separate defined benefit plan) in the name of the participant for employees hired prior to January 1, 2011. As of December 9, 2015, these Pension match assets moved from the KUB Pension Plan to the 401(k) Plan. Effective December 9, 2015, all matching contributions are remitted to the 401(k) Plan. The match and nonelective contributions for employees hired on or after January 1, 2011 are paid directly by KUB. KUB funded 401(k) matching contributions and nonelective contributions of $2,174,711 (Division's share $369,701) and $1,963,541 (Division's share $333,802), respectively, for the years ended June 30, 2018 and 2017.

13. Other Post-Employment Benefits (OPEB)

Description of Trust

The Knoxville Utilities Board Other Post Employment Benefits Trust (the Trust) is a single-employer Other Post Employment Benefits Plan (OPEB Plan) established by the Knoxville Utilities Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. The applicable documentation was submitted to the State Funding Board and, in December 2007, the State Funding Board approved the Trust. The Trust was also approved by the Internal Revenue Service in June 2008. KUB administers the Trust through a Board of Trustees consisting of seven KUB employees that are appointed by KUB's President and CEO. Any amendments to the Trust involving costs not approved in the operating budget must be approved by KUB's Board of Commissioners, upon recommendation by KUB's President and CEO. All other amendments to the Trust may be approved by KUB's President and CEO upon 60 days notification to the Board's Audit and Finance Committee. The investment of all deposits to the Trust is governed by an Investment Policy, which was adopted by the KUB Board and approved by the State Funding Board. The Trust issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017. For purposes of this disclosure, presentation is on a consolidated basis unless division's share is specified.

Effective 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:

	2018	**2017**
Retirees	562	567
Dependents of retirees	561	580
Eligible active employees	309	334
Total	1,432	1,481

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 $250 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 $250 for single coverage and $500 for family coverage. There is currently no premium for Medicare eligible retirees or dependents. KUB is responsible for determining the level of retired plan member contributions on an annual basis, as part of its review of healthcare cost sharing

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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, 2018:

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%

Contributions of zero and $620,015 were made to the OPEB Trust for the fiscal years ending June 30, 2018 and 2017, respectively, based on the OPEB Plan's actuarial valuations as of January 1, 2016, and 2015. Of these amounts, zero and $105,403 were attributable to the Gas Division.

Implementation of GASB 75

In fiscal year 2018, KUB adopted 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, 2018 are based on the reporting date for the KUB Other Post-Employment Benefits Plan which is June 30, 2018. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2018 and the Total OPEB Liability as of the valuation date, January 1, 2017, updated to June 30, 2018. The Division's share of the total net OPEB asset at June 30, 2018 is $637,682 and at June 30, 2017 is $768,858.

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

	2018	**2017**
Total OPEB liability	$ 45,604,431	$ 44,477,738
Plan fiduciary net position	49,355,499	49,000,433
Net OPEB (asset) liability	$ (3,751,068)	$ (4,522,695)
Plan fiduciary net position as a percentage of the total OPEB liability	108.23%	110.17%

Changes in Net OPEB Liability are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2017	$ 44,477,738	$ 49,000,433	$ (4,522,695)
Changes for the year:			
Service cost	202,603	-	202,603
Interest	3,295,240	-	3,295,240
Differences between Expected and Actual Experience	1,324,769	-	1,324,769
Changes of Assumptions	(397,180)	-	(397,180)
Contributions - employer	-	-	-
Contributions - member	-	-	-
Net investment income	-	3,705,473	(3,705,473)
Benefit payments	(3,298,739)	(3,298,739)	-
Administrative expense	-	(51,668)	51,668
Net changes	1,126,693	355,066	771,627
Balances at June 30, 2018	$ 45,604,431	$ 49,355,499	$ (3,751,068)

Actuarial assumptions
The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, updated to June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate:	7.5%
Healthcare cost trend rates:	Pre-Medicare: 7.83% grading down to 4.5% over 20 years; Medicare: 6.88% grading down to 4.5% over 20 years; Administrative expenses: 3.0% per year
Salary increases:	From 2.80% to 5.15%, based on years of service
Mortality:	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation	2.8%

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013, with subsequent revisions to retirement and termination assumptions based upon a special experience study, which reflected experience through December 31, 2016.

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 2018	2017
Domestic equity	5.1%	5.5%
International equity	6.6%	6.8%
Real estate equity	5.8%	6.0%
Debt securities	1.6%	1.4%
Cash and deposits	0.8%	0.6%

Discount rate
The discount rate used to measure the total OPEB liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate.
The following presents the net OPEB liability of the Trust as of June 30, 2018, calculated using the discount rate of 7.5 percent, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is 1 percent lower (6.5 percent) or 1 percent higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net OPEB liability (asset)	$1,172,935	$(3,751,068)	$(7,892,399)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.
The following presents the net OPEB liability of the Trust as of June 30, 2018, as well as what the Trust's net OPEB liability 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 Trend	1% Increase
Net OPEB liability (asset)	$(8,393,131)	$(3,751,068)	$1,703,576

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

For the year ended June 30, 2018, KUB recognized OPEB expense of $430,880 (Division’s share $73,250).

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 $1,324,769 with $662,385 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 $662,384 (Division’s share $112,605).

During the measurement year, there were no benefit changes. There was a decrease in the Total OPEB Liability due to assumption changes of $397,180 with $198,590 of that recognized in the current year and in the next year, resulting in a deferred inflow of $198,590 (Division’s share $33,760).

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 $153,809. $30,762 of that was recognized in the current year and $123,047 (Division’s share $20,918) will become a deferred inflow of resources recognized over the next four years. The table below summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 662,384	$ -
Changes in assumptions	-	198,590
Net difference between projected and actual earnings on OPEB plan investments	-	123,047
Total	$ 662,384	$ 321,637
Division's share	$ 112,605	$ 54,678

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

Year ended June 30:	
2019	$ 433,032
2020	(30,762)
2021	(30,762)
2022	(30,761)
Thereafter	-

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, 2018 and 2017 are summarized as follows:

	2018	**2017**
City of Knoxville		
Amounts billed by the Division for utilities and related services	$ 812,116	$ 665,091
Payments by the Division in lieu of property tax	3,674,591	3,739,824
Payments by the Division for services provided	126,924	173,175
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	290,724	258,237
Interdivisional rental expense	542,469	542,405
Amounts billed to the Division by other divisions for utilities services provided	299,701	302,158

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

	2018	**2017**
Accounts receivable	$ 13,253	$ 11,122

15. Natural Gas Supply Contract Commitments

For fiscal year 2018, the Gas Division hedged 50 percent of its total gas purchases via gas supply contracts. As of June 30, 2018, the Gas Division had hedged the price on approximately 7 percent of its anticipated gas purchases for fiscal year 2019.

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

	2019	**2020**	**2021**	**2022**	**2023**
Transportation					
Tennessee Gas Pipeline	$ 3,271,320	$ 1,090,440	$ -	$ -	$ -
East Tennessee Natural Gas	10,066,388	2,748,496	-	-	-
Storage					
Tennessee Gas Pipeline	1,787,976	595,992	-	-	-
East Tennessee Natural Gas	757,460	-	-	-	-
Saltville Natural Gas	1,870,560	1,483,600	1,290,120	1,290,120	967,590
Demand Total	$ 17,753,704	$ 5,918,528	$ 1,290,120	$ 1,290,120	$ 967,590

Firm obligations related to purchased gas - commodity

	2019	2020	2021	2022	2023
Baseload					
ConocoPhillips	$ 513,820	$ -	$ -	$ -	$ -
Shell Energy	1,056,168	-	-	-	-
BP Energy Company	7,107,913	1,619,500	-	-	-
CNX Gas	1,243,042	-	-	-	-
Sequent Energy	651,721				
NJR Energy Services	898,762	-	-	-	-
Commodity Total	$ 11,471,426	$ 1,619,500	$ -	$ -	$ -

The total commodity values presented here are based upon firm supply obligations with each individual natural gas supplier. The firm obligations value for ConocoPhillips, Shell Energy, and BP Energy Company are based upon firm supply obligations and locked prices with those suppliers. The firm obligations value for BP Energy Company, Sequent, CNX Gas, and NJR Energy Services are based upon firm supply obligations and the applicable NYMEX strip prices on June 30, 2018.

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
Required Supplemental Information - Schedule of Changes in Net Pension Liability and Related Ratios
June 30, 2018
(Unaudited)

	*Year ended December 31			
	2017	2016	2015	2014
Total pension liability				
Service cost	$ 4,607,486	$ 4,226,985	$ 4,157,062	$ 4,092,808
Interest	15,015,282	14,966,559	14,812,784	14,698,657
Differences between expected and actual experience	(1,087,161)	(2,233,762)	(1,890,334)	-
Changes of assumptions	(357,633)	(2,932,883)	-	-
Benefit payments, including refunds of member contributions	(14,969,979)	(14,138,511)	(15,350,926)	(15,533,167)
Net change in total pension liability	3,207,995	(111,612)	1,728,586	3,258,298
Total pension liability - beginning	204,390,738	204,502,350	202,773,764	199,515,466
Total pension liability - ending (a)	$ 207,598,733	$ 204,390,738	$ 204,502,350	$ 202,773,764
Plan fiduciary net position				
Contributions - employer	$ 4,286,597	$ 5,243,146	$ 5,991,887	$ 5,908,541
Contributions - participants	1,488,632	555,075	487,546	475,854
Net investment income	32,360,219	13,788,263	(95,430)	22,292,369
Other additions	82,239	45,848	30,879	29,733
Benefit payments, including refunds of member contributions	(14,895,979)	(14,044,511)	(15,274,926)	(15,405,167)
Administrative expense	(385,282)	(441,332)	(397,160)	(378,085)
Death benefits	(74,000)	(94,000)	(76,000)	(128,000)
Net change in plan fiduciary net position**	22,862,426	5,052,489	(9,333,204)	12,795,245
Plan fiduciary net position - beginning**	204,514,679	199,462,190	208,795,394	196,000,149
Plan fiduciary net position - ending (b)**	$ 227,377,105	$ 204,514,679	$ 199,462,190	$ 208,795,394
Plan's net pension liability - ending (a) - (b)	$ (19,778,372)	$ (123,941)	$ 5,040,160	$ (6,021,630)
Plan fiduciary net position as a percentage of the total pension liability	109.53%	100.06%	97.54%	102.97%
Covered payroll	$ 43,309,374	$ 44,437,747	$ 44,446,743	$ 44,076,351
Plan's net pension liability as a percentage of covered payroll	(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.

Knoxville Utilities Board Gas Division
Required Supplemental Information - Schedule of Employer Pension Contributions
June 30, 2018
(Unaudited)

	*Year ended December 31			
	2017	**2016**	**2015**	**2014**
Actuarially determined contribution	$ 4,286,597	$ 5,243,146	$ 5,991,887	$ 5,908,541
Contribution in relation to the actuarially determined contribution	4,286,597	5,243,146	5,991,887	5,908,541
Contribution deficiency	$ -	$ -	$ -	$ -
Covered payroll	$ 43,309,374	$ 44,437,747	$ 44,446,743	$ 44,076,351
Contributions as a percentage of covered payroll	9.90%	11.80%	13.48%	13.41%

Notes to Schedule:

Valuation Dates:	January 1, 2012 - 2016
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.

Key methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry age normal at January 1, 2012; Individual entry age of January 1, 2013 - 2016
Asset valuation method:	5-year smoothed market
Amortization method:	Level dollar closed period with 25 years remaining as of January 1, 2016
Discount rate:	8% at January 1, 2012 - 2013, 7.5% at January 1, 2014 - 2016
Salary increases:	From 2.58% to 7.92% for January 1, 2012 - 2013 and from 2.80% to 5.15% for January 1, 2014 - 2016, based on years of service
Mortality:	Sex distinct RP-2000 Combined Mortality projected to 2018 using Scale AA for the January 1, 2012 - 2013 valuations. Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA for the January 1, 2014 - 2016 valuations.
Inflation:	2.8 percent

* 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.

Knoxville Utilities Board Gas Division

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

June 30, 2018

(Unaudited)

	*Year ended June 30 2018
Total OPEB liability	
Service cost	$ 202,603
Interest	3,295,240
Differences between expected and actual experience	1,324,769
Changes of assumptions	(397,180)
Benefit payments	(3,298,739)
Net change in total OPEB liability	1,126,693
Total OPEB liability - beginning	44,477,738
Total OPEB liability - ending (a)	$ 45,604,431
Plan fiduciary net position	
Contributions - employer	$ -
Net investment income	3,705,473
Benefit payments	(3,298,739)
Administrative expense	(51,668)
Net change in plan fiduciary net position	355,066
Plan fiduciary net position - beginning	49,000,433
Plan fiduciary net position - ending (b)	$ 49,355,499
Net OPEB liability - ending (a) - (b)	$ (3,751,068)
Plan fiduciary net position as a percentage of the total OPEB liability	108.23%
Covered employee payroll	$ 23,677,080
Net OPEB liability as a percentage of covered employee payroll	(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.

Knoxville Utilities Board Gas Division
Required Supplementary Information – Schedule of Employer OPEB Contributions
June 30, 2018
(Unaudited)

	*Year ended June 30 2018
Actuarially determined contribution	$ -
Contribution in relation to the annual required contribution	-
Contribution deficiency/(excess)	$ -
Covered employee payroll	$ 23,677,080
Contributions as a percentage of covered employee payroll	0.00%

Notes to Schedule:

Valuation Date:	January 1, 2016
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, closed period with 20 years remaining as of January 1, 2016
Discount rate:	7.5%
Healthcare cost trend rate:	Pre-Medicare: 8.00% to 4.50 % grading down over 20 years Medicare: 7.00% to 4.50% grading down over 20 years Administrative expenses: 3.0% per year

* 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.

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, 2018
(Unaudited)

	*Year ended December 31	
	2017	2016
Total pension liability		
Service cost	$ 584	$ -
Interest (includes interest on service cost)	7,535	-
Changes of benefit terms	-	185,077
Differences between expected and actual experience	13,684	-
Changes of assumptions	73,461	-
Benefit payments, including refunds of member contributions	-	-
Net change in total pension liability	95,264	185,077
Total pension liability - beginning	185,077	-
Total pension liability - ending	$ 280,341	$ 185,077
Covered payroll	$ 43,309,374	$ 44,437,747
Total pension liability as a percentage of covered payroll	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.

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; $1,000,000 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 - $1,500,000 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 $500,000 per individual participant.

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2018
(Unaudited)

Schedule 2

Continued on Next Page

	P-2010			Q-2012		R-2012		S-2013		T-2013	
FY	Principal	Interest	Rebate*	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
18-19	595,000	606,363	212,227	2,190,000	680,848	425,000	257,780	615,000	327,500	500,000	976,825
19-20	620,000	581,075	203,376	2,260,000	615,148	450,000	240,781	645,000	302,900	500,000	956,825
20-21	645,000	553,175	193,611	2,350,000	524,748	475,000	222,781	695,000	277,100	500,000	936,825
21-22	670,000	521,731	182,606	2,445,000	430,748	475,000	203,781	715,000	249,300	500,000	916,825
22-23	695,000	488,231	170,881	2,540,000	332,948	500,000	184,781	730,000	227,850	500,000	901,825
23-24	725,000	453,481	158,718	2,645,000	231,348	525,000	169,781	745,000	205,950	500,000	886,200
24-25	750,000	413,606	144,762	760,000	125,548	550,000	159,281	790,000	183,600	1,550,000	869,950
25-26	785,000	372,358	130,325	780,000	102,748	575,000	142,781	800,000	159,900	1,600,000	813,763
26-27	815,000	328,200	114,870	800,000	79,348	575,000	130,560	840,000	135,900	1,650,000	749,763
27-28	845,000	279,300	97,755	830,000	54,348	600,000	117,625	875,000	110,700	1,700,000	683,763
28-29	880,000	228,600	80,010	855,000	27,788	625,000	99,625	905,000	84,450	1,750,000	615,763
29-30	915,000	175,800	61,530			650,000	84,000	940,000	57,300	1,950,000	543,575
30-31	950,000	120,900	42,315			675,000	64,500	970,000	29,100	2,000,000	460,700
31-32	1,000,000	62,000	21,700			725,000	44,250			2,000,000	373,200
32-33						750,000	22,500			2,000,000	283,200
33-34										2,100,000	193,200
34-35										2,100,000	96,600
35-36											
36-37											
37-38											
38-39											
39-40											
40-41											
41-42											
42-43											
43-44											
44-45											
45-46											
46-47											
Total	$ 10,890,000	$ 5,184,820	$ 1,814,686	$ 18,455,000	$ 3,205,568	$ 8,575,000	$ 2,144,807	$ 10,265,000	$ 2,351,550	$ 23,400,000	$ 11,258,802

*Series P-2010 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, 2017 these bonds became subject to a 6.6% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is in effect until intervening Congressional action, at which time the sequestration rate is subject to change.

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2018
(Unaudited)

Schedule 2

Continued from Previous Page

	U-2015		V-2016		W-2017		X-2017		Totals		Grand Total (P + I)	Grand Total (Less Rebate)
FY	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest		
18-19	660,000	377,187	250,000	360,093	670,000	369,500	235,000	391,669	6,140,000	4,347,765	10,487,765	10,275,538
19-20	680,000	357,387	250,000	347,594	705,000	336,000	245,000	379,919	6,355,000	4,117,629	10,472,629	10,269,253
20-21	710,000	323,387	250,000	335,094	735,000	300,750	260,000	367,669	6,620,000	3,841,529	10,461,529	10,267,918
21-22	740,000	287,887	275,000	322,594	780,000	264,000	270,000	354,669	6,870,000	3,551,535	10,421,535	10,238,929
22-23	795,000	250,888	300,000	308,844	815,000	225,000	285,000	341,169	7,160,000	3,261,536	10,421,536	10,250,655
23-24	805,000	233,000	325,000	293,844	850,000	184,250	300,000	326,919	7,420,000	2,984,773	10,404,773	10,246,055
24-25	845,000	208,850	325,000	280,844	900,000	141,750	315,000	311,919	6,785,000	2,695,348	9,480,348	9,335,586
25-26	880,000	183,500	350,000	267,844	940,000	96,750	330,000	296,168	7,040,000	2,435,812	9,475,812	9,345,487
26-27	895,000	154,900	350,000	253,844	995,000	49,750	340,000	286,268	7,260,000	2,168,533	9,428,533	9,313,663
27-28	985,000	123,573	375,000	243,344			345,000	279,469	6,555,000	1,892,122	8,447,122	8,349,367
28-29	975,000	89,100	375,000	232,094			355,000	272,138	6,720,000	1,649,558	8,369,558	8,289,548
29-30	955,000	59,850	375,000	220,844			360,000	263,706	6,145,000	1,405,075	7,550,075	7,488,545
30-31	1,040,000	31,200	400,000	212,875			375,000	252,906	6,410,000	1,172,181	7,582,181	7,539,866
31-32			400,000	203,875			385,000	241,656	4,510,000	924,981	5,434,981	5,413,281
32-33			425,000	194,375			395,000	230,106	3,570,000	730,181	4,300,181	4,300,181
33-34			425,000	183,750			410,000	218,256	2,935,000	595,206	3,530,206	3,530,206
34-35			425,000	173,125			420,000	205,956	2,945,000	475,681	3,420,681	3,420,681
35-36			450,000	162,500			435,000	193,356	885,000	355,856	1,240,856	1,240,856
36-37			450,000	150,686			445,000	180,306	895,000	330,992	1,225,992	1,225,992
37-38			475,000	138,312			460,000	166,956	935,000	305,268	1,240,268	1,240,268
38-39			475,000	125,250			475,000	152,582	950,000	277,832	1,227,832	1,227,832
39-40			500,000	112,188			490,000	137,738	990,000	249,926	1,239,926	1,239,926
40-41			525,000	98,438			505,000	122,425	1,030,000	220,863	1,250,863	1,250,863
41-42			525,000	84,000			520,000	106,644	1,045,000	190,644	1,235,644	1,235,644
42-43			550,000	68,250			535,000	90,394	1,085,000	158,644	1,243,644	1,243,644
43-44			550,000	51,750			550,000	73,675	1,100,000	125,425	1,225,425	1,225,425
44-45			575,000	35,250			570,000	56,488	1,145,000	91,738	1,236,738	1,236,738
45-46			600,000	18,000			585,000	38,675	1,185,000	56,675	1,241,675	1,241,675
46-47							605,000	19,662	605,000	19,662	624,662	624,662
Total	$ 10,965,000	$ 2,680,709	$ 11,550,000	$ 5,479,501	$ 7,390,000	$ 1,967,750	$ 11,800,000	$ 6,359,463	$ 113,290,000	$ 40,632,970	$ 153,922,970	$ 152,108,284

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2018
(Unaudited)

Schedule 3

Rate Class	Base Charge	Number of Customers
Residential (G-2)	For the regular monthly billing period for the months of November to April, inclusive: Customer charge per month $9.40 First 30 therms per month at $1.1047 per therm Excess over 30 therms per month at $0.8925 per therm For the regular monthly billing periods for the months of May to October, inclusive: Customer charge per month $9.40 First 50 therms per month $0.9260 per therm Excess over 50 therms per month at $0.8074 per therm	92,680
Commercial (G-4)	Available to any commercial or industrial customer: Customer charge per month $23.00 First 250 therms per month at $1.0502 per therm Excess over 250 therms per month at $0.9342 per therm	9,244
Commercial (G-6)	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. The net rate is the sum of the following demand and commodity charges: Customer charge: $155.00 per month Demand charge: $1.95 per therm of demand Commodity charge: First 30,000 therms per month at $0.6847 per therm Excess over 30,000 therms per month at $0.5907 per therm	247
Industrial (G-7)	Service under Rate Schedule G-7 shall be available to any customer who meets the following conditions: (a) Customer's annual Interruptible Gas use, 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-7 for each two (2) dekatherms of Interruptible Gas which are purchased; (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 (d) KUB must determine that its existing distribution system facilities are adequate and available for the requested service.	11

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2018
(Unaudited)

Schedule 3

Rate Class | **Base Charge** | **Number of Customers**

The net rate is the sum of the following demand and commodity charges:

Customer charge: $425.00 per month

Demand charge: $19.50 per month per dekatherm of demand

Commodity charge:
(a) Firm Gas - $5.907 per dekatherm
(b) Interruptible Gas - (i) First 3,000 dekatherms per month at $5.157 per dekatherm; excess of 3,000 to 20,000 dekatherms per month at $4.558 per dekatherm; plus excess over 20,000 to 50,000 dekatherms per month at $3.760 per dekatherm; excess over 50,000 dekatherms per month at $3.490 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: $2.190 per dekatherm for the first 3,000 dekatherms of gas Redelivered plus Unauthorized Gas; plus $1.591 per dekatherm for each dekatherm from 3,000 to and including 20,000 dekatherms of gas Redelivered plus Unauthorized Gas; plus $.793 per dekatherm for each dekatherm from 20,000 to and including 50,000 dekatherms of gas Redelivered plus Unauthorized Gas; plus $.523 per dekatherm for the excess over 50,000 dekatherms of gas Redelivered plus Unauthorized Gas.

Unauthorized Gas charge: $15.00 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 *Gas Daily* or, if *Gas Daily* 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 *Inside FERC*, or if *Inside FERC* 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.

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2018
(Unaudited)

Schedule 3

Rate Class	Base Charge	Number of Customers
G-11	Service under Rate Schedule G-11 shall be available to any customer who meets the following conditions:	14

(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.

The net rate is the sum of the following charges:

Customer charge:	$550.00
Demand charge:	$19.50 per dekatherm of demand
Firm Gas charge:	$5.907 per dekatherm
Transportation charge:	$2.190 per dekatherm for the first 3,000 dekatherms of non-Firm gas delivered to Customer; plus $1.591 per dekatherm for each dekatherm from 3,000 to and including 20,000 dekatherms of non-Firm gas delivered to Customer; plus $.793 per dekatherm for each dekatherm from 20,000 to and including 50,000 dekatherms of non-Firm gas delivered to Customer; plus $.523 per dekatherm for the excess over 50,000 dekatherms of non-Firm gas delivered to Customer.
Standby Gas charge:	The charge for Standby Gas shall be the total of: (a) the cost per dekatherm to KUB for the applicable Day of acquiring Standby Gas on the open market, subject to the approval of the Customer to purchase Standby Gas at or above such price and (b) the costs incurred by KUB in transporting such Standby Gas via connecting pipelines to one or more of KUB's delivery points.

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2018
(Unaudited)

Schedule 3

Rate Class	Base Charge		Number of Customers
	Unauthorized Gas charge:	$15.00 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 *Gas Daily.* If *Gas Daily* is no longer published, or one of the aforementioned indeces 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.	
G-12	Service under Rate Schedule G-12 shall be available to any customer when the following conditions are met: (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.		3
	The net rate is the sum of the following charges:		
	Customer charge:	$550.00	
	Demand charge:	$6.40 per dekatherm of demand	
	Transportation charge:	$2.475 per dekatherm for the first 3,000 dekatherms of gas delivered to Customer; plus $1.722 per dekatherm for each dekatherm from 3,000 to and including 20,000 dekatherms of gas delivered to Customer; plus $.843 per dekatherm for each dekatherm from 20,000 to and including 50,000 dekatherms of gas delivered to Customer; plus $.699 per dekatherm for the excess over 50,000 dekatherms of gas delivered to Customer.	

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2018
(Unaudited)

Rate Class	Base Charge		Number of Customers
	Standby Gas charge:	The charge for Standby Gas shall be the total of: (a) the cost per dekatherm to KUB for the applicable Day of acquiring Standby Gas on the open market, subject to the approval of the Customer to purchase Standby Gas at or above such price and (b) the costs incurred by KUB in transporting such Standby Gas via connecting pipelines to one or more of KUB's delivery points.	
	Unauthorized Gas charge:	$15.00 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 *Gas Daily.* If *Gas Daily* is no longer published, or one of the aforementioned indeces 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.	

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Report of Independent Auditors 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, 2018, 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, 2018.

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) to determine the 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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 determination of financial statement amounts. 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 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, 2018

Knoxville Utilities Board

Water Division

Financial Statements and Supplemental Information
June 30, 2018 and 2017

KUB Board of Commissioners

Celeste Herbert - Chair

Dr. Jerry W. Askew - Vice Chair

John Worden

Kathy Hamilton

Sara Hedstrom Pinnell

Tyvi Small

Adrienne Simpson-Brown

Management

Mintha Roach
President and
Chief Executive Officer

Mark Walker
Senior Vice President and
Chief Financial Officer

Susan Edwards
Senior Vice President and
Chief Administrative Officer

Gabe Bolas
Senior Vice President and
Chief Engineer

Eddie Black
Senior Vice President

Derwin Hagood
Senior Vice President of Operations

Mike Bolin
Vice President

Julie Childers
Vice President

John Gresham
Vice President

Dawn Mosteit
Vice President

Paul Randolph
Vice President

Knoxville Utilities Board Water Division
Index
June 30, 2018 and 2017

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Independent Auditors' 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, 2018 and 2017, 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, 2018 and 2017, 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.

Change in Accounting Principle

As discussed in Note 13 to the financial statements, effective July 1, 2017, the Division adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to that matter.

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 60 through 64 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 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental 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, 2018 and 2017, 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, 2018, 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, 2018

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, 2018 and 2017, 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 ending June 30, 2018 activities, resulting changes and current known facts, and should be read in conjunction with the Division's financial statements.

Water Division Highlights

System Highlights

KUB serves 79,923 water system customers over a 188-square mile service area. KUB maintains 1,407 miles of service mains, 28 storage facilities, 24 booster pump stations, and one treatment plant, which provided 12.4 billion gallons of water to KUB's water customers in fiscal year 2018. The average daily flow for fiscal year 2018 was 34.1 million gallons.

The water system has added approximately 1,370 customers over the past three years representing annual growth of less than one percent. In fiscal year 2018, 481 customers were added.

The Division generated $3.1 million of additional revenue during the fiscal year as a result of the July 2017 water rate increase, which was adopted by the KUB Board to help fund the Division's Century II infrastructure program.

The typical residential water customer's average monthly bill was $24.95 as of June 30, 2018 (based on monthly use of 500 cubic feet or 3,740 gallons). The monthly bill increased $1.50 compared to the prior fiscal year, the result of the July 2017 water rate increase.

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.

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 the 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.

KUB's Century II programs were resumed in 2011, after a break due to the economic recession. At that time, the KUB Board formally endorsed a ten-year funding plan for the water system, including a combination of rate increases and debt issues. The Board also approved three years of annual water rate increases for fiscal years 2012 through 2014.

In April 2014, KUB management provided the Board an updated assessment of the overall condition of each utility system and the progress made during the resumption of the Century II program. A revised ten-year funding plan for the water system, including recommendations for annual rate increases and debt issues to fully fund the programs for each division, was included in the assessment.

In June 2014, the Board approved the proposed three annual rate increases for the Water Division. The three rate increases were effective July 2014, July 2015 and July 2016. The July 2014, July 2015, and July 2016 rate increases provided an additional $3.6 million, $2 million, and $2 million of additional annual Water Division revenue, respectively.

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. As of June 30, 2018, KUB completed the second year of the advanced meter deployment. KUB has replaced approximately 46 percent of its water meters, spending $10.8 million on the advanced meter deployment.

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 first rate increase went into effect July 2017 generating $3.1 million of additional annual Water Division revenue, while the July 2018 and July 2019 rate increases are expected to provide an additional $3.1 million and $3.3 million in annual revenue, respectively, to help fund the Water Division.

In fiscal year 2017, KUB completed the transition to a new disinfection system at the Mark B. Whitaker (MBW) Water Treatment plant.

KUB remains on track with its Century II water system infrastructure program. In fiscal year 2018, KUB replaced 6.4 miles of galvanized water main and 6.6 miles of cast iron main.

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 $126 million in various redundant facilities at the site of its existing Mark B. Whitaker Water Treatment Plant over the next 11 years.

Financial Highlights

Fiscal Year 2018 Compared to Fiscal Year 2017

The Division's net position increased $8.2 million in fiscal year 2018, which was $2.2 million higher than the prior fiscal year. A restatement to the fiscal year 2018 beginning net position, based on a change in method of accounting for Other Post-Employment Benefits (OPEB), increased the total net position by $0.6 million during fiscal year 2018. The change resulted in a total increase of $8.8 million in the Division's net position.

Operating revenue increased $3.6 million or 7.1 percent, the result of additional revenue from the water rate increase effective July 2017.

Operating expenses increased $1.3 million or 3.3 percent. Operating and maintenance expenses (O&M) increased $0.7 million compared to the prior year. Depreciation expense increased $0.6 million or 6 percent. Taxes and tax equivalents were consistent with the prior year.

Interest income was up $0.3 million from 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.

Capital contributions were $0.1 million lower than the prior fiscal year, the result of fewer assets contributed by developers.

Total plant assets (net) increased $19.6 million or 6.6 percent due to water main replacement, treatment plant improvements, and the replacement and relocation of water system assets to accommodate Tennessee Department of Transportation (TDOT) highway improvement projects.

During fiscal year 2018, KUB sold $20 million in water system revenue bonds 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 3.05 percent.

Long-term debt represented 50.2 percent of the Division's capital structure as of June 30, 2018, as compared to 49.3 percent last year. Capital structure equals long-term debt (which includes the current and long-term portion of revenue bonds and notes) 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 2.44. Maximum debt service coverage was 2.30.

Fiscal Year 2017 Compared to Fiscal Year 2016

The Division's net position increased $6 million in fiscal year 2017, which was consistent with the last fiscal year.

Operating revenue increased $3.3 million or 7 percent, the result of additional revenue from the water rate increase effective July 2016 and a 5.2 percent increase in billed water sales volumes.

Operating expenses increased $2.8 million or 7.8 percent. Operating and maintenance expenses (O&M) increased $1.7 million compared to the prior year. Depreciation expense increased $0.7 million or 8.1 percent. Taxes and tax equivalents increased $0.4 million from the prior year.

Interest income was up $0.1 million from the prior fiscal year. Interest expense was $0.4 million higher than the prior year due to the interest expense on new bonds sold during the fiscal year.

Capital contributions were $0.2 million lower than the prior fiscal year, the result of fewer assets contributed by developers.

Total plant assets (net) increased $17.2 million or 6.1 percent due to water main replacement, treatment plant improvements, and the replacement and relocation of water system assets to accommodate Tennessee Department of Transportation (TDOT) highway improvement projects.

During fiscal year 2017, KUB sold $25 million in water system revenue bonds for the purpose of funding water system capital improvements and also sold a total of $26.2 million in water system revenue refunding bonds to refinance existing water system bonds at lower interest rates. The refunding produced total debt service savings of $3.2 million over the life of the bonds ($2.8 million on a net present value basis).

As part of the rating process for the $25 million in revenue bonds and $20.9 million in revenue refunding bonds, Moody's upgraded its rating on KUB's water system bonds to Aa1 from Aa2. Aa1 is the second highest bond credit rating assigned by Moody's Investors Service. In its formal rating report, Moody's stated "the upgrade to Aa1 reflects the well-managed financial operations of the water system that continues to provide for solid debt service coverage and liquidity, a mature service area, and a manageable debt profile." The AAA bond rating from Standard and Poor's was reaffirmed. In its formal rating report on the water bonds, Standard and Poor's noted "based on our financial management assessment we view KUB to be '1' on a scale of 1-6, with '1' being the strongest."

Long-term debt represented 49.3 percent of the Division's capital structure as of June 30, 2017, as compared to 46.9 percent last year. Capital structure equals long-term debt (which includes the current and long-term portion of revenue bonds and notes) 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 2.23.

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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.

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

(in thousands of dollars)	**2018**	**2017**	**2016**
Current, restricted and other assets	$ 50,268	$ 43,229	$ 33,888
Capital assets, net	318,177	298,533	281,258
Deferred outflows of resources	3,538	4,607	3,273
Total assets and deferred outflows of resources	371,983	346,369	318,419
Current and other liabilities	13,195	11,928	13,097
Long-term debt outstanding	179,094	164,722	142,132
Deferred inflows of resources	1,854	685	197
Total liabilities and deferred inflows of resources	194,143	177,335	155,426
Net position			
Net investment in capital assets	138,682	134,011	138,069
Restricted	1,941	1,732	1,523
Unrestricted	37,217	33,291	23,401
Total net position	$ 177,840	$ 169,034	$ 162,993

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.

Impacts and Analysis

Current, Restricted and Other Assets

Fiscal Year 2018 Compared to Fiscal Year 2017

Current, restricted and other assets increased $7 million or 16.3 percent. This reflects an increase in the actuarially determined net pension asset of $2.6 million, 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 a $1.9 million increase in operating contingency reserves.

Fiscal Year 2017 Compared to Fiscal Year 2016

Current, restricted and other assets increased $9.3 million or 27.5 percent. The increase reflects a $2.6 million increase in inventories primarily due to advanced metering materials, a $2.5 million increase in the Division's general fund cash (consisting of cash and cash equivalents, short-term investments, and long-term investments), a $2.1 million increase in operating contingency reserves, and a $1.3 million increase in other current assets.

Capital Assets

Fiscal Year 2018 Compared to Fiscal Year 2017

Capital assets, net of depreciation, increased $19.6 million or 6.6 percent. Capital expenditures included $12.4 million for treatment plant and system improvements, $4.1 million for the replacement and relocation of water system assets to accommodate TDOT highway improvement projects and $3.9 million for water main replacement. During the fiscal year, $2.6 million of water system assets were retired.

Fiscal Year 2017 Compared to Fiscal Year 2016

Capital assets, net of depreciation, increased $17.2 million or 6.1 percent. Capital expenditures included $9.2 million for treatment plant and system improvements, $7.7 million for water main replacement, $3.9 million for the replacement and relocation of water system assets to accommodate TDOT highway improvement projects, and $1.5 million for trucks and equipment. $6.2 million of water system assets were retired during the fiscal year.

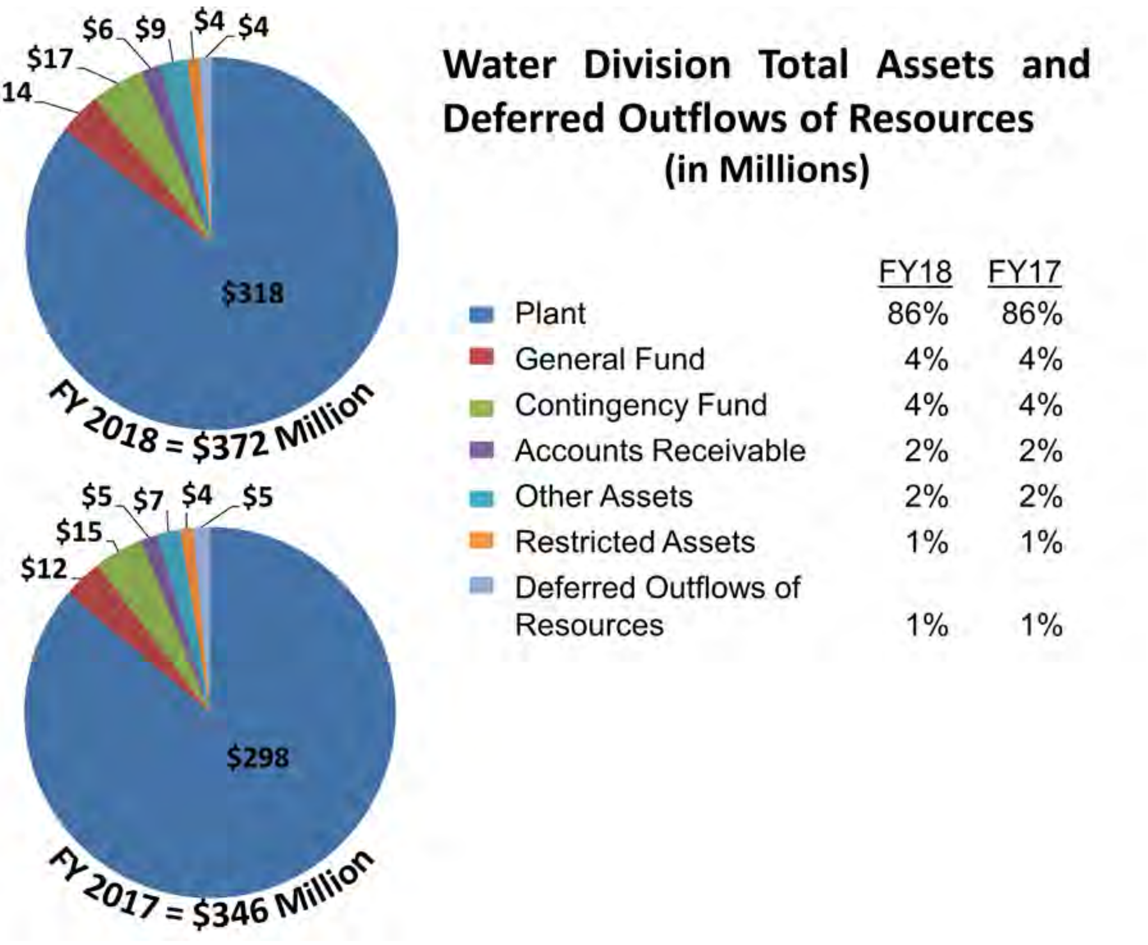
Deferred Outflows of Resources

Fiscal Year 2018 Compared to Fiscal Year 2017

Deferred outflows of resources decreased $1.1 million compared to the prior fiscal year. This decrease was due to a decrease in pension outflow of $0.9 million and a decrease of unamortized bond refunding costs of $0.2 million.

Fiscal Year 2017 Compared to Fiscal Year 2016

Deferred outflows of resources increased $1.3 million compared to the prior fiscal year. This increase was the net effect of an increase of unamortized bond refunding costs of $1.5 million offset by a decrease in pension outflow of $0.2 million.



Current and Other Liabilities

Fiscal Year 2018 Compared to Fiscal Year 2017

Current and other liabilities increased $1.3 million compared to the prior fiscal year. This increase reflects a $0.5 million increase in accounts payable and a $0.5 million increase in the current portion of revenue bonds.

Fiscal Year 2017 Compared to Fiscal Year 2016

Current and other liabilities decreased $1.2 million compared to the prior fiscal year. This decrease reflects a $1.5 million decline in accounts payable and a decrease of $0.6 million in the actuarially determined net pension obligation, offset by a $0.7 million increase in the current portion of revenue bonds.

Long-Term Debt

Fiscal Year 2018 Compared to Fiscal Year 2017

Long-term debt increased $14.4 million or 8.7 percent. Water system revenue bonds of $20 million, sold in August 2017, were offset by the scheduled repayment of debt.

Fiscal Year 2017 Compared to Fiscal Year 2016

Long-term debt increased $22.6 million or 15.9 percent. $25 million in new revenue bonds were issued in July 2016. In July 2016 and March 2017, revenue refunding bonds of $20.9 million and $5.3 million were issued to refinance bonds sold in 2009 and 2005, respectively. The additional issuances offset by the defeased bonds and scheduled debt repayments accounted for the change in long-term debt.

Deferred Inflows of Resources

Fiscal Year 2018 Compared to Fiscal Year 2017

Deferred inflows increased $1.2 million compared to the prior fiscal year due to differences in pension inflows.

Fiscal Year 2017 Compared to Fiscal Year 2016

Deferred inflows increased $0.5 million compared to the prior fiscal year due to differences in pension inflows.

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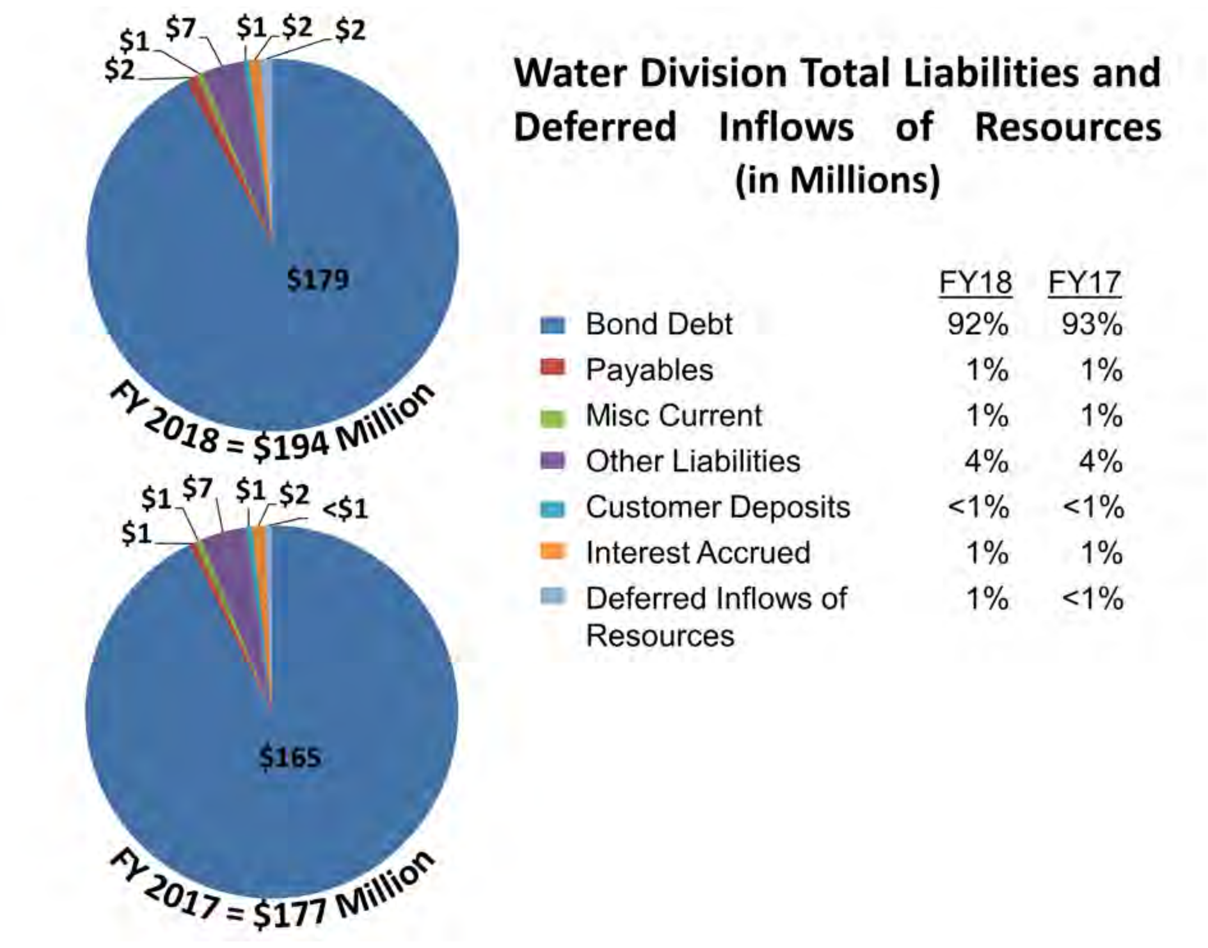

Water Division Total Liabilities and Deferred Inflows of Resources (in Millions)

	FY18	FY17
Bond Debt	92%	93%
Payables	1%	1%
Misc Current	1%	1%
Other Liabilities	4%	4%
Customer Deposits	<1%	<1%
Interest Accrued	1%	1%
Deferred Inflows of Resources	1%	<1%

Net Position

Fiscal Year 2018 Compared to Fiscal Year 2017

Net position increased $8.8 million this fiscal year. Unrestricted net position increased $3.9 million, primarily due to a $6.7 million increase in current and other assets compared to the prior fiscal year. Net investment in capital assets increased $4.7 million due to an increase in current portion of revenue bonds and total long-term debt of $14.9 million offset by an increase to net plant in service of $19.6 million. Restricted assets increased $0.2 million due to additional funds restricted for debt service.

Fiscal Year 2017 Compared to Fiscal Year 2016

Net position increased $6 million this fiscal year. Unrestricted net position increased $9.9 million, primarily due to a $9 million increase in current and other assets compared to the prior fiscal year. Net investment in capital assets decreased $4.1 million due to an increase in current portion of revenue bonds and total long-term debt of $23.3 million offset by an increase to net plant in service of $17.2 million. Restricted assets increased $0.2 million due to additional funds restricted for debt service.

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

(in thousands of dollars)	**2018**	**2017**	**2016**
Operating revenues	$ 54,365	$ 50,770	$ 47,453
Operating expenses			
Treatment	4,352	4,375	4,186
Distribution	14,940	13,986	12,645
Customer service	1,612	1,719	1,666
Administrative and general	4,776	4,956	4,838
Depreciation	10,380	9,793	9,055
Taxes and tax equivalents	4,151	4,087	3,717
Total operating expenses	40,211	38,916	36,107
Operating income	14,154	11,854	11,346
Interest income	588	308	194
Interest expense	(6,340)	(6,022)	(5,612)
Other income/(expense)	(233)	(223)	(235)
Change in net position before capital contributions	8,169	5,917	5,693
Capital Contributions	49	124	301
Change in net position	$ 8,218	$ 6,041	$ 5,994

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.

- Interest expense on debt is impacted by the level of outstanding debt and the interest rates on the outstanding debt.

- Other income/(expenses) 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 2018 Compared to Fiscal Year 2017

The Division's Change in Net Position increased $8.2 million in fiscal year 2018. A restatement to the fiscal year 2018 beginning net position, based on a change in method of accounting for OPEB, increased the total net position by an additional $0.6 million. The change resulted in a total increase of $8.8 million in the Division's net position. Comparatively, net position increased by $6 million in fiscal year 2017.

Fiscal Year 2017 Compared to Fiscal Year 2016

The Division's net position during the year increased $6 million, which is consistent with the prior fiscal year

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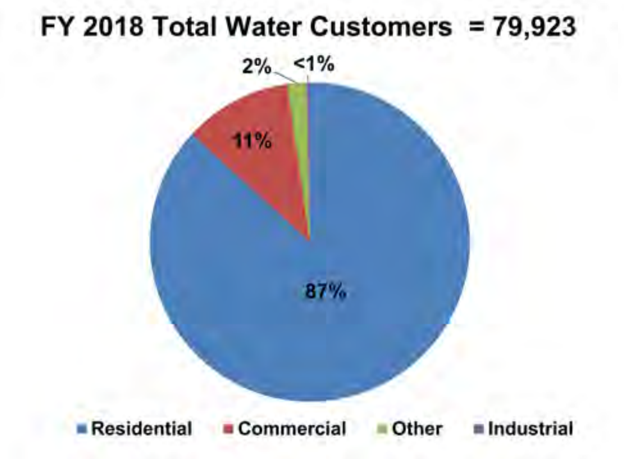
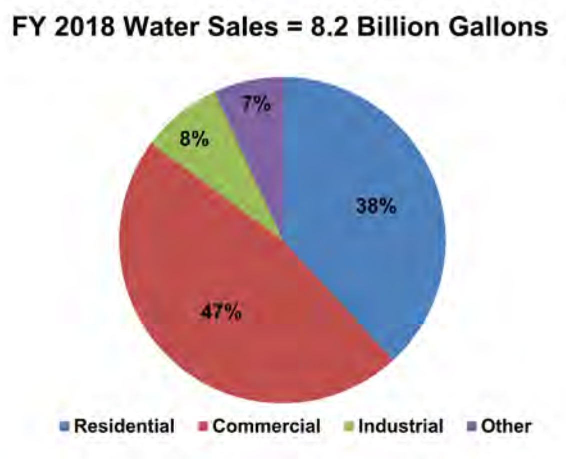
Margin from Sales

Fiscal Year 2018 Compared to Fiscal Year 2017

Operating revenues increased $3.6 million or 7.1 percent. This reflects additional revenue from the July 2017 water rate increase offset by a 2.1 percent decline in billed water sales volumes, as residential and industrial sales volumes were lower. Operating expenses rose $1.3 million and interest expense increased $0.3 million.





Residential customers represented 87 percent of water customers and accounted for 38 percent of water sales volumes for the year. Commercial and industrial customers accounted for the largest portion (55 percent) of total sales volumes during the year.

KUB's ten largest water customers accounted for 21.5 percent of KUB's billed water volumes. Those ten customers represent two industrial and eight commercial customers, including eight governmental customers.

KUB has added 1,370 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 decreased 4 percent compared to the prior fiscal year.

Commercial water sales volumes increased 0.2 percent compared to the prior year. Industrial sales volumes decreased 3.6 percent compared to the prior year.

Other water sales volumes were 4.8 percent lower than the prior year.

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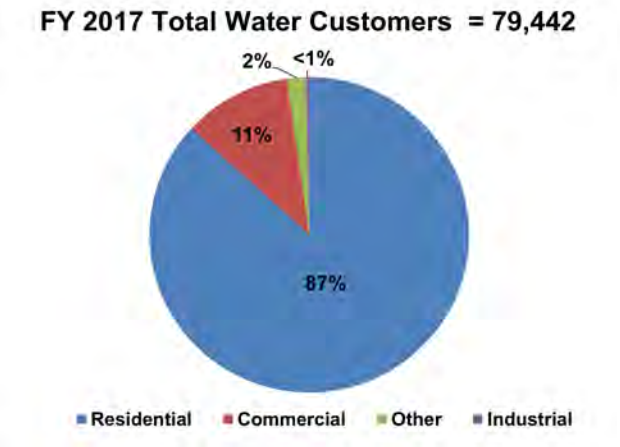
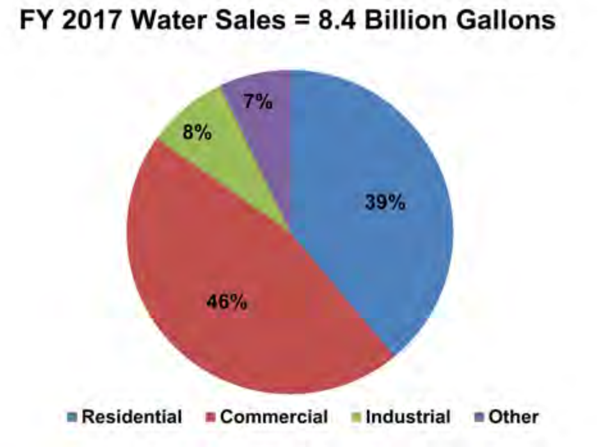
Fiscal Year 2017 Compared to Fiscal Year 2016

Operating revenues increased $3.3 million or 7 percent, reflecting additional revenue from the July 2016 water rate increase and a 5.2 percent increase in billed water sales volumes. Operating expenses rose $2.8 million and interest expense increased $0.4 million.





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 two industrial and eight commercial customers, including seven governmental customers.

KUB has added 1,106 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.

Fiscal year 2017 water sales volumes were higher than the prior fiscal year, reflecting higher water sales for residential customers and the addition of a wholesale customer.

Residential water sales volumes increased 4.4 percent compared to the prior fiscal year. Residential sales were higher due to drought conditions experienced in the Knoxville area during the fiscal year's summer months.

Commercial water sales volumes increased 0.3 percent compared to the prior year. Industrial sales volumes decreased 1.6 percent compared to the prior year.

Other water sales volumes were 87.6 percent higher than the prior year. This increase is associated with the water system gaining a new wholesale customer.

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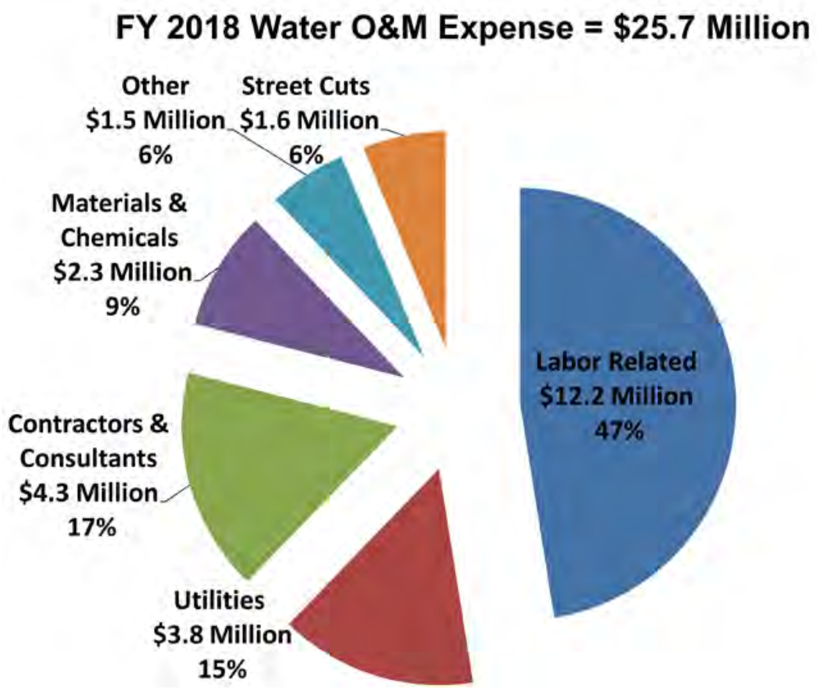
Operating Expenses

Fiscal Year 2018 Compared to Fiscal Year 2017

Operating expenses increased $1.3 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 consistent with the prior fiscal year.
- Distribution expenses were $1 million or 6.8 percent higher than the prior fiscal year due to an increase in outside contractor costs and labor related expenses.
- Customer service expenses were $0.1 million lower than the prior fiscal year.
- Administrative and general expenses were $0.2 million lower than the prior fiscal year, primarily due to labor related expenses.

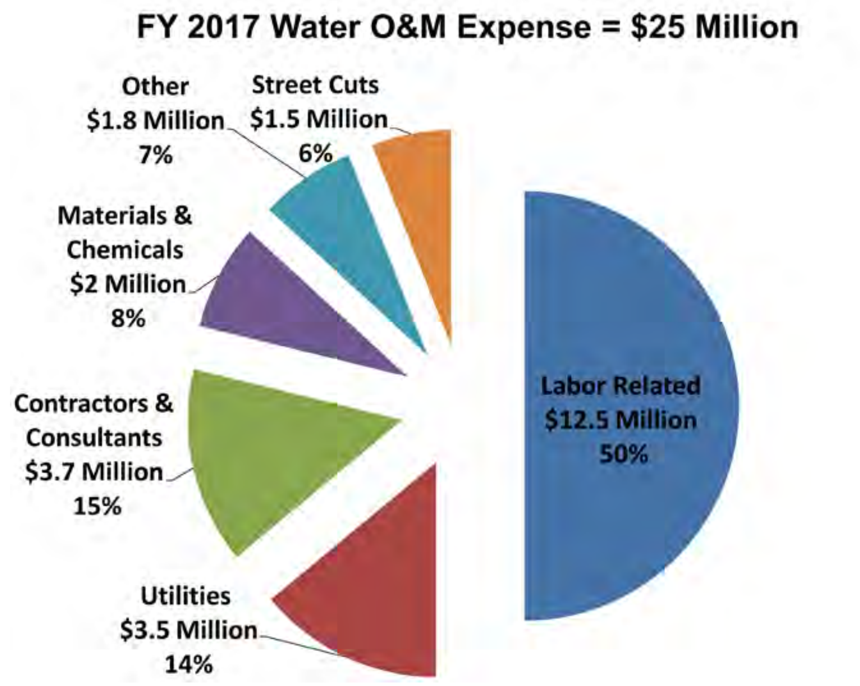


- Depreciation expense was up $0.6 million, primarily due to Century II initiatives to replace mains, and the accelerated depreciation of existing meters that are to be replaced as part of KUB's system wide deployment of advanced metering equipment. In addition, $2.6 million of assets were retired during fiscal year 2018.
- Taxes and tax equivalents were consistent with the prior fiscal year.

Fiscal Year 2017 Compared to Fiscal Year 2016

Operating expenses increased $2.8 million or 7.8 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 increased $0.2 million or 4.5 percent compared to the prior fiscal year.
- Distribution expenses were $1.3 million or 10.6 percent higher than the prior fiscal year due to an increase in outside contractor costs and labor related expenses.
- Customer service expenses were $0.1 million higher than the prior fiscal year.
- Administrative and general expenses increased $0.1 million, primarily due to labor related expenses.



- Depreciation expense was up $0.7 million, primarily due to Century II initiatives to replace mains, upgrades to various information systems, and the accelerated depreciation of existing meters that are to be replaced as part of KUB's system wide deployment of advanced metering equipment. In addition, $6.2 million of assets were retired during fiscal year 2017.
- Taxes and tax equivalents increased $0.4 million from prior fiscal year due to increased plant in service levels.

Other Income and Expense

Fiscal Year 2018 Compared to Fiscal Year 2017

Interest income increased $0.3 million from the prior fiscal year primarily due to higher short-term interest rates.

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 consistent with the prior fiscal year.

Capital contributions by developers were $0.1 million lower than the prior fiscal year.

Fiscal Year 2017 Compared to Fiscal Year 2016

Interest income increased $0.1 million from the prior fiscal year.

Interest expense increased $0.4 million, reflecting interest expense from new revenue bonds sold during the fiscal year.

Other income (net) was consistent with the prior fiscal year.

Capital contributions by developers were $0.2 million lower than the prior fiscal year.

Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

(in thousands of dollars)	**2018**	**2017**	**2016**
Production Plant	$ 57	$ 58	$ 58
Pumping & Treatment Plant	52,730	47,968	50,067
Distribution Plant			
Distribution Mains	$ 161,290	151,095	141,200
Transmission Mains	24,400	25,013	22,295
Services & Meters	31,151	24,588	19,349
Other Accounts	13,313	13,084	11,620
Total Distribution Plant	230,154	$ 213,780	$ 194,464
Total General Plant	$ 9,722	9,720	9,172
Total Water Plant	292,663	$ 271,526	$ 253,761
Work In Progress	25,514	27,007	27,497
Total Net Plant	$ 318,177	$ 298,533	$ 281,258

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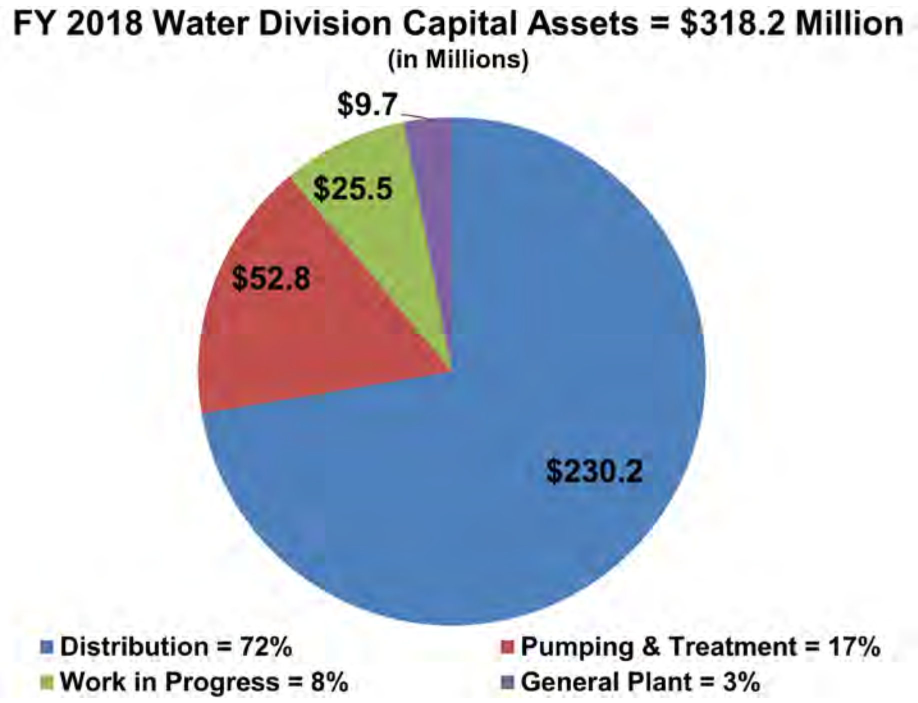
Fiscal Year 2018 Compared to Fiscal Year 2017

As of June 30, 2018, the Division had $318.2 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 $19.6 million or 6.6 percent over the end of the last fiscal year.



Major capital asset expenditures during the year were as follows:

- $12.4 million for major plant and system improvements
- $4.1 million for replacement and relocation of water system assets to accommodate TDOT highway improvement projects
- $3.9 million for galvanized and cast iron water main replacement
- $1.9 million for deployment of advanced metering equipment

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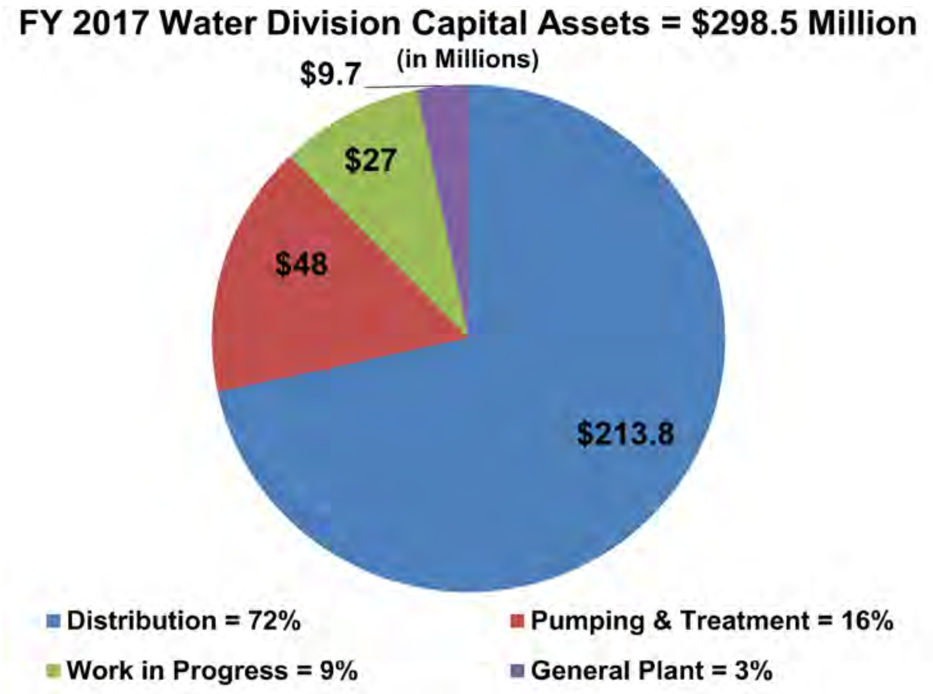
Fiscal Year 2017 Compared to Fiscal Year 2016

As of June 30, 2017, the Division had $298.5 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represented a net increase (including additions, retirements, and depreciation) of $17.2 million or 6.1 percent over the end of the last fiscal year.



Major capital asset expenditures during the year were as follows:

- $9.2 million for major plant and system improvements
- $7.7 million for galvanized and cast iron water main replacement
- $3.9 million for replacement and relocation of water system assets to accommodate TDOT highway improvement projects
- $1.5 million for trucks and equipment

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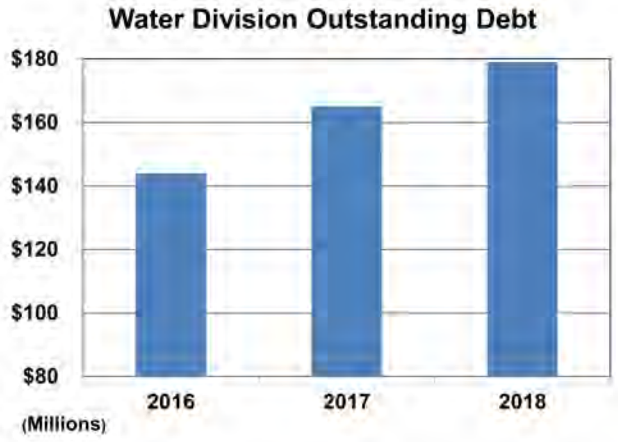
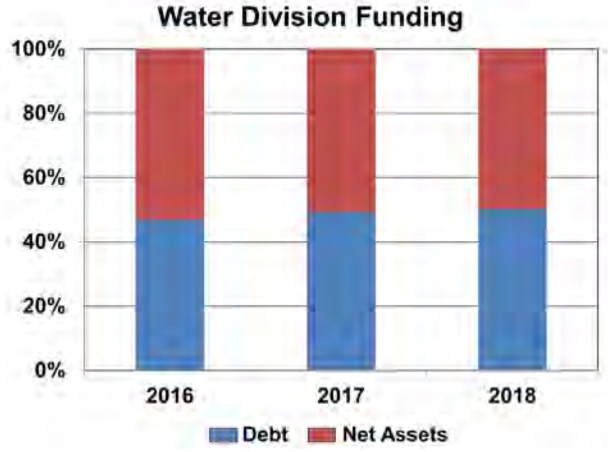
Debt Administration

As of June 30, 2018, the Water Division had $179.2 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 50.2 percent in 2018, 49.3 percent in 2017, and 46.9 percent at the end of fiscal year 2016. 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)	2018	2017	2016
Revenue bonds	$ 179,165	$ 164,635	$ 143,990
Total outstanding debt	$ 179,165	$ 164,635	$ 143,990





The Division will pay $69.9 million in principal payments over the next ten years, representing 39 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 2018 Compared to Fiscal Year 2017

As of June 30, 2018, the Division had $179.2 million in outstanding debt (including the current portion of revenue bonds), compared to $164.6 million last year, an increase of $14.6 million or 8.8 percent. The increase is attributable to new revenue bonds issued during the fiscal year offset by the scheduled repayment of debt. The Division's weighted average cost of debt as of June 30, 2018 was 3.54 percent.

KUB sold $20 million in water system revenue bonds in August 2017 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 3.05 percent.

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2018, 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 2017 Compared to Fiscal Year 2016

As of June 30, 2017, the Division had $164.6 million in outstanding debt (including the current portion of revenue bonds), compared to $144 million last year, an increase of $20.6 million or 14.3 percent. The increase is attributable to the net effect of new revenue and refunding bond issuances. The Division's weighted average cost of debt as of June 30, 2017 was 3.56 percent.

KUB sold $25 million in water system revenue bonds in July 2016 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 2.72 percent.

KUB sold $20.9 million in water system revenue refunding bonds in July 2016 for the purpose of refinancing existing debt at lower interest rates. KUB will realize a total debt service savings of $2.5 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 2.07 percent.

KUB sold $5.3 million in water system revenue refunding bonds in March 2017 for the purpose of refinancing existing debt at lower interest rates. KUB will realize a total debt service savings of $0.7 million over the life of the bonds ($0.6 million on a net present value basis). The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.14 percent.

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2017, 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.

As part of the rating process for the $25 million in revenue bonds and $20.9 million in revenue refunding bonds, Moody's upgraded its rating on KUB's water system bonds to Aa1 from Aa2. Aa1 is the second highest bond credit rating assigned by Moody's Investors Service. In its formal rating report, Moody's stated "the upgrade to Aa1 reflects the well-managed financial operations of the water system that continues to provide for solid debt service coverage and liquidity, a mature service area, and a manageable debt profile." The AAA bond rating from Standard and Poor's was reaffirmed. In its formal rating report on the water bonds, Standard and Poor's noted "based on our financial management assessment we view KUB to be '1' on a scale of 1-6, with '1' being the strongest."

Impacts on Future Financial Position

KUB anticipates adding 300 additional water system customers during fiscal year 2019.

In June 2017, the KUB Board adopted three years of rate increases for all four utility Divisions to help fund the ongoing Century II infrastructure programs for each system. The two remaining approved water rate increases are effective July 2018 and July 2019 and are expected to provide an additional $3.1 million and $3.3 million in annual revenue, respectively, to assist with the funding of the Water Division.

KUB sold $20 million in water system revenue bonds in August 2018 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 3.46 percent.

The Pension Plan actuarial valuation for the Plan year ending December 31, 2017 resulted in an actuarially determined contribution of $3,156,661 for the fiscal year ending June 30, 2019, based on the Plan's current funding policy. The Water Division's portion of this contribution is $410,366. Subsequent to June 30, 2018, the actuarial valuation for the Plan year ending December 31, 2018 was completed. The actuarial valuation resulted in an actuarially determined contribution of $2,585,824 for the fiscal year ending June 30, 2020, based on the Plan's current funding policy. The Water Division's portion of this contribution is $336,157. For the Plan year ending December 31, 2018, the Plan's actuarial funded ratio was 107.84 percent.

The OPEB Plan actuarial valuation as of January 1, 2017 resulted in an actuarially determined contribution of zero for the fiscal year ending June 30, 2019, based on the Plan's current funding policy. Subsequent to June 30, 2018, the actuarial valuation as of January 1, 2018 was completed. The actuarial valuation resulted in an actuarially determined contribution of $311,324 for the fiscal year ending June 30, 2020, based on the Plan's current funding policy. The Water Division's portion of this contribution is $40,472. The Plan's actuarial funded ratio was 102.78 percent.

GASB Statement No. 83, *Certain Asset Retirement Obligations,* is effective for fiscal years beginning after June 15, 2018. GASB Statement No. 84, *Fiduciary Activities*, is effective for fiscal years beginning after December 15, 2018. GASB Statement No. 87, *Leases*, is effective for fiscal years beginning after December 15, 2019. GASB Statement No. 88, *Certain Disclosure Related to Debt, Including Direct Borrowings and Direct Placements,* is effective for fiscal years beginning after June 15, 2018. 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, 2019. 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 2018.

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 ending June 30, 2018 and 2017. 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, 2018 and 2017

	2018	2017
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	$ 14,150,014	$ 9,395,231
Short-term investments	-	2,494,820
Short-term contingency fund investments	3,114,455	5,627,026
Other current assets	774,541	1,485,669
Accrued interest receivable	16,540	13,117
Accounts receivable, less allowance of uncollectible accounts of $54,237 in 2018 and $51,105 in 2017	6,009,621	5,438,545
Inventories	3,238,388	3,785,220
Prepaid expenses	42,823	46,506
Total current assets	27,346,382	28,286,134
Restricted assets:		
Water bond fund	4,050,177	3,659,760
Other funds	2,788	4,087
Total restricted assets	4,052,965	3,663,847
Water plant in service	412,200,259	382,878,460
Less accumulated depreciation	(119,537,309)	(111,352,647)
	292,662,950	271,525,813
Retirement in progress	68,102	164,704
Construction in progress	25,446,188	26,842,085
Net plant in service	318,177,240	298,532,602
Other assets:		
Net pension asset	2,571,188	16,112
Net OPEB asset	487,639	-
Long-term contingency fund investments	13,532,161	9,166,236
Other	2,277,538	2,096,704
Total other assets	18,868,526	11,279,052
Total assets	368,445,113	341,761,635
Deferred outflows of resources:		
Pension outflow	253,222	1,181,805
OPEB outflow	86,110	-
Unamortized bond refunding costs	3,198,305	3,425,713
Total deferred outflows of resources	3,537,637	4,607,518
Total assets and deferred outflows of resources	$ 371,982,750	$ 346,369,153

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

Knoxville Utilities Board Water Division
Statements of Net Position
June 30, 2018 and 2017

	2018	2017
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	$ 5,815,000	$ 5,270,000
Sales tax collections payable	312,321	288,887
Accounts payable	1,794,385	1,285,146
Accrued expenses	688,042	661,618
Customer deposits plus accrued interest	904,591	867,791
Accrued interest on revenue bonds	2,111,744	1,931,479
Total current liabilities	11,626,083	10,304,921
Other liabilities:		
Accrued compensated absences	1,515,405	1,578,105
Net pension liability - QEBA	36,444	24,060
Other	16,852	20,742
Total other liabilities	1,568,701	1,622,907
Long-term debt:		
Water revenue bonds	173,350,000	159,365,000
Unamortized premiums/discounts	5,743,978	5,357,304
Total long-term debt	179,093,978	164,722,304
Total liabilities	192,288,762	176,650,132
Deferred inflows of resources:		
Pension inflow	1,811,854	684,777
OPEB inflow	41,813	-
Total deferred inflows of resources	1,853,667	684,777
Total liabilities and deferred inflows of resources	194,142,429	177,334,909
Net position		
Net investment in capital assets	138,681,584	134,010,490
Restricted for:		
Debt service	1,938,433	1,728,281
Other	2,788	4,087
Unrestricted	37,217,516	33,291,386
Total net position	177,840,321	169,034,244
Total liabilities, deferred inflows, and net position	$ 371,982,750	$ 346,369,153

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, 2018 and 2017

	2018	2017
Operating revenues	$ 54,365,215	$ 50,769,639
Operating expenses		
Treatment	4,352,170	4,375,320
Distribution	14,940,310	13,986,235
Customer service	1,611,813	1,718,639
Administrative and general	4,775,460	4,956,420
Provision for depreciation	10,379,928	9,792,630
Taxes and tax equivalents	4,151,052	4,086,575
Total operating expenses	40,210,733	38,915,819
Operating income	14,154,482	11,853,820
Non-operating revenues (expenses)		
Contributions in aid of construction	926,471	701,334
Interest and dividend income	588,153	307,829
Interest expense	(6,340,380)	(6,021,974)
Amortization of debt costs	3,866	(42,372)
Write-down of plant for costs recovered through contributions	(926,471)	(701,334)
Other	(237,123)	(180,574)
Total non-operating revenues (expenses)	(5,985,484)	(5,937,091)
Change in net position before capital contributions	8,168,998	5,916,729
Capital contributions	49,129	123,840
Change in net position	8,218,127	6,040,569
Net position, beginning of year, as previously reported	169,034,244	162,993,675
Change in method of accounting for OPEB	587,950	-
Net position, beginning of year, as restated	169,622,194	162,993,675
Net position, end of year	$ 177,840,321	$ 169,034,244

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

Knoxville Utilities Board Water Division
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash receipts from customers	$ 52,942,978	$ 50,102,809
Cash receipts from other operations	2,333,576	24,129
Cash payments to suppliers of goods or services	(15,133,988)	(19,103,944)
Cash payments to employees for services	(11,089,536)	(11,024,085)
Payment in lieu of taxes	(3,304,740)	(3,294,652)
Net cash provided by operating activities	25,748,290	16,704,257
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	20,447,411	51,831,480
Principal paid on revenue bonds and notes payable	(5,470,000)	(30,540,000)
Interest paid on revenue bonds and notes payable	(6,160,115)	(5,924,521)
Acquisition and construction of water plant	(31,388,107)	(27,989,054)
Changes in water bond fund, restricted	(390,417)	(305,634)
Proceeds received on disposal of plant	52,177	13,469
Cash received from developers and individuals for capital purposes	926,471	701,334
Net cash used in capital and related financing activities	(21,982,580)	(12,212,926)
Cash flows from investing activities:		
Purchase of investment securities	(7,624,674)	(8,970,097)
Maturities of investment securities	8,131,396	4,278,641
Interest received	555,026	292,845
Other property and investments	(72,675)	(90,306)
Net cash provided by (used in) investing activities	989,073	(4,488,917)
Net increase (decrease) in cash and cash equivalents	4,754,783	2,414
Cash and cash equivalents, beginning of year	9,395,231	9,392,817
Cash and cash equivalents, end of year	$ 14,150,014	$ 9,395,231
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 14,154,482	$ 11,853,820
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	10,813,949	10,123,113
Changes in operating assets and liabilities:		
Accounts receivable	(571,076)	(78,456)
Inventories	546,832	(2,564,095)
Prepaid expenses	3,683	3,974
Other assets	702,131	(1,294,216)
Sales tax collections payable	23,434	4,667
Accounts payable and accrued expenses	41,945	(1,389,253)
Customer deposits plus accrued interest	36,800	62,997
Other liabilities	(3,890)	(18,294)
Net cash provided by operating activities	$ 25,748,290	$ 16,704,257
Noncash capital activities:		
Acquisition of plant assets through developer contributions	$ 49,129	$ 123,840

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

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, 2018 and 2017, 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 June 2015, the GASB issued GASB Statement No. 75 (Statement No. 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Statement addresses reporting by governments that provide OPEB to their employees. Statement No. 75 is effective for fiscal years beginning after June 15, 2017.

In March 2017, the GASB issued GASB Statement No. 85 (Statement No. 85), *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. Statement No. 85 is effective for fiscal years beginning after June 15, 2017.

In May 2017, the GASB issued GASB Statement No. 86 (Statement No. 86), *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The Statement provides guidance for transactions in which cash and other monetary assets acquired with existing resources or resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. Statement No. 86 is effective for fiscal years beginning after June 15, 2017.

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 $434,021 in fiscal year 2018 and $330,483 in fiscal year 2017. 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 $170,192 in fiscal year 2018 and $117,252 in fiscal year 2017.

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.

- 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.

Change in method of accounting for OPEB

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide OPEB to their employees. This standard was adopted by KUB in 2018 and resulted in a restatement of beginning net position of $4,522,695 (Division's share $587,950) to increase the net OPEB asset by $4,522,695 (Division's share $587,950) based on revised actuarial assumptions to conform with GASB 75.

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 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, 2018 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2018 are based on a June 30, 2018 measurement date.

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, 2018 and 2017 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2018 and 2017 are based on a December 31, 2017 and 2016 measurement date, respectively. The net pension asset is $19,778,372 (Division's share $2,571,188) as of June 30, 2018 and $123,941 (Division's share $16,112) as of June 30, 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 (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, 2018 and 2017 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2018 and 2017 will be based on the December 31, 2017 and 2016 measurement dates. The total pension liability of the QEBA is $280,341 (Division's share $36,444) as of June 30, 2018 and $185,077 (Division's share $24,060) as of June 30, 2017.

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 Statement No. 68 and Statement No. 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

KUB has evaluated events and transactions through October 25, 2018, the date these financial statements were issued, for items that should potentially be recognized or disclosed. KUB sold $20 million in water system revenue bonds in August 2018 for the purpose of funding water system capital improvements in fiscal year 2019. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.46 percent. Annual debt service payments including principal and interest range from $868,539 to $1,094,550 with final maturity in fiscal year 2048.

Reclassifications

Certain reclassifications have been made to the fiscal year 2017 balances to conform to fiscal year 2018 presentation.

Recently Issued Accounting Pronouncements

In November 2016, the GASB issued GASB Statement No. 83 (Statement No. 83), *Certain Asset Retirement Obligations*. The objective of this Statement is to define asset retirement obligations as a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations is required to perform future asset retirement activities related to its tangible capital assets to recognize a liability based on the guidance in this Statement. Statement No. 83 is effective for fiscal years beginning after June 15, 2018.

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, 2018.

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 December 15, 2019.

In April 2018, the GASB issued GASB Statement No. 88 (Statement No. 88), *Certain Disclosure Related to Debt, Including Direct Borrowings and Direct Placements.* The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. Statement No. 88 is effective for fiscal years beginning after June 15, 2018.

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, 2019.

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.

Classification of deposits and investments per Statement of Net Position:

	2018	2017
Current assets		
Cash and cash equivalents	$ 14,150,014	$ 9,395,231
Short-term investments	-	2,494,820
Short-term contingency fund investments	3,114,455	5,627,026
Other assets		
Long-term contingency fund investments	13,459,479	9,123,258
Restricted assets		
Water bond fund	4,050,177	3,659,760
Other funds	2,788	4,087
	$ 34,776,913	$ 30,304,182

The above amounts do not include accrued interest of $72,682 in fiscal year 2018 and $42,978 in fiscal year 2017. 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, 2018:

	Deposit and Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	$ 12,226,769	$ 12,226,769	$ -
State Treasurer's Investment Pool	2,596,327	2,596,327	-
Agency Bonds	19,046,084	3,114,455	15,931,629
Certificates of Deposits	1,453,750	1,453,750	
	$ 35,322,930	$ 19,391,301	$ 15,931,629

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 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, 2018:

- U.S. Agency bonds of $15,931,629, 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:

	2018	2017
Wholesale and retail customers		
Billed services	$ 3,811,495	$ 3,519,224
Unbilled services	2,025,426	1,766,433
Other	226,937	203,993
Allowance for uncollectible accounts	(54,237)	(51,105)
	$ 6,009,621	$ 5,438,545

5. Accounts Payable and Accruals

Accounts payable and accruals were composed of the following:

	2018	2017
Trade accounts	$ 1,794,385	$ 1,285,146
Salaries and wages	451,093	415,685
Self-insurance liabilities	236,949	245,933
	$ 2,482,427	$ 1,946,764

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6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2017	Additions	Payments	Defeased	Balance June 30, 2018	Amounts Due Within One Year
U-2009 - 3.0 - 4.5%	$ 1,875,000	$ -	$ 925,000	$ -	$ 950,000	$ 950,000
W-2011 - 2.0 - 4.0%	22,250,000	-	550,000	-	21,700,000	550,000
X-2012 - 3.0 - 5.0%	8,150,000	-	535,000	-	7,615,000	565,000
Y-2013 - 3.0 - 4.0%	8,690,000	-	300,000	-	8,390,000	320,000
Z-2013 - 2.0 - 5.0%	23,175,000	-	500,000	-	22,675,000	525,000
AA-2014 - 2.0 - 4.0%	7,575,000	-	150,000	-	7,425,000	150,000
BB-2015 - 2.0 - 5.0%	22,735,000	-	865,000	-	21,870,000	885,000
CC-2015 - 2.0 - 4.0%	19,275,000	-	400,000	-	18,875,000	425,000
DD-2016 - 3.0 - 5.0%	24,725,000	-	475,000	-	24,250,000	500,000
EE-2016 - 2.0 - 5.0%	20,875,000	-	100,000	-	20,775,000	100,000
FF-2017 - 3.0 - 5.0%	5,310,000	-	470,000	-	4,840,000	465,000
GG-2017 - 2.125 - 5.0%	-	20,000,000	200,000	-	19,800,000	380,000
Total bonds	$ 164,635,000	$ 20,000,000	$ 5,470,000	$ -	$ 179,165,000	$ 5,815,000
Unamortized Premium	5,357,304	735,453	348,779	-	5,743,978	-
Total long term debt	$ 169,992,304	$ 20,735,453	$ 5,818,779	$ -	$ 184,908,978	$ 5,815,000

	Balance June 30, 2016	Additions	Payments	Defeased	Balance June 30, 2017	Amounts Due Within One Year
S-2005 - 3.5 - 5.0%	$ 6,295,000	$ -	$ 465,000	$ 5,830,000	$ -	$ -
T-2007 - 4.0 - 5.5%	750,000	-	750,000	-	-	-
U-2009 - 3.0 - 4.5%	22,625,000	-	875,000	19,875,000	1,875,000	925,000
W-2011 - 2.0 - 4.0%	22,800,000	-	550,000	-	22,250,000	550,000
X-2012 - 3.0 - 5.0%	8,665,000	-	515,000	-	8,150,000	535,000
Y-2013 - 3.0 - 4.0%	8,970,000	-	280,000	-	8,690,000	300,000
Z-2013 - 2.0 - 5.0%	23,675,000	-	500,000	-	23,175,000	500,000
AA-2014 - 2.0 - 4.0%	7,725,000	-	150,000	-	7,575,000	150,000
BB-2015 - 2.0 - 5.0%	22,835,000	-	100,000	-	22,735,000	865,000
CC-2015 - 2.0 - 4.0%	19,650,000	-	375,000	-	19,275,000	400,000
DD-2016 - 3.0-5.0%	-	25,000,000	275,000	-	24,725,000	475,000
EE-2016 - 2.0-5.0%	-	20,875,000	-	-	20,875,000	100,000
FF-2017 - 3.0-5.0%	-	5,310,000	-	-	5,310,000	470,000
Total bonds	$ 143,990,000	$ 51,185,000	$ 4,835,000	$ 25,705,000	$ 164,635,000	$ 5,270,000
Unamortized Premium	2,702,182	3,085,193	270,448	159,623	5,357,304	-
Total long term debt	$ 146,692,182	$ 54,270,193	$ 5,105,448	$ 25,864,623	$ 169,992,304	$ 5,270,000

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

Fiscal Year	Total Principal	Interest	Grand Total
2019	$ 5,815,000	$ 6,335,230	$ 12,150,230
2020	6,065,000	6,088,230	12,153,230
2021	6,300,000	5,857,881	12,157,881
2022	6,600,000	5,615,581	12,215,581
2023	6,850,000	5,340,781	12,190,781
2024 - 2028	38,245,000	22,854,533	61,099,533
2029 - 2033	42,420,000	16,507,394	58,927,394
2034 - 2038	28,945,000	10,382,426	39,327,426
2039 - 2043	26,385,000	4,884,180	31,269,180
2044 - 2047	11,540,000	756,215	12,296,215
Total	$ 179,165,000	$ 84,622,451	$ 263,787,451

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, 2018, these bond covenants had been satisfied.

During fiscal year 2010, KUB's Water Division issued Series U 2009 bonds to fund water system capital improvements.

During fiscal year 2012, KUB's Water Division issued Series W 2011 bonds to fund water system capital improvements. KUB's Water Division also issued Series X 2012 bonds to retire Series Q 2004 bonds.

During fiscal year 2013, KUB's Water Division issued Series Y 2013 bonds to retire a portion of outstanding Series R 2005 bonds.

During fiscal year 2014, KUB's Water Division issued Series Z 2013 bonds to fund water system capital improvements.

During fiscal year 2015, KUB's Water Division issued Series BB 2015 bonds to retire a portion of outstanding Series T 2007 bonds. KUB's Water Division also issued Series AA 2014 and Series CC 2015 bonds to fund water system capital improvements.

During fiscal year 2017, KUB's Water Division issued Series DD 2016 bonds to fund water system capital improvements. KUB's Water Division also issued Series EE 2016 bonds to retire a portion of outstanding Series U 2009 bonds. KUB's Water Division also issued Series FF 2017 bonds to retire outstanding Series S 2005 bonds.

During fiscal year 2018, KUB's Water Division issued GG 2017 bonds to fund water system capital improvements.

In prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $19.9 million at June 30, 2018, and the trust account assets are not included in the financial statements.

Other liabilities consist of the following:

	Balance June 30, 2017	Increase	Decrease	Balance June 30, 2018
Accrued compensated absences	$ 1,578,105	$ 2,514,430	$ (2,577,130)	$ 1,515,405
Other	20,742	99,828	(103,718)	16,852
	$ 1,598,847	$ 2,614,258	$ (2,680,848)	$ 1,532,257

	Balance June 30, 2016	Increase	Decrease	Balance June 30, 2017
Accrued compensated absences	$ 1,601,156	$ 2,230,616	$ (2,253,667)	$ 1,578,105
Other	39,036	33,280	(51,574)	20,742
	$ 1,640,192	$ 2,263,896	$ (2,305,241)	$ 1,598,847

7. Lease Commitments

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

2019	$ 62,849
2020	45,134
Total operating minimum lease payments	$ 107,983

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8. Capital Assets

Capital asset activity was as follows:

	Balance June 30, 2017	**Increase**	**Decrease**	**Balance June 30, 2018**
Production Plant	$ 727,863	$ -	$ -	$ 727,863
Pumping & Treatment Plant	78,172,996	7,210,142	(678,860)	84,704,278
Distribution Plant				
Distribution Mains	184,305,419	13,030,323	(748,368)	196,587,374
Transmission Mains	33,391,821	19,277	(109,130)	33,301,968
Services & Meters	33,798,659	9,140,708	(259,254)	42,680,113
Other Accounts	25,163,649	894,061	(76,486)	25,981,224
Total Distribution Plant	$ 276,659,548	$ 23,084,369	$ (1,193,238)	$ 298,550,679
Total General Plant	27,318,053	1,660,232	(760,846)	28,217,439
Total Water Plant	$ 382,878,460	$ 31,954,743	$ (2,632,944)	$ 412,200,259
Less Accumulated Depreciation	(111,352,647)	(10,821,995)	2,637,333	(119,537,309)
Net Plant Assets	$ 271,525,813	$ 21,132,748	$ 4,389	$ 292,662,950
Work In Progress	27,006,789	31,105,542	(32,598,041)	25,514,290
Total Net Plant	$ 298,532,602	$ 52,238,290	$ (32,593,652)	$ 318,177,240

	Balance June 30, 2016	**Increase**	**Decrease**	**Balance June 30, 2017**
Production Plant	$ 727,863	$ -	$ -	$ 727,863
Pumping & Treatment Plant	78,207,281	284,448	(318,733)	78,172,996
Distribution Plant				
Distribution Mains	172,759,533	12,476,547	(930,661)	184,305,419
Transmission Mains	30,447,826	3,238,070	(294,075)	33,391,821
Services & Meters	29,944,881	7,414,299	(3,560,521)	33,798,659
Other Accounts	23,171,392	2,130,215	(137,958)	25,163,649
Total Distribution Plant	$ 256,323,632	$ 25,259,131	$ (4,923,215)	$ 276,659,548
Total General Plant	26,084,584	2,225,014	(991,545)	27,318,053
Total Water Plant	$ 361,343,360	$ 27,768,593	$ (6,233,493)	$ 382,878,460
Less Accumulated Depreciation	(107,582,378)	(10,131,159)	6,360,890	(111,352,647)
Net Plant Assets	$ 253,760,982	$ 17,637,434	$ 127,397	$ 271,525,813
Work In Progress	27,496,642	27,559,634	(28,049,487)	27,006,789
Total Net Plant	$ 281,257,624	$ 45,197,068	$ (27,922,090)	$ 298,532,602

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, 2018 and June 30, 2017, the amount of these liabilities was $236,949 and $245,933, respectively, resulting from the following changes:

		2018		**2017**
Balance, beginning of year	$	245,933	$	228,605
Current year claims and changes in estimates		2,025,925		2,081,003
Claims payments		(2,034,909)		(2,063,675)
Balance, end of year	$	236,949	$	245,933

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, 2017 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). 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:

	2017	2016
Inactive plan members:		
Terminated vested participants	34	43
Retirees and beneficiaries	602	605
Active plan members	629	662
Total	1,265	1,310

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

Plan Funding

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

Investments

The Plan's investments are held by State Street Bank and Trust Company (the "Trustee"). The Plan's policy in regard to the allocation of invested assets is established by the Retirement System Investment Committee and approved by the KUB Board of Commissioners and may only be amended by the KUB Board of Commissioners. It is the policy of the Retirement System Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Plan's adopted asset allocation policy as of December 31, 2017:

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 $3,756,283 and $4,816,913 for 2016 and 2015, respectively, were made during the Plan sponsor's fiscal years ending June 30, 2018 and 2017, respectively. Of these amounts, $488,317 and $626,199 are attributable to the Water Division. The fiscal year 2018 contribution was determined as part of the January 1, 2016 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability or death.

Net Pension Liability

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*("GASB 68"), which requires measurement of the net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2018 and 2017 will be based on the December 31, 2017 and 2016 measurement date, respectively. The Division's share of the net pension asset at June 30, 2018 is $2,571,188 and at June 30, 2017 is $16,112.

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

	2017	2016
Total pension liability	$ 207,598,733	$ 204,390,738
Plan fiduciary net position	(227,377,105)	(204,514,679)
Plan's net pension (asset) liability	$ (19,778,372)	$ (123,941)
Plan fiduciary net position as a percentage of the total pension liability	109.50%	100.06%

Changes in Net Pension Liability are as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2016	$ 204,390,738	$ 204,514,679	$ (123,941)
Changes for the year:			
Service cost	4,607,486	-	4,607,486
Interest	15,015,282	-	15,015,282
Differences between Expected and Actual Experience	(1,087,161)	-	(1,087,161)
Changes of Assumptions	(357,633)	-	(357,633)
Contributions - employer	-	4,286,597	(4,286,597)
Contributions - rollovers	-	1,482,701	(1,482,701)
Contributions - member	-	5,931	(5,931)
Net investment income	-	32,442,458	(32,442,458)
Benefit payments	(14,969,979)	(14,969,979)	-
Administrative expense	-	(385,282)	385,282
Net changes	3,207,995	22,862,426	(19,654,431)
Balances at December 31, 2017	$ 207,598,733	$ 227,377,105	$ (19,778,372)

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2017 and 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Individual entry age
Asset valuation method	5-year smoothed market
Amortization method	Level dollar closed period with 25 years remaining as of January 1, 2016 and 26 years remaining as of January 1, 2015
Discount rate	7.5%
Salary increase	From 2.80% to 5.15% for January 1, 2016 and January 1, 2015, based on years of service
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation	2.8 %

The actuarial assumptions used in the December 31, 2017 and 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013.

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, 2017 and 2016 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 2017**	**Long Term Expected Real Rate of Return 2016**
Domestic equity	5.0%	5.6%
Non-U.S. equity	6.6%	7.2%
Real estate equity	5.6%	6.3%
Debt securities	1.4%	1.6%
Cash and deposits	0.7%	0.6%

Discount rate

The discount rate used to measure the total pension liability was 7.5 percent as of January 1, 2017 and 2016. 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 to changes in the discount rate

The following presents the net pension liability of the Plan as of December 31, 2017, calculated using the discount rate of 7.5 percent, as well as what the Plan’s net pension liability would be if it were calculated using a discount rate that is one percent lower (6.5 percent) or one percent higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	**Current Discount Rate (7.5%)**	**1% Increase (8.5%)**
Plan's net pension liability	$ (2,624,670)	$ (19,778,372)	$ (34,742,817)

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

For the year ended June 30, 2018, KUB recognized pension expense of ($15,659) (Division's share ($2,036)).

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, 2016, this average was 5.00 years. During the measurement year, there was an experience gain of $1,087,161 with $217,432 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $869,729 (Division's share $113,064). Unrecognized experience gains from prior periods were $2,921,210 of which $824,819 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $2,096,391 (Division's share $272,531).

During the measurement year, there were no benefit changes. There was a gain due to assumption changes of $357,633 with $71,526 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $286,107 (Division's share $37,194). Unrecognized assumption change gains from prior periods were $2,346,307 of which $586,577 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,759,730 (Division's share $228,765).

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 $17,456,614. $3,491,323 of that gain was recognized in the current year and an identical amount will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were $6,682,351 of which $1,642,445 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, 2017 of ($8,925,384) (Division's share ($1,160,300)). 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 $1,878,146 (Division's share $244,159) at June 30, 2018 for employer contributions made between December 31, 2017 and June 30, 2018.

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,966,120
Changes in assumptions	-	2,045,837
Net difference between projected and actual earnings on pension plan investments	-	8,925,385
Contributions subsequent to measurement date	1,878,146	-
Total	$ 1,878,146	$ 13,937,342
Division's share	$ 244,159	$ 1,811,854

$1,878,146 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, 2019. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2019	$ (3,549,235)
2020	(1,954,655)
2021	(4,653,172)
2022	(3,780,280)
Thereafter	-

For the year ended June 30, 2017, KUB recognized pension expense of $4,674,543 (Division’s share $607,691).

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, 2015, this average was 5.00 years. During the measurement year, there was an experience gain of $2,233,762 with $446,752 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $1,787,010 (Division’s share $232,311). Unrecognized experience gains from prior periods were $1,512,267 of which $378,067 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,134,200 (Division’s share $147,446).

During the measurement year, there were no benefit changes. There was a gain due to assumption changes of $2,932,884 with $586,577 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $2,346,307 (Division’s share $305,020).

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The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment loss of $802,197. $160,439 of that loss was recognized in the current year and an identical amount will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were $7,522,599 of which $1,482,006 was recognized as an increase in pension expense in the current year. The combination of unrecognized investment losses 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, 2016 of $6,682,351 (Division's share $868,705). 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 $2,408,459 (Division's share $313,100) at June 30, 2017 for employer contributions made between December 31, 2016 and June 30, 2017.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,921,210
Changes in assumptions	-	2,346,307
Net difference between projected and actual earnings on pension plan investments	6,682,351	-
Contributions subsequent to measurement date	2,408,459	-
Total	$ 9,090,810	$ 5,267,517
Division's share	$ 1,181,805	$ 684,777

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 not subject to cost of living adjustments.

As of June 30, 2018 there are 602 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. There are no inactive employees or retirees currently in 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.

Implementation of GASB 73

In fiscal year 2016, KUB adopted 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, 2018 and 2017 will be based on the December 31, 2017 and 2016 measurement dates, respectively. The Division's share of the total pension liability at June 30, 2018 is $36,444 and at June 30, 2017 is $24,060.

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

	2017	**2016**
Total pension liability	$280,341	$185,077
Deferred outflows	(69,716)	-
Deferred inflows	-	-
Net impact on Statement of Net Position	$210,625	$185,077
Covered payroll	$43,309,374	$44,437,747
Total pension liability as a % of covered payroll	0.65%	0.42%

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

	Increase (Decrease) Total Pension Liability
Balances at December 31, 2016	$ 185,077
Changes for the year:	
Service cost	584
Interest	7,535
Changes of Benefits	-
Differences between Expected and Actual Experience	13,684
Changes of Assumptions	73,461
Contributions – employer	-
Contributions – rollovers	-
Contributions – member	-
Net investment income	-
Benefit payments	-
Net changes	95,264
Balances at December 31, 2017	$ 280,341

Actuarial Assumptions
The total pension liability of the QEBA was determined by an actuarial valuation as of January 1, 2017 and projected to December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Individual entry age
Asset valuation method	5-year smoothed market
Amortization method	Level dollar closed period with 24 years remaining as of January 1, 2017 and 25 years remaining as of January 1, 2016
Salary increase	From 2.80% to 5.15% for January 1, 2017 and January 1, 2016, based on years of service
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation	2.8 percent

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013.

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 3.44% at December 31, 2017.

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, 2017, calculated using the discount rate of 3.44 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 (2.44 percent) or one percent higher (4.44 percent) than the current rate:

	1% Decrease (2.44%)	Current Discount Rate (3.44%)	1% Increase (4.44%)
QEBA's total pension liability	$ 307,013	$ 280,341	$ 257,483

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

For the year ended June 30, 2018, KUB recognized pension expense of $29,527 for the QEBA (Division’s share $3,838). This amount is not expected to be the same as KUB’s contribution to the QEBA ($3,979), but instead represents the change in the net impact on KUB’s Statement of Net Position plus employer contributions [$210,625 - $185,077 + $3,979].

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, 2016, this average was 5 years. During the measurement year, there was an experience loss of $13,684 with approximately $2,737 recognized in the current year and each of the next four years, resulting in a deferred outflow of $10,947 (Division’s share $1,423).

During the measurement year, there were no benefit changes. There was an increase in the total pension liability due to assumption changes of $73,461 with approximately $14,692 recognized in the current year and each of the next four years, resulting in a deferred outflow of $58,769 (Division’s share $7,640).

The table below summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 10,947	$ -
Changes in assumptions	58,769	-
Total	$ 69,716	$ -
Division's share	$ 9,063	$ -

Year ended June 30:	
2019	$ 17,429
2020	17,429
2021	17,429
2022	17,429
Thereafter	-

For the year ended June 30, 2017, KUB recognized pension expense of $185,077 for the QEBA (Division’s share $24,060). This amount is not expected to be the same as KUB’s contribution to the QEBA ($0), but instead represents the change in the net impact on KUB’s Statement of Net Position plus employer contributions.

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, 2015, this average was 5 years. During the measurement year, there were no assumption changes or experience gains or losses. The benefit change of $0.2 million is due to the implementation of the QEBA. Benefit changes are reflected immediately in the total pension liability of the QEBA.

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 from 3 percent to 6 percent, depending on years of service, whether they contribute or not.

Matching contributions were previously remitted to the KUB Pension Plan (a separate defined benefit plan) in the name of the participant for employees hired prior to January 1, 2011. As of December 9, 2015, these Pension match assets moved from the KUB Pension Plan to the 401(k) Plan. Effective December 9, 2015, all matching contributions are remitted to the 401(k) Plan. The match and nonelective contributions for employees hired on or after January 1, 2011 are paid directly by KUB. KUB funded 401(k) matching contributions and nonelective contributions of $2,174,711 (Division's share $282,713) and $1,963,541 (Division's share $255,260), respectively, for the years ended June 30, 2018 and 2017.

13. Other Post-Employment Benefits (OPEB)

Description of Trust

The Knoxville Utilities Board Other Post Employment Benefits Trust (the Trust) is a single-employer Other Post Employment Benefits Plan (the OPEB Plan) established by the Knoxville Utilities Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. The applicable documentation was submitted to the State Funding Board and, in December 2007, the State Funding Board approved the Trust. The Trust was also approved by the Internal Revenue Service in June 2008. KUB administers the Trust through a Board of Trustees consisting of seven KUB employees that are appointed by KUB's President and CEO. Any amendments to the Trust involving costs not approved in the operating budget must be approved by KUB's Board of Commissioners, upon recommendation by KUB's President and CEO. All other amendments to the Trust may be approved by KUB's President and CEO upon 60 days notification to the Board's Audit and Finance Committee. The investment of all deposits to the Trust is governed by an Investment Policy, which was adopted by the KUB Board and approved by the State Funding Board. The Trust issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017. For purposes of this disclosure, presentation is on a consolidated basis unless division's share is specified.

Effective 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:

	2018	2017
Retirees	562	567
Dependents of retirees	561	580
Eligible active employees	309	334
Total	1,432	1,481

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 $250 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 $250 for single coverage and $500 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, 2018:

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%

Contributions of zero and $620,015 were made to the OPEB Trust for the fiscal years ending June 30, 2018 and 2017, respectively, based on the OPEB Plan's actuarial valuations as of January 1, 2016, and 2015. Of these amounts, zero and $80,602 were attributable to the Water Division.

Implementation of GASB 75

In fiscal year 2018, KUB adopted 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, 2018 are based on the reporting date for the KUB Other Post-Employment Benefits Plan which is June 30, 2018. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2018 and the Total OPEB Liability as of the valuation date, January 1, 2017, updated to June 30, 2018. The Division's share of the total net OPEB asset at June 30, 2018 is $487,639 and at June 30, 2017 is $587,950.

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

	2018	2017
Total OPEB liability	$ 45,604,431	$ 44,477,738
Plan fiduciary net position	(49,355,499)	(49,000,433)
Net OPEB (asset) liability	$ (3,751,068)	$ (4,522,695)
Plan fiduciary net position as a percentage of the total OPEB liability	108.23%	110.17%

Changes in Net OPEB Liability are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2017	$ 44,477,738	$ 49,000,433	$ (4,522,695)
Changes for the year:			
Service cost	202,603	-	202,603
Interest	3,295,240	-	3,295,240
Differences between Expected and Actual Experience	1,324,769	-	1,324,769
Changes of Assumptions	(397,180)	-	(397,180)
Contributions - employer	-	-	-
Contributions - member	-	-	-
Net investment income	-	3,705,473	(3,705,473)
Benefit payments	(3,298,739)	(3,298,739)	-
Administrative expense	-	(51,668)	51,668
Net changes	1,126,693	355,066	771,627
Balances at June 30, 2018	$ 45,604,431	$ 49,355,499	$ (3,751,068)

Actuarial assumptions

The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, updated to June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate:	7.5%
Healthcare cost trend rates:	Pre-Medicare: 7.83% grading down to 4.5% over 20 years; Medicare: 6.88% grading down to 4.5% over 20 years; Administrative expenses: 3.0% per year
Salary increases:	From 2.80% to 5.15%, based on years of service
Mortality:	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation	2.8%

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013, with subsequent revisions to retirement and termination assumptions based upon a special experience study, which reflected experience through December 31, 2016.

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 2018	2017
Domestic equity	5.1%	5.5%
International equity	6.6%	6.8%
Real estate equity	5.8%	6.0%
Debt securities	1.6%	1.4%
Cash and deposits	0.8%	0.6%

Discount rate

The discount rate used to measure the total OPEB liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the net OPEB liability of the Trust as of June 30, 2018, calculated using the discount rate of 7.5 percent, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is 1 percent lower (6.5 percent) or 1 percent higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net OPEB liability (asset)	$1,172,935	$(3,751,068)	$(7,892,399)

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

The following presents the net OPEB liability of the Trust as of June 30, 2018, as well as what the Trust's net OPEB liability 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 Trend	1% Increase
Net OPEB liability (asset)	$(8,393,131)	$(3,751,068)	$1,703,576

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

For the year ended June 30, 2018, KUB recognized OPEB expense of $430,880 (Division's share $56,014).

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 $1,324,769 with $662,385 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 $662,384 (Division's share $86,110).

During the measurement year, there were no benefit changes. There was a decrease in the Total OPEB Liability due to assumption changes of $397,180 with $198,590 of that recognized in the current year and in the next year, resulting in a deferred inflow of $198,590 (Division's share $25,817).

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 $153,809. $30,762 of that was recognized in the current year and $123,047 (Division's share $15,996) will become a deferred inflow of resources recognized over the next four years. The table below summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 662,384	$ -
Changes in assumptions	-	198,590
Net difference between projected and actual earnings on OPEB plan investments	-	123,047
Total	$ 662,384	$ 321,637
Division's share	$ 86,110	$ 41,813

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

Year ended June 30:	
2019	$ 433,032
2020	(30,762)
2021	(30,762)
2022	(30,761)
Thereafter	-

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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, 2018 and 2017 are summarized as follows:

	2018	**2017**
City of Knoxville		
Amounts billed by the Division for utilities and related services	$ 4,454,036	$ 4,192,452
Payments by the Division in lieu of property tax	3,304,740	3,294,652
Payments by the Division for services provided	235,324	621,164
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	386,195	392,769
Interdivisional rental expense	214,141	214,270
Interdivisional rental income	142,866	142,866
Amounts billed to the Division by other divisions for utilities services provided	3,337,521	3,294,969

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

	2018	**2017**
Accounts receivable	$ 379,699	$ 348,381

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.

Knoxville Utilities Board Water Division
Required Supplementary Information – Schedule of Changes in Net Pension Liability and Related Ratios
June 30, 2018
(Unaudited)

	*Year ended December 31			
	2017	**2016**	**2015**	**2014**
Total pension liability				
Service cost	$ 4,607,486	$ 4,226,985	$ 4,157,062	$ 4,092,808
Interest	15,015,282	14,966,559	14,812,784	14,698,657
Differences between expected and actual experience	(1,087,161)	(2,233,762)	(1,890,334)	-
Changes of assumptions	(357,633)	(2,932,883)	-	-
Benefit payments, including refunds of member contributions	(14,969,979)	(14,138,511)	(15,350,926)	(15,533,167)
Net change in total pension liability	3,207,995	(111,612)	1,728,586	3,258,298
Total pension liability - beginning	204,390,738	204,502,350	202,773,764	199,515,466
Total pension liability - ending (a)	$ 207,598,733	$ 204,390,738	$ 204,502,350	$ 202,773,764
Plan fiduciary net position				
Contributions - employer	$ 4,286,597	$ 5,243,146	$ 5,991,887	$ 5,908,541
Contributions - participants	1,488,632	555,075	487,546	475,854
Net investment income	32,360,219	13,788,263	(95,430)	22,292,369
Other additions	82,239	45,848	30,879	29,733
Benefit payments, including refunds of member contributions	(14,895,979)	(14,044,511)	(15,274,926)	(15,405,167)
Administrative expense	(385,282)	(441,332)	(397,160)	(378,085)
Death benefits	(74,000)	(94,000)	(76,000)	(128,000)
Net change in plan fiduciary net position**	22,862,426	5,052,489	(9,333,204)	12,795,245
Plan fiduciary net position - beginning**	204,514,679	199,462,190	208,795,394	196,000,149
Plan fiduciary net position - ending (b)**	$ 227,377,105	$ 204,514,679	$ 199,462,190	$ 208,795,394
Plan's net pension liability - ending (a) - (b)	$ (19,778,372)	$ (123,941)	$ 5,040,160	$ (6,021,630)
Plan fiduciary net position as a percentage of the total pension liability	109.53%	100.06%	97.54%	102.97%
Covered payroll	$ 43,309,374	$ 44,437,747	$ 44,446,743	$ 44,076,351
Plan's net pension liability as a percentage of covered payroll	(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.

Knoxville Utilities Board Water Division
Required Supplementary Information – Schedule of Employer Pension Contributions
June 30, 2018
(Unaudited)

	*Year ended December 31			
	2017	2016	2015	2014
Actuarially determined contribution	$ 4,286,597	$ 5,243,146	$ 5,991,887	$ 5,908,541
Contribution in relation to the actuarially determined contribution	4,286,597	5,243,146	5,991,887	5,908,541
Contribution deficiency	$ -	$ -	$ -	$ -
Covered payroll	$ 43,309,374	$ 44,437,747	$ 44,446,743	$ 44,076,351
Contributions as a percentage of covered payroll	9.90%	11.80%	13.48%	13.41%

Notes to Schedule:

Valuation Dates:	January 1, 2012 - 2016
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.

Key methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry age normal at January 1, 2012; Individual entry age of January 1, 2013 - 2016
Asset valuation method:	5-year smoothed market
Amortization method:	Level dollar closed period with 25 years remaining as of January 1, 2016
Discount rate:	8% at January 1, 2012 - 2013, 7.5% at January 1, 2014 - 2016
Salary increases:	From 2.58% to 7.92% for January 1, 2012 - 2013 and from 2.80% to 5.15% for January 1, 2014 - 2016, based on years of service
Mortality:	Sex distinct RP-2000 Combined Mortality projected to 2018 using Scale AA for the January 1, 2012 - 2013 valuations. Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA for the January 1, 2014 - 2016 valuations.
Inflation:	2.8 percent

* 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.

Knoxville Utilities Board Water Division
Required Supplementary Information – Schedule of Changes in Net OPEB Liability and Related Ratios
June 30, 2018
(Unaudited)

	*Year ended June 30 2018
Total OPEB liability	
Service cost	$ 202,603
Interest	3,295,240
Differences between expected and actual experience	1,324,769
Changes of assumptions	(397,180)
Benefit payments	(3,298,739)
Net change in total OPEB liability	1,126,693
Total OPEB liability - beginning	44,477,738
Total OPEB liability - ending (a)	$ 45,604,431
Plan fiduciary net position	
Contributions - employer	$ -
Net investment income	3,705,473
Benefit payments	(3,298,739)
Administrative expense	(51,668)
Net change in plan fiduciary net position	355,066
Plan fiduciary net position - beginning	49,000,433
Plan fiduciary net position - ending (b)	$ 49,355,499
Net OPEB liability - ending (a) - (b)	$ (3,751,068)
Plan fiduciary net position as a percentage of the total OPEB liability	108.23%
Covered employee payroll	$ 23,677,080
Net OPEB liability as a percentage of covered employee payroll	(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.

Knoxville Utilities Board Water Division
Required Supplementary Information – Schedule of Employer OPEB Contributions
June 30, 2018
(Unaudited)

	*Year ended June 30 2018
Actuarially determined contribution	$ -
Contribution in relation to the annual required contribution	-
Contribution deficiency/(excess)	$ -
Covered employee payroll	$ 23,677,080
Contributions as a percentage of covered employee payroll	0.00%

Notes to Schedule:

Valuation Date:	January 1, 2016
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, closed period with 20 years remaining as of January 1, 2016
Discount rate:	7.5%
Healthcare cost trend rate:	Pre-Medicare: 8.00% to 4.50 % grading down over 20 years Medicare: 7.00% to 4.50% grading down over 20 years Administrative expenses: 3.0% per year

* 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.

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, 2018

(Unaudited)

	*Year ended December 31	
	2017	**2016**
Total pension liability		
Service cost	$ 584	$ -
Interest (includes interest on service cost)	7,535	-
Changes of benefit terms	-	185,077
Differences between expected and actual experience	13,684	-
Changes of assumptions	73,461	-
Benefit payments, including refunds of member contributions	-	-
Net change in total pension liability	95,264	185,077
Total pension liability - beginning	185,077	-
Total pension liability - ending	$ 280,341	$ 185,077
Covered payroll	$ 43,309,374	$ 44,437,747
Total pension liability as a percentage of covered payroll	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.

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Insurance in Force
June 30, 2018
(Unaudited) Schedule 1

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; $1,000,000 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 - $1,500,000 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 $500,000 per individual participant.

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2018
(Unaudited)

Schedule 2

Continued on Next Page

	U-2009		W-2011		X-2012		Y-2013		Z-2013		AA-2014		BB-2015	
FY	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
18-19	950,000	38,000	550,000	827,750	565,000	293,250	320,000	261,800	525,000	979,625	150,000	252,750	885,000	743,450
19-20			550,000	805,750	590,000	265,000	340,000	249,000	550,000	963,875	175,000	246,750	950,000	699,200
20-21			550,000	789,250	625,000	235,500	350,000	235,400	575,000	947,375	175,000	243,250	960,000	680,200
21-22			550,000	772,750	655,000	204,250	375,000	221,400	600,000	930,125	175,000	238,000	1,000,000	661,000
22-23			500,000	756,250	670,000	184,600	400,000	210,150	625,000	912,125	200,000	231,000	1,050,000	611,000
23-24			500,000	741,250	690,000	164,500	415,000	198,150	625,000	893,375	200,000	223,000	1,110,000	558,500
24-25			500,000	726,250	710,000	143,800	435,000	185,700	650,000	874,625	200,000	215,000	1,170,000	503,000
25-26			500,000	710,625	735,000	120,725	450,000	172,650	675,000	852,688	225,000	209,000	1,210,000	467,900
26-27			500,000	693,125	765,000	95,000	470,000	159,150	700,000	828,219	225,000	202,250	1,245,000	428,575
27-28			500,000	673,125	790,000	64,400	1,250,000	145,050	750,000	800,219	225,000	195,500	1,260,000	385,000
28-29			500,000	655,625	820,000	32,800	1,300,000	107,550	775,000	770,219	250,000	188,750	1,275,000	340,900
29-30			500,000	635,625			2,285,000	68,550	800,000	738,250	250,000	181,250	1,315,000	296,275
30-31			500,000	617,500					825,000	704,250	275,000	173,438	2,740,000	256,825
31-32			500,000	598,750					850,000	669,188	275,000	164,844	2,800,000	174,625
32-33			500,000	580,000					900,000	632,000	300,000	155,906	2,900,000	90,625
33-34			2,000,000	560,000					925,000	591,500	300,000	146,156		
34-35			2,000,000	480,000					950,000	549,875	325,000	136,032		
35-36			2,000,000	400,000					1,000,000	507,125	325,000	124,656		
36-37			2,000,000	320,000					1,025,000	460,875	350,000	113,282		
37-38			2,000,000	240,000					1,075,000	413,469	350,000	101,031		
38-39			2,000,000	160,000					1,100,000	363,750	375,000	88,781		
39-40			2,000,000	80,000					1,150,000	308,750	375,000	75,656		
40-41									1,200,000	251,250	400,000	62,531		
41-42									1,225,000	191,250	425,000	48,031		
42-43									1,275,000	130,000	450,000	32,625		
43-44									1,325,000	66,250	450,000	16,313		
44-45														
45-46														
46-47														
	$ 950,000	$ 38,000	$ 21,700,000	$ 12,823,625	$ 7,615,000	$ 1,803,825	$ 8,390,000	$ 2,214,550	$ 22,675,000	$ 16,330,252	$ 7,425,000	$ 4,065,782	$ 21,870,000	$ 6,897,075

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2018
(Unaudited)

Schedule 2

Continued from Previous Page

	CC-2015		DD-2016		EE-2016		FF-2017		GG-2017		TOTAL		Grand
FY	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Total**
18-19	425,000	684,406	500,000	796,000	100,000	580,143	465,000	190,500	380,000	687,556	5,815,000	6,335,230	12,150,230
19-20	425,000	667,406	525,000	771,000	1,090,000	575,143	475,000	176,550	395,000	668,556	6,065,000	6,088,230	12,153,230
20-21	450,000	650,406	550,000	744,750	1,155,000	520,644	495,000	162,300	415,000	648,806	6,300,000	5,857,881	12,157,881
21-22	475,000	632,406	575,000	717,250	1,245,000	462,894	510,000	147,450	440,000	628,056	6,600,000	5,615,581	12,215,581
22-23	475,000	613,406	625,000	688,500	1,315,000	400,644	530,000	127,050	460,000	606,056	6,850,000	5,340,781	12,190,781
23-24	500,000	599,156	650,000	657,250	1,380,000	334,894	550,000	105,850	485,000	583,056	7,105,000	5,058,981	12,163,981
24-25	525,000	587,906	675,000	624,750	1,435,000	307,294	575,000	78,350	505,000	558,806	7,380,000	4,805,481	12,185,481
25-26	550,000	574,782	700,000	604,500	1,460,000	278,594	605,000	49,600	530,000	533,556	7,640,000	4,574,620	12,214,620
26-27	550,000	560,344	725,000	583,500	1,515,000	249,394	635,000	25,400	555,000	512,356	7,885,000	4,337,313	12,222,313
27-28	575,000	543,844	750,000	561,750	1,560,000	219,094			575,000	490,156	8,235,000	4,078,138	12,313,138
28-29	600,000	526,594	775,000	539,250	1,605,000	187,894			590,000	477,938	8,490,000	3,827,520	12,317,520
29-30	625,000	508,594	800,000	516,000	1,645,000	155,794			600,000	464,662	8,820,000	3,565,000	12,385,000
30-31	650,000	489,060	825,000	492,000	1,710,000	120,838			625,000	440,663	8,150,000	3,294,574	11,444,574
31-32	675,000	467,938	825,000	467,250	1,750,000	82,362			650,000	415,662	8,325,000	3,040,619	11,365,619
32-33	700,000	446,000	850,000	442,500	1,810,000	42,988			675,000	389,662	8,635,000	2,779,681	11,414,681
33-34	725,000	418,000	900,000	417,000					695,000	369,413	5,545,000	2,502,069	8,047,069
34-35	750,000	389,000	925,000	390,000					715,000	348,563	5,665,000	2,293,470	7,958,470
35-36	775,000	359,000	950,000	362,250					740,000	327,112	5,790,000	2,080,143	7,870,143
36-37	800,000	330,906	975,000	333,750					760,000	304,913	5,910,000	1,863,726	7,773,726
37-38	825,000	301,906	1,000,000	304,500					785,000	282,112	6,035,000	1,643,018	7,678,018
38-39	875,000	272,000	1,025,000	274,500					805,000	258,562	6,180,000	1,417,593	7,597,593
39-40	900,000	237,000	1,050,000	243,750					830,000	234,413	6,305,000	1,179,569	7,484,569
40-41	925,000	201,000	1,100,000	212,250					855,000	208,475	4,480,000	935,506	5,415,506
41-42	975,000	164,000	1,125,000	179,250					885,000	181,756	4,635,000	764,287	5,399,287
42-43	1,000,000	125,000	1,150,000	145,500					910,000	154,100	4,785,000	587,225	5,372,225
43-44	1,050,000	85,000	1,200,000	111,000					940,000	125,662	4,965,000	404,225	5,369,225
44-45	1,075,000	43,000	1,225,000	75,000					970,000	96,288	3,270,000	214,288	3,484,288
45-46			1,275,000	38,250					1,000,000	65,976	2,275,000	104,226	2,379,226
46-47									1,030,000	33,476	1,030,000	33,476	1,063,476
	$ 18,875,000	$ 11,478,060	$ 24,250,000	$ 12,293,250	$ 20,775,000	$ 4,518,614	$ 4,840,000	$ 1,063,050	$ 19,800,000	$ 11,096,368	$ 179,165,000	$ 84,622,451	$ 263,787,451

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2018
(Unaudited)
Schedule 3

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:	55,972

Commodity Charge

First	2	100 Cubic Feet Per Month at $0.50 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	$ 16.00
For	1" meter	30.10
For	1 1/2" meter	42.00
For	2" meter	58.00

Rate Class	Base Charge	Number of Customers
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:	13,413

Commodity Charge

First	2	100 Cubic Feet Per Month at $0.55 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	$ 17.40
For	1" meter	34.40
For	1 1/2" meter	48.40
For	2" meter	67.40

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2018
(Unaudited) Schedule 3

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:	9,868

Commodity Charge

First	2	100 Cubic Feet Per Month at $1.80 Per 100 Cubic Feet
Next	8	100 Cubic Feet Per Month at $3.90 Per 100 Cubic Feet
Next	90	100 Cubic Feet Per Month at $4.85 Per 100 Cubic Feet
Next	300	100 Cubic Feet Per Month at $3.55 Per 100 Cubic Feet
Next	4,600	100 Cubic Feet Per Month at $2.25 Per 100 Cubic Feet
Next	5,000	100 Cubic Feet Per Month at $1.00 Per 100 Cubic Feet

Additional Monthly Customer Charge

For	5/8" meter	$ 16.00
For	1" meter	30.10
For	1 1/2" meter	42.00
For	2" meter	58.00
For	3" meter	142.00
For	4" meter	235.00
For	6" meter	514.00
For	8" meter	904.00
For	10" meter	1,378.00
For	12" meter	2,038.00

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:	670

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 $5.85 Per 100 Cubic Feet
Next	300	100 Cubic Feet Per Month at $4.15 Per 100 Cubic Feet
Next	4,600	100 Cubic Feet Per Month at $2.70 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	$ 17.40
For	1" meter	34.40
For	1 1/2" meter	48.40
For	2" meter	67.40
For	3" meter	169.00
For	4" meter	283.00
For	6" meter	618.00
For	8" meter	1,085.00
For	10" meter	1,652.00
For	12" meter	2,447.00

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Unaccounted for Water
June 30, 2018

(Unaudited) **Schedule 4**

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 2018 and 2017, water utilities are required to have a Validity Score greater than 75 and maintain non-revenue water as a percent by cost of operating system of less than 20%. For fiscal year 2018, KUB reported a Validity Score of 82 and non-revenue water as a percent by cost of operating system of 9.9%. For fiscal year 2017, KUB reported a Validity Score of 94 and non-revenue water as a percent by cost of operating system of 5.5%. See Supplemental Information Schedule 4 for the AWWA Reporting Worksheet.

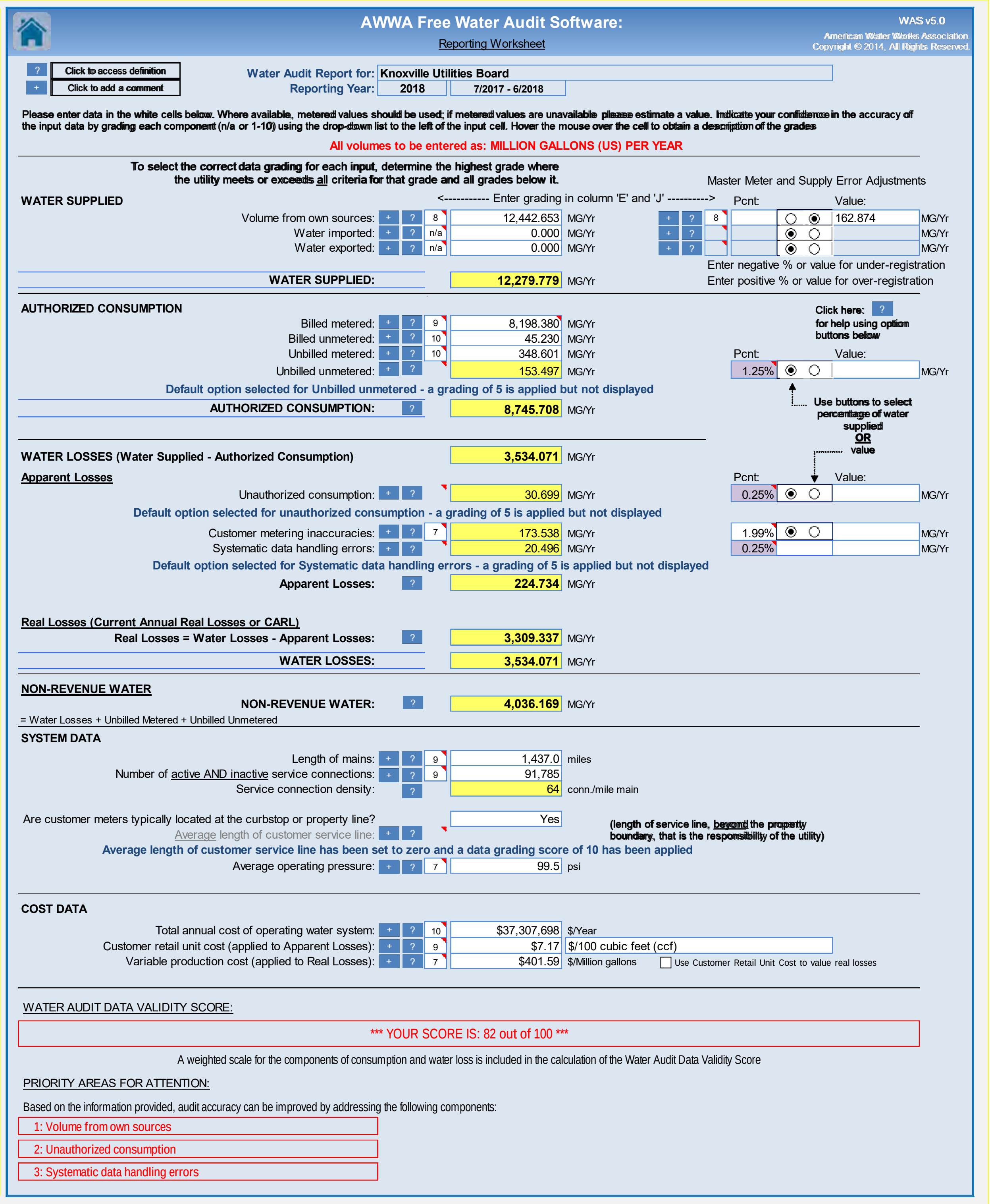
Knoxville Utilities Board Water Division

Supplemental Information - Schedule of Unaccounted for Water

June 30, 2018

(Unaudited)

Schedule 4



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: 2018 7/2017 - 6/2018

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.

<----------- Enter grading in column 'E' and 'J' ---------->

WATER SUPPLIED

	Grade	Value	Unit	Master Meter and Supply Error Adjustments Grade	Pcnt:		Value:	Unit
Volume from own sources:	8	12,442.653	MG/Yr	8		○ ●	162.874	MG/Yr
Water imported:	n/a	0.000	MG/Yr			● ○		MG/Yr
Water exported:	n/a	0.000	MG/Yr			● ○		MG/Yr
WATER SUPPLIED:		**12,279.779**	MG/Yr					

Enter negative % or value for under-registration
Enter positive % or value for over-registration

AUTHORIZED CONSUMPTION

Click here: ? for help using option buttons below

	Grade	Value	Unit	Pcnt:		Value:	Unit
Billed metered:	9	8,198.380	MG/Yr				
Billed unmetered:	10	45.230	MG/Yr				
Unbilled metered:	10	348.601	MG/Yr				
Unbilled unmetered:		153.497	MG/Yr	1.25%	● ○		MG/Yr

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

AUTHORIZED CONSUMPTION: **8,745.708** MG/Yr

Use buttons to select percentage of water supplied **OR** value

WATER LOSSES (Water Supplied - Authorized Consumption) **3,534.071** MG/Yr

Apparent Losses

	Grade	Value	Unit	Pcnt:		Value:	Unit
Unauthorized consumption:		30.699	MG/Yr	0.25%	● ○		MG/Yr

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

	Grade	Value	Unit	Pcnt		Value	Unit
Customer metering inaccuracies:	7	173.538	MG/Yr	1.99%	● ○		MG/Yr
Systematic data handling errors:		20.496	MG/Yr	0.25%			MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

Apparent Losses: **224.734** MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: **3,309.337** MG/Yr

WATER LOSSES: **3,534.071** MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: **4,036.169** MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

	Grade	Value	Unit
Length of mains:	9	1,437.0	miles
Number of active AND inactive service connections:	9	91,785	
Service connection density:		64	conn./mile main

Are customer meters typically located at the curbstop or property line? Yes

Average length of customer service line: (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: 7 99.5 psi

COST DATA

	Grade	Value	Unit
Total annual cost of operating water system:	10	$37,307,698	$/Year
Customer retail unit cost (applied to Apparent Losses):	9	$7.17	$/100 cubic feet (ccf)
Variable production cost (applied to Real Losses):	7	$401.59	$/Million gallons

☐ 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:

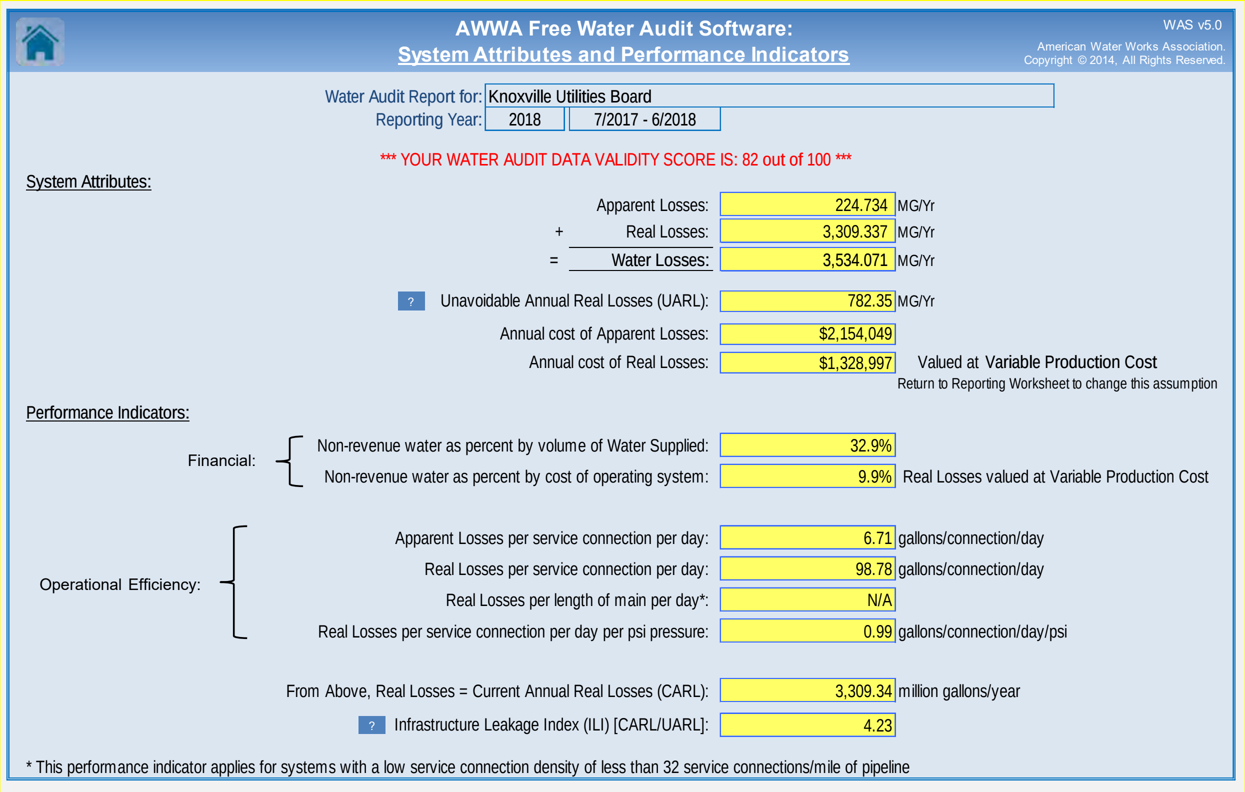
1: Volume from own sources
2: Unauthorized consumption
3: Systematic data handling errors

Knoxville Utilities Board Water Division

Supplemental Information - Schedule of Unaccounted for Water

June 30, 2018

(Unaudited) Schedule 4



AWWA Free Water Audit Software:

System Attributes and Performance Indicators

WAS v5.0

American Water Works Association.
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Water Audit Report for: Knoxville Utilities Board
Reporting Year: 2018 7/2017 - 6/2018

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 82 out of 100 ***

System Attributes:

	Apparent Losses:	224.734	MG/Yr
+	Real Losses:	3,309.337	MG/Yr
=	Water Losses:	3,534.071	MG/Yr
?	Unavoidable Annual Real Losses (UARL):	782.35	MG/Yr
	Annual cost of Apparent Losses:	$2,154,049	
	Annual cost of Real Losses:	$1,328,997	Valued at Variable Production Cost Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial:	Non-revenue water as percent by volume of Water Supplied:	32.9%	
	Non-revenue water as percent by cost of operating system:	9.9%	Real Losses valued at Variable Production Cost
Operational Efficiency:	Apparent Losses per service connection per day:	6.71	gallons/connection/day
	Real Losses per service connection per day:	98.78	gallons/connection/day
	Real Losses per length of main per day*:	N/A	
	Real Losses per service connection per day per psi pressure:	0.99	gallons/connection/day/psi
	From Above, Real Losses = Current Annual Real Losses (CARL):	3,309.34	million gallons/year
	? Infrastructure Leakage Index (ILI) [CARL/UARL]:	4.23	

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

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Report of Independent Auditors 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, 2018, 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, 2018.

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) to determine the 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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 determination of financial statement amounts. 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 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, 2018

Knoxville Utilities Board

Wastewater Division

Financial Statements and Supplemental Information
June 30, 2018 and 2017

KUB Board of Commissioners

Celeste Herbert - Chair

Dr. Jerry W. Askew - Vice Chair

John Worden

Kathy Hamilton

Sara Hedstrom Pinnell

Tyvi Small

Adrienne Simpson-Brown

Management

Mintha Roach
President and
Chief Executive Officer

Mark Walker
Senior Vice President and
Chief Financial Officer

Susan Edwards
Senior Vice President and
Chief Administrative Officer

Gabe Bolas
Senior Vice President and
Chief Engineer

Eddie Black
Senior Vice President

Derwin Hagood
Senior Vice President of Operations

Mike Bolin
Vice President

Julie Childers
Vice President

John Gresham
Vice President

Dawn Mosteit
Vice President

Paul Randolph
Vice President

Knoxville Utilities Board Wastewater Division
Index
June 30, 2018 and 2017

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Knoxville, TN 37932

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Independent Auditors' 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, 2018 and 2017, 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, 2018 and 2017, 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.

Change in Accounting Principle

As discussed in Note 13 to the financial statements, effective July 1, 2017, the Division adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to that matter.

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 62 through 66 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 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental 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, 2018 and 2017, 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, 2018, 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, 2018

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, 2018 and 2017, 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 ending June 30, 2018 activities, resulting changes and current known facts, and should be read in conjunction with the Division's financial statements.

Wastewater Division Highlights

System Highlights

The wastewater service area covers 243 square miles and includes 71,242 wastewater customers. KUB maintains 1,312 miles of services mains, 75 pump stations, and 4 treatment plants to treat 13.7 billion gallons of wastewater on an annual basis. The average daily flow is 37.5 million gallons.

KUB has added approximately 1,395 wastewater system customers over the past three years, representing annual growth of less than one percent. In fiscal year 2018, 491 customers were added.

The typical residential wastewater customer's average monthly wastewater bill was $59.50 as of June 30, 2018, representing an increase of $3 compared to June 30, 2017. The increase in the monthly bill reflects a rate increase effective July 2017.

KUB's treatment plants continue to meet high standards of operation. KUB's Kuwahee, Eastbridge, Loves Creek, and Fourth Creek wastewater treatment plants were awarded Operational Excellence awards from the Tennessee Kentucky Water Environment Association for having one or less permit violations within the 2017 calendar year. The treatment plants additionally won awards at various levels based on performance from the National Association of Clean Water Agencies for peak performance. The Eastbridge wastewater treatment plant achieved a Platinum award for continued outstanding compliance performance over multiple years. Loves Creek wastewater treatment plant won a Gold Award for having zero violations in calendar year 2017. Kuwahee and Fourth Creek wastewater treatment plants won Silver Awards for having one violation in 2017.

KUB continued to maintain Platinum certification with the National Biosolids Partnership following a rigorous review process and independent audit that was conducted in December 2017. (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 the 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 2013, the Board extended the funding approach for Century II to include the wastewater system, although the Wastewater Division had maintained a ten-year funding plan since the inception of the federal Consent Decree (see below). The Board formally endorsed and adopted by resolution, a ten-year funding plan for the Wastewater Division, which included a combination of rate increases and debt issues to fully fund the wastewater system's Century II program.

In April 2014, KUB management provided the Board an updated assessment of the overall condition of each utility system, including a recommendation for annual rate increases for each division for the next three fiscal years.

In June 2014, the Board approved the three annual rate increases for the Wastewater Division. The three rate increases went into effect in October 2014, October 2015, and October 2016. Each rate increase provided an additional $4.7 million of annual sales revenue.

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 first of the three approved wastewater rate increases went into effect in July 2017, generating $4.3 million in additional annual revenue. The remaining two rate increases are effective in July 2018 and July 2019 and are expected to provide an additional $4.2 million and $4.5 million in annual revenue, respectively, to assist with the funding of the Wastewater Division.

In fiscal year 2018, KUB rehabilitated or replaced 16 miles of wastewater system main while staying within the Division's total capital budget.

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 by June 30, 2018 and at the Kuwahee treatment plant by June 30, 2021. KUB successfully completed the installation of the BEHRC system at the Fourth Creek treatment plant ahead of schedule in April 2018. Work is currently ongoing at the Kuwahee treatment plant and remains on schedule for completion before the deadline of June 30, 2021. The total cost of such improvements is estimated to be approximately $58 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, 2018, the Wastewater Division had issued $530 million in bonds to fund 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 effective October 2014, October 2015 and October 2016 and three 5 percent rate increases 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 approximately 368.8 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 83 percent reduction in SSOs.

As of June 30, 2018, the Wastewater Division had completed its 14th full year under the Consent Decree, spending $536.9 million on capital investments to meet Consent Decree requirements.

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Financial Highlights

Fiscal Year 2018 Compared to Fiscal Year 2017

The Division's net position during the year increased $19.8 million compared to a $13.3 million increase last fiscal year. A restatement to the fiscal year 2018 beginning net position, based on a change in method of accounting for Other Post-Employment Benefits (OPEB), increased the total net position by $1 million during the fiscal year 2018. The change resulted in a total increase of $20.8 million in the Division's net position.

Operating revenue increased $6.2 million or 7 percent, the result of additional revenue generated during the fiscal year from the rate increase effective July 2017 offset by a 0.2 percent decrease in customer billable flows.

Operating expenses decreased $0.1 million. Operating and maintenance (O&M) expenditures decreased $1 million. Depreciation expense rose $0.6 million or 3.4 percent. Taxes and tax equivalents increased $0.2 million or 5.1 percent.

Interest income was $0.6 million higher than the prior fiscal year. Interest expense was $0.3 million higher than the prior fiscal year. Other income (net) was $0.1 million higher.

Capital contributions decreased $0.2 million, the result of a decrease in donated assets from developers compared to the previous fiscal year.

Total plant assets (net) increased $13.2 million or 1.9 percent since the end of last fiscal year.

KUB sold $25 million in wastewater system revenue bonds in August 2017 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 3.08 percent.

Long-term debt represented 62.7 percent of the Division's capital structure as of June 30, 2018, as compared to 63.7 percent last year. The decrease is the net result of the issuance of new revenue 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 and notes) 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 1.98. Maximum debt service coverage was 1.95.

Fiscal Year 2017 Compared to Fiscal Year 2016

The Division's net position during the year increased $13.3 million compared to a $9.5 million increase last fiscal year.

Operating revenue increased $4.9 million or 5.8 percent, the result of additional revenue generated during the fiscal year from the rate increase effective October 2016 offset by a 0.3 percent decrease in customer billable flows.

Operating expenses increased $0.9 million or 1.6 percent. Operating and maintenance (O&M) expenditures increased $0.4 million or 1.3 percent. Depreciation expense rose $0.2 million or 0.9 percent. Taxes and tax equivalents increased $0.3 million or 5.7 percent.

Interest income was $0.2 million higher than the prior fiscal year. Interest expense was $0.1 million higher than the prior fiscal year. Other income (net) was $0.2 million lower.

Capital contributions decreased $0.2 million, the result of a decrease in donated assets from developers compared to the previous fiscal year.

Total plant assets (net) increased $19.7 million or 2.9 percent since the end of last fiscal year.

During fiscal year 2017, KUB sold $20 million in wastewater system revenue bonds for the purpose of funding wastewater system capital improvements and also sold $12 million in wastewater system revenue refunding bonds to refinance existing wastewater system bonds at lower interest rates. The refunding produced total debt service savings of $1.4 million over the life of the bonds ($1.3 million on a net present value basis).

Long-term debt represented 63.7 percent of the Division’s capital structure as of June 30, 2017, as compared to 64.5 percent last year. The decrease is the net result of the issuance of new revenue 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 and notes) 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 1.79. Maximum debt service coverage was 1.78.

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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.

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

(in thousands of dollars)	2018	2017	2016
Current, restricted and other assets	$ 106,805	$ 82,060	$ 80,075
Capital assets, net	719,979	706,752	687,056
Deferred outflows of resources	16,112	18,332	19,413
Total assets and deferred outflows of resources	842,896	807,144	786,544
Current and other liabilities	22,404	21,388	22,630
Long-term debt outstanding	512,135	500,207	492,466
Deferred inflows of resources	3,137	1,159	333
Total liabilities and deferred inflows of resources	537,676	522,754	515,429
Net position			
Net investment in capital assets	216,037	216,334	205,784
Restricted	3,159	3,010	2,737
Unrestricted	86,024	65,046	62,594
Total net position	$ 305,220	$ 284,390	$ 271,115

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.

Impacts and Analysis

Current, Restricted and Other Assets

Fiscal Year 2018 Compared to Fiscal Year 2017

Current, restricted and other assets increased $24.7 million or 30.2 percent, primarily due to a $18.3 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments), an increase in the actuarially determined net pension asset of $4.3 million, an increase in the actuarially determined OPEB asset of $0.8 million and a $0.6 million increase in accounts receivable.

Fiscal Year 2017 Compared to Fiscal Year 2016

Current, restricted and other assets increased $2 million or 2.4 percent, primarily due to a $0.8 million increase in accounts receivable, a $0.7 million increase in other current assets, and a $0.2 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) during the fiscal year.

Capital Assets

Fiscal Year 2018 Compared to Fiscal Year 2017

Capital assets increased $13.2 million or 1.9 percent, the result of capital expenditures, net of depreciation. Major capital expenditures during the year included $26.7 million for major system improvements related to Century II.

Fiscal Year 2017 Compared to Fiscal Year 2016

Capital assets increased $19.7 million or 2.9 percent, the result of capital expenditures, net of depreciation. Major capital expenditures during the year included $30.9 million for major system improvements related to Century II.

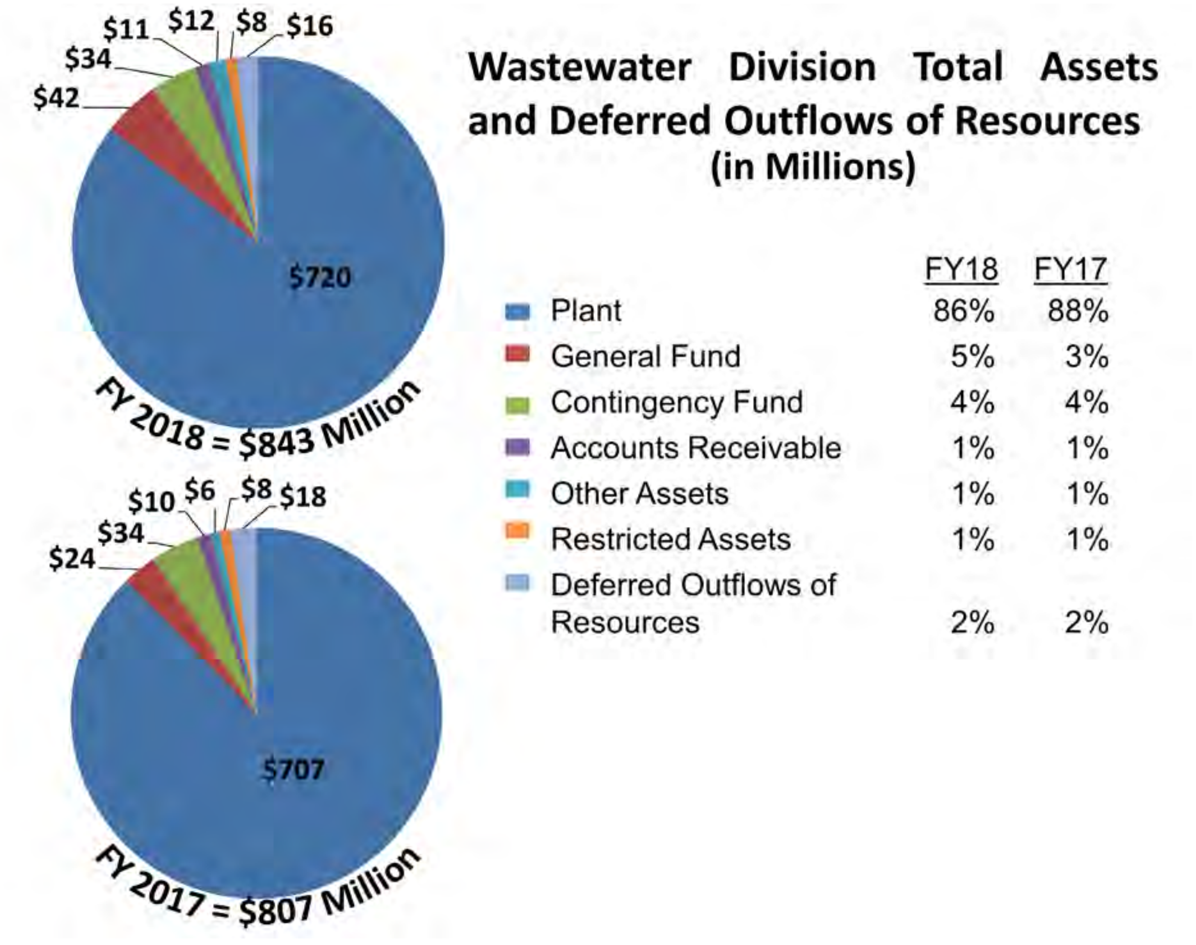
Deferred Outflows of Resources

Fiscal Year 2018 Compared to Fiscal Year 2017

Deferred outflows decreased $2.2 million compared to the prior year, reflecting a $1.6 million decrease in pension outflow and a $0.8 million decrease in unamortized bond refunding costs.

Fiscal Year 2017 Compared to Fiscal Year 2016

Deferred outflows decreased $1.1 million compared to the prior year, reflecting a $0.8 million decrease in unamortized bond refunding costs and a $0.3 million decrease in pension outflow.



Current and Other Liabilities

Fiscal Year 2018 Compared to Fiscal Year 2017

Current and other liabilities were $1 million higher than the prior fiscal year, primarily due to a $0.9 million increase in the current portion of revenue bonds.

Fiscal Year 2017 Compared to Fiscal Year 2016

Current and other liabilities were $1.2 million less than the prior fiscal year. This decrease was the net result of an increase of $0.8 million in the current portion of revenue bonds offset by a $1.1 million decrease in the actuarially determined net pension obligation and a $0.8 million decrease in accounts payable.

Long-Term Debt

Fiscal Year 2018 Compared to Fiscal Year 2017

The Division's outstanding long-term debt increased $11.9 million or 2.4 percent. Wastewater system revenue bonds of $25 million, sold in August 2017, were partially offset by the scheduled repayment of debt.

Fiscal Year 2017 Compared to Fiscal Year 2016

The Division's outstanding long-term debt increased $7.7 million or 1.6 percent. Wastewater system revenue bonds of $20 million, sold in July 2016, added to KUB's outstanding debt. In March 2017, revenue refunding bonds of $12 million were issued to refinance bonds sold in 2005. The additional issuances offset by the defeased bonds and scheduled debt repayments accounted for the change in long-term debt.

Deferred Inflows of Resources

Fiscal Year 2018 Compared to Fiscal Year 2017

Deferred inflows of resources were $2 million higher than the prior fiscal year due to differences in pension inflows.

Fiscal Year 2017 Compared to Fiscal Year 2016

Deferred inflows of resources were $0.8 million higher than the prior fiscal year due to differences in pension inflows.

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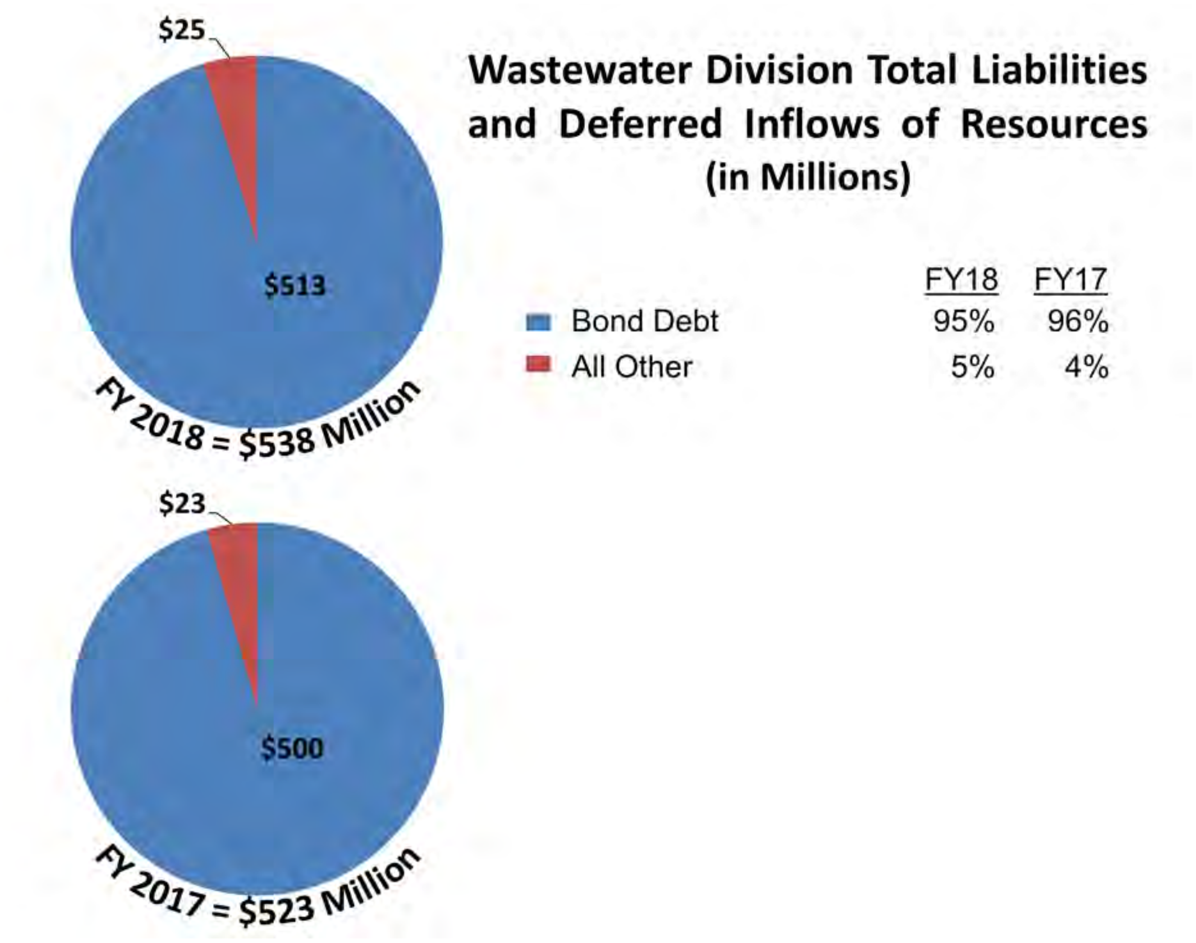

Net Position

Fiscal Year 2018 Compared to Fiscal Year 2017

Unrestricted assets increased $21 million, primarily due to the $24.5 million increase in current and other assets compared to the prior year, which includes an increase of $18.3 million in general fund cash. Net investment in capital assets decreased $0.3 million. The decrease was the result of $13.2 million in net plant additions offset by an increase in current portion of revenue bonds and total long-term debt of $13 million. Restricted net position was $0.1 million higher than the previous fiscal year, primarily due to increases in bond fund reserves.

Fiscal Year 2017 Compared to Fiscal Year 2016

Net investment in capital assets increased $10.6 million or 5.1 percent. The increase was the result of $19.7 million in net plant additions offset by an increase in current portion of revenue bonds and total long-term debt of $8.5 million. Unrestricted assets increased $2.5 million, primarily due to the $1.7 million increase in current and other assets compared to the prior year. Restricted net position was $0.3 million higher than the previous fiscal year, primarily due to increases in bond fund reserves.

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

(in thousands of dollars)	2018	2017	2016
Operating revenues	$ 94,716	$ 88,517	$ 83,646
Operating expenses			
Treatment	11,675	11,914	12,516
Collection	7,411	7,686	7,462
Customer service	3,106	3,073	2,962
Administrative and general	8,747	9,257	8,572
Depreciation	19,138	18,517	18,343
Taxes and tax equivalents	5,039	4,796	4,537
Total operating expenses	55,116	55,243	54,392
Operating income	39,600	33,274	29,254
Interest income	1,205	642	462
Interest expense	(20,508)	(20,233)	(20,169)
Other income/(expense)	(740)	(872)	(717)
Change in net position before capital contributions	19,557	12,811	8,830
Capital contributions	278	464	690
Change in net position	$ 19,835	$ 13,275	$ 9,520

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.

- 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 2018 Compared to Fiscal Year 2017

The Division's Change in Net Position increased $19.8 million in fiscal year 2018. A restatement to the fiscal year 2018 beginning net position, based on a change in method of accounting for OPEB, increased the total net position by an additional $1 million. The change resulted in a total increase of $20.8 million in the Division's net position. Comparatively, net position increased by $13.3 million in fiscal year 2017.

Fiscal Year 2017 Compared to Fiscal Year 2016

The Division's net position during the year increased $13.3 million compared to a $9.5 million increase last fiscal year.

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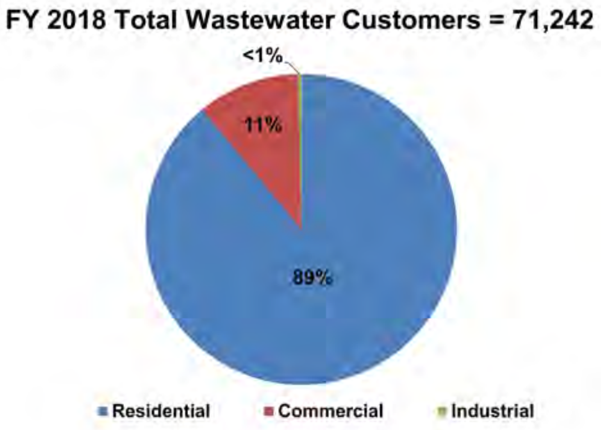
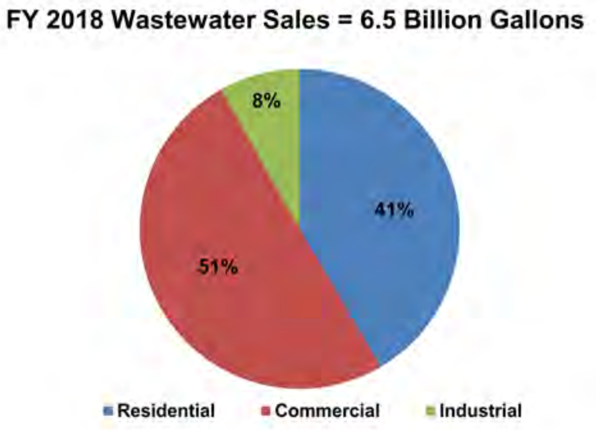
Margin from Sales

Fiscal Year 2018 Compared to Fiscal Year 2017

Operating revenue increased $6.2 million or 7 percent for the fiscal year ending June 30, 2018, the result of additional revenue generated during the fiscal year from the July 2017 rate increase, offset by a 0.2 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 $1.8 million in revenue for BABs rebates in fiscal year 2018.





Residential customers accounted for 89 percent of wastewater customers and 41 percent of total billed sales volumes for the year. Commercial customers accounted for the largest portion of total sales volumes for the year with 51 percent.

KUB's ten largest wastewater customers accounted for 19 percent of KUB's billed wastewater volumes. Those ten customers represent five industrial and five commercial customers, including four governmental customers.

KUB has added 1,395 wastewater customers over the past three years, representing annual growth of less than one percent.

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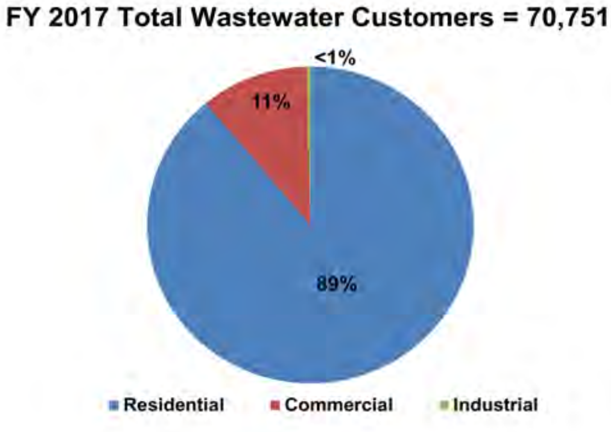
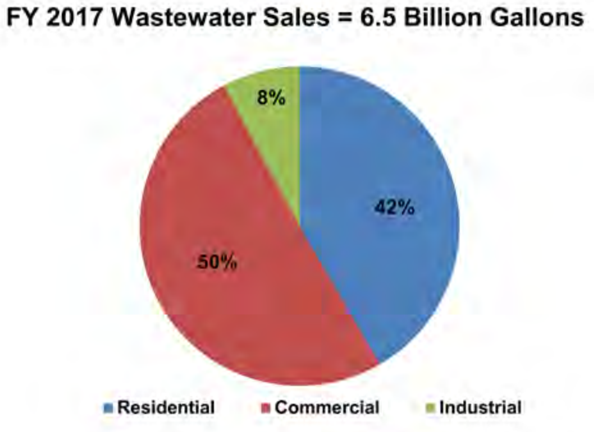
Fiscal Year 2017 Compared to Fiscal Year 2016

Operating revenue increased $4.9 million or 5.8 percent for the fiscal year ending June 30, 2017, the result of additional revenue generated during the fiscal year from the October 2016 rate increase offset by a 0.3 percent decrease in customer billable 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 $1.8 million in revenue for BABs rebates in fiscal year 2017.





Residential customers accounted for 89 percent of wastewater customers and 42 percent of total billed sales volumes for the year. Commercial customers accounted for the largest portion of total sales volumes for the year with 50 percent.

KUB's ten largest wastewater customers accounted for 18 percent of KUB's billed wastewater volumes. Those ten customers represent four industrial and six commercial customers, including four governmental customers.

KUB has added 1,138 wastewater customers over the past three years, representing annual growth of less than one percent.

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Operating Expenses

Fiscal Year 2018 Compared to Fiscal Year 2017

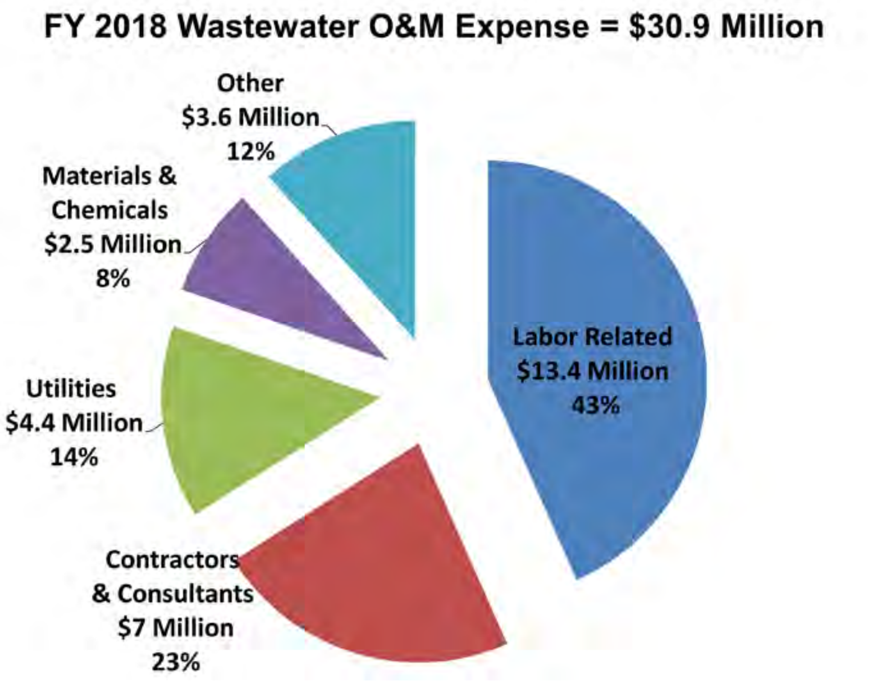
Operating expenses decreased $0.1 million compared to fiscal year 2017. Operating expenses include operations and maintenance (O&M) expense, depreciation, and taxes/tax equivalents. O&M expenses can be further classified as treatment, collection, customer service, and administrative and general.

- Treatment expenses decreased $0.2 million, primarily due to lower outside consultant and contractor expenses.

- Collection system expenses decreased $0.3 million, reflecting lower outside contractor expenses for Century II initiatives.

- Customer service expenses were consistent with the prior fiscal year.

- Administrative and general expenses decreased $0.5 million, primarily due to a decrease in labor related expenses.



- Depreciation expense increased $0.6 million or 3.4 percent, the result of a full year of depreciation on $51.7 million of wastewater system assets placed in service during fiscal year 2017 and a partial year of depreciation of $29.5 million of wastewater system assets placed in service during fiscal year 2018. Wastewater system assets of $5.6 million were retired during the fiscal year.

- Taxes and tax equivalents increased $0.2 million compared to the prior fiscal year due to increased plant in service levels.

Fiscal Year 2017 Compared to Fiscal Year 2016

Operating expenses increased $0.9 million or 1.6 percent compared to fiscal year 2016. 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 decreased $0.6 million, primarily due to lower outside consultant and contractor expenses.
- Collection system expenses increased $0.2 million, reflecting higher outside contractor expenses for Century II initiatives.
- Customer service expenses increased $0.1 million.
- Administrative and general expenses increased $0.7 million, primarily due to an increase in labor related expenses.

- Depreciation expense increased $0.2 million or 0.9 percent, the result of a full year of depreciation on $53.6 million of wastewater system assets placed in service during fiscal year 2016 and a partial year of depreciation of $51.7 million of wastewater system assets placed in service during fiscal year 2017. $11 million of wastewater system assets 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.

Other Income and Expense

Fiscal Year 2018 Compared to Fiscal Year 2017

Interest income was $0.6 million higher than the prior fiscal year primarily due to higher short-term interest rates.

Interest expense was $0.3 million higher than the prior fiscal year, reflecting the net effect of interest expense from new revenue bonds sold during the fiscal year and savings on refunding of outstanding bonds.

Other income (net) was $0.1 million higher than the prior fiscal year.

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.

Fiscal Year 2017 Compared to Fiscal Year 2016

Interest income was $0.2 million higher than the prior fiscal year.

Interest expense was $0.1 million higher than the prior fiscal year.

Other income (net) was $0.2 million lower, primarily due to an increase in miscellaneous income deductions.

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)

(in thousands of dollars)	**2018**	**2017**	**2016**
Pumping & Treatment Plant	$ 152,026	$ 148,916	$ 144,383
Collection Plant			
Mains and Metering	454,420	445,740	416,102
Other Accounts	67,355	68,745	70,145
Total Collection Plant	521,775	514,485	486,247
Total General Plant	8,217	8,660	8,480
Total Wastewater Plant	$ 682,018	$ 672,061	$ 639,110
Work In Progress	37,961	34,691	47,946
Total Net Plant	$ 719,979	$ 706,752	$ 687,056

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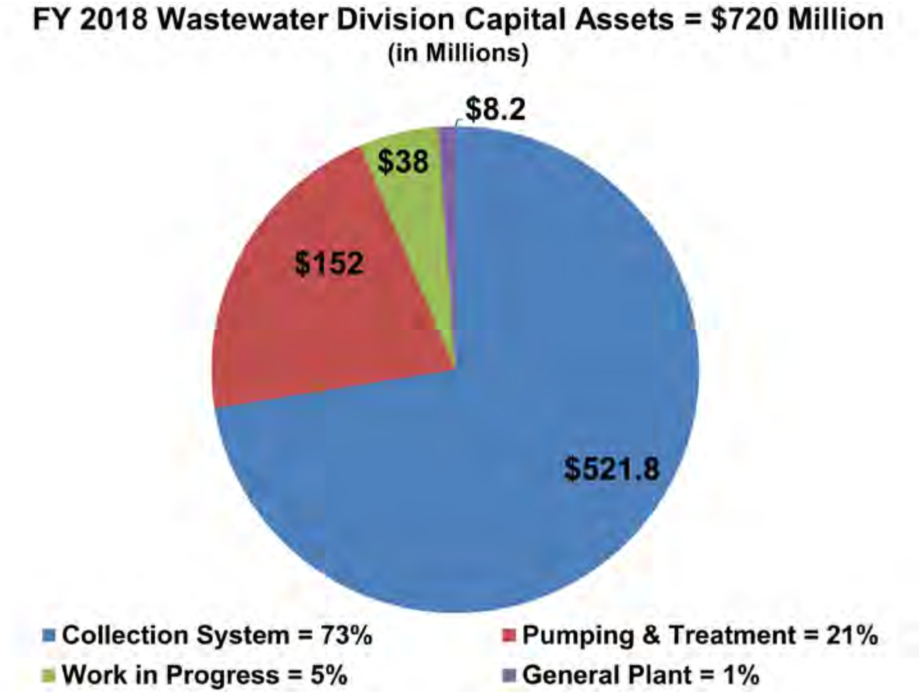
Fiscal Year 2018 Compared to Fiscal Year 2017

As of June 30, 2018, the Division had $720 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 $13.2 million or 1.9 percent over the end of the last fiscal year.



Major capital asset expenditures during the year were as follows:

- $26.7 million related to Century II projects
  - $12.9 million for wastewater treatment plant upgrades
  - $7.2 million for sewer mini-basin rehabilitation and replacement
  - $4.9 million for sewer trunk line rehabilitation and replacement
  - $1.7 million for pump station construction and improvements

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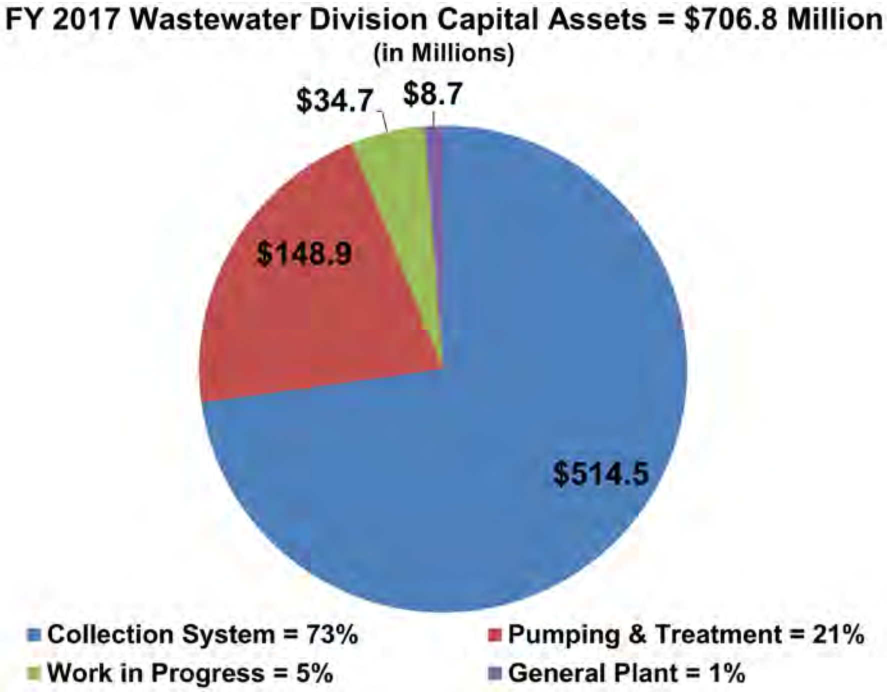
Fiscal Year 2017 Compared to Fiscal Year 2016

As of June 30, 2017, the Division had $706.8 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 $19.7 million or 2.9 percent over the end of the last fiscal year.



Major capital asset expenditures during the year were as follows:

- $30.9 million related to Century II projects
    - $12.4 million for wastewater treatment plant upgrades
    - $10.6 million for sewer trunk line rehabilitation and replacement
    - $5.3 million for sewer mini-basin rehabilitation and replacement
    - $2.6 million for pump station construction and improvements

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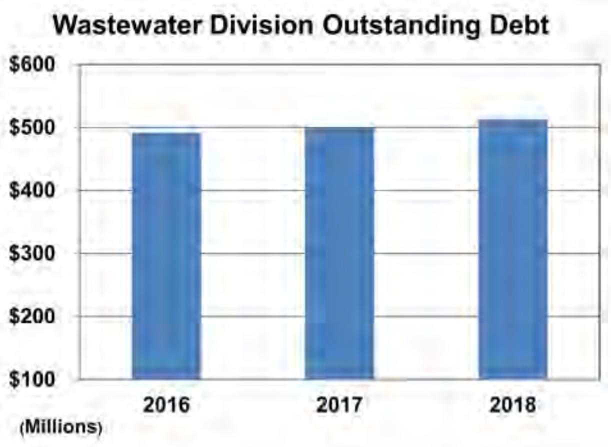
Debt Administration

As of June 30, 2018, the Wastewater Division had $512.9 million in outstanding wastewater system bonds. The Division's outstanding debt has remained at a steady level over the past three years, reflecting new bond issues and scheduled repayment of revenue bonds. Bond proceeds from new revenue bond sales are used to fund capital improvements for the wastewater system. The bonds are secured solely by revenues of the Wastewater Division. Debt as a percentage of the Division's capital structure was 62.7 percent in 2018, 63.7 percent in 2017, and 64.5 percent at the end of fiscal year 2016. 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)	**2018**	**2017**	**2016**
Revenue bonds	$ 512,890	$ 499,850	$ 492,330
Total outstanding debt	$ 512,890	$ 499,850	$ 492,330



The Division will pay $146.7 million in principal payments over the next ten years, representing 28.6 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 2018 Compared to Fiscal Year 2017

As of June 30, 2018, the Division had $512.9 million in outstanding debt (including the current portion of revenue bonds), representing an increase of $13 million or 2.6 percent. The increase is attributable to new revenue bonds issued during the fiscal year offset by the scheduled repayment of debt. The Division's weighted average cost of debt as of June 30, 2018 was 3.96 percent (3.61 percent including the impact of Build America Bonds rebates).

KUB sold $25 million in wastewater system revenue bonds in August 2017 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 3.08 percent.

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2018, the Division's revenue bonds were rated AA+ by Standard & Poor's and Aa2 by Moody's Investors Service.

Fiscal Year 2017 Compared to Fiscal Year 2016

As of June 30, 2017, the Division had $499.9 million in outstanding debt (including the current portion of revenue bonds), representing an increase of $7.5 million or 1.5 percent. The increase is attributable to the net effect of new revenue and refunding bond issues. The Division's weighted average cost of debt as of June 30, 2017 was 3.99 percent (3.64 percent including the impact of Build America Bonds rebates).

KUB sold $20 million in wastewater system revenue bonds in July 2016 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 2.72 percent.

KUB sold $12 million in wastewater system revenue refunding bonds in March 2017 for the purpose of refinancing existing wastewater system bonds at lower interest rates. KUB will realize a total debt service savings of $1.4 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 1.95 percent.

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2017, 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 350 wastewater customers in fiscal year 2019.

In June 2017, the KUB Board adopted three years of rate increases for all four utility Divisions to help fund the ongoing Century II infrastructure programs for each system. The two remaining approved wastewater rate increases are effective July 2018 and July 2019 and are expected to provide an additional $4.2 million and $4.5 million, respectively, in annual revenue to assist with the funding of the Wastewater Division.

KUB sold $12 million in wastewater system revenue bonds in August 2018 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 3.49 percent.

KUB long-term debt includes $91.6 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 6.6 percent. Any future actions by Congress may also affect the anticipated rebates for future fiscal years.

The Pension Plan actuarial valuation for the Plan year ending December 31, 2017 resulted in an actuarially determined contribution of $3,156,661 for the fiscal year ending June 30, 2019, based on the Plan's current funding policy. The Wastewater Division's portion of this contribution is $694,465 Subsequent to June 30, 2018, the actuarial valuation for the Plan year ending December 31, 2018 was completed. The actuarial valuation resulted in an actuarially determined contribution of $2,585,824 for the fiscal year ending June 30, 2020, based on the Plan's current funding policy. The Wastewater Division's portion of this contribution is $568,881. For the Plan year ending December 31, 2018, the Plan's actuarial funded ratio was 107.84 percent.

The OPEB Plan actuarial valuation as of January 1, 2017 resulted in an actuarially determined contribution of zero for the fiscal year ending June 30, 2019, based on the Plan's current funding policy. Subsequent to June 30, 2018, the actuarial valuation as of January 1, 2018 was completed. The actuarial valuation resulted in an actuarially determined contribution of $311,324 for the fiscal year ending June 30, 2020, based on the Plan's current funding policy. The Wastewater Division's portion of this contribution is $68,491. The Plan's actuarial funded ratio was 102.78 percent.

GASB Statement No. 83, *Certain Asset Retirement Obligations,* is effective for fiscal years beginning after June 15, 2018. GASB Statement No. 84, *Fiduciary Activities*, is effective for fiscal years beginning after December 15, 2018. GASB Statement No. 87, *Leases*, is effective for fiscal years beginning after December 15, 2019. GASB Statement No. 88, *Certain Disclosure Related to Debt, Including Direct Borrowings and Direct Placements,* is effective for fiscal years beginning after June 15, 2018. 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, 2019. 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 2018.

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 ending June 30, 2018 and 2017. 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, 2018 and 2017

	2018	2017
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	$ 42,297,513	$ 18,973,860
Short-term investments	-	4,982,900
Short-term contingency fund investments	11,101,917	14,559,854
Other current assets	524,169	699,213
Accrued interest receivable	34,729	20,406
Accounts receivable, less allowance of uncollectible accounts of $86,556 in 2018 and $82,667 in 2017	10,576,375	9,933,764
Inventories	523,984	336,145
Prepaid expenses	72,469	78,703
Total current assets	65,131,156	49,584,845
Restricted assets:		
Wastewater bond fund	8,232,210	7,909,840
Other funds	4,718	6,915
TVA contract proceeds	-	74,619
Total restricted assets	8,236,928	7,991,374
Wastewater plant in service	877,008,227	853,154,323
Less accumulated depreciation	(194,989,639)	(181,093,401)
	682,018,588	672,060,922
Retirement in progress	426,420	185,548
Construction in progress	37,534,482	34,505,477
Net plant in service	719,979,490	706,751,947
Other assets:		
Net pension asset	4,351,242	27,267
Net OPEB asset	825,235	-
Long-term contingency fund investments	22,914,748	19,229,072
Other	5,346,014	5,227,545
Total other assets	33,437,239	24,483,884
Total assets	826,784,813	788,812,050
Deferred outflows of resources:		
Pension outflow	428,530	1,999,978
OPEB outflow	145,724	-
Unamortized bond refunding costs	15,537,275	16,331,740
Total deferred outflows of resources	16,111,529	18,331,718
Total assets and deferred outflows of resources	$ 842,896,342	$ 807,143,768

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

Knoxville Utilities Board Wastewater Division
Statements of Net Position
June 30, 2018 and 2017

	2018	2017
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	$ 12,615,000	$ 11,710,000
Accounts payable	1,566,588	1,522,921
Accrued expenses	813,958	764,678
Customer deposits plus accrued interest	849,208	819,927
Accrued interest on revenue bonds	5,078,360	4,982,240
Total current liabilities	20,923,114	19,799,766
Other liabilities:		
Accrued compensated absences	1,348,345	1,507,005
Customer advances for construction	4,600	-
Net pension liability - QEBA	61,675	40,717
Other	66,723	40,081
Total other liabilities	1,481,343	1,587,803
Long-term debt:		
Wastewater revenue bonds	500,275,000	488,140,000
Unamortized premiums/discounts	11,860,393	12,067,331
Total long-term debt	512,135,393	500,207,331
Total liabilities	534,539,850	521,594,900
Deferred inflows of resources:		
Pension inflow	3,066,215	1,158,854
OPEB inflow	70,760	-
Total deferred inflows of resources	3,136,975	1,158,854
Total liabilities and deferred inflows of resources	537,676,825	522,753,754
Net position		
Net investment in capital assets	216,036,743	216,334,381
Restricted for:		
Debt service	3,153,850	2,927,600
Other	4,718	81,534
Unrestricted	86,024,206	65,046,499
Total net position	305,219,517	284,390,014
Total liabilities, deferred inflows, and net position	$ 842,896,342	$ 807,143,768

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, 2018 and 2017

	2018	2017
Operating revenues	$ 94,715,764	$ 88,517,210
Operating expenses		
Treatment	11,674,833	11,914,383
Collection	7,410,791	7,686,373
Customer service	3,106,304	3,072,606
Administrative and general	8,747,272	9,257,078
Provision for depreciation	19,137,860	18,517,403
Taxes and tax equivalents	5,038,630	4,795,532
Total operating expenses	55,115,690	55,243,375
Operating income	39,600,074	33,273,835
Non-operating revenues (expenses)		
Contributions in aid of construction	2,237,910	723,825
Interest and dividend income	1,205,290	641,747
Interest expense	(20,508,567)	(20,232,835)
Amortization of debt costs	(368,685)	(443,847)
Write-down of plant for costs recovered through contributions	(2,237,910)	(723,825)
Other	(371,824)	(428,234)
Total non-operating revenues (expenses)	(20,043,786)	(20,463,169)
Change in net position before capital contributions	19,556,288	12,810,666
Capital contributions	278,222	463,784
Change in net position	19,834,510	13,274,450
Net position, beginning of year, as previously reported	284,390,014	271,115,564
Change in method of accounting for OPEB	994,993	-
Net position, beginning of year, as restated	285,385,007	271,115,564
Net position, end of year	$ 305,219,517	$ 284,390,014

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

Knoxville Utilities Board Wastewater Division
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash receipts from customers	$ 92,107,107	$ 85,189,254
Cash (payments to) receipts from other operations	1,757,517	1,434,648
Cash payments to suppliers of goods or services	(20,810,035)	(21,876,100)
Cash payments to employees for services	(11,119,039)	(11,144,919)
Payment in lieu of taxes	(4,218,257)	(4,017,388)
Net cash provided by operating activities	57,717,293	49,585,495
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	25,111,895	33,146,531
Principal paid on revenue bonds and notes payable	(11,960,000)	(24,445,000)
Interest paid on revenue bonds and notes payable	(20,412,447)	(20,214,379)
Acquisition and construction of wastewater plant	(34,629,295)	(38,745,442)
Changes in wastewater bond fund, restricted	(322,370)	(213,456)
Customer advances for construction	4,600	-
Proceeds received on disposal of plant	1,762	12,004
Cash received from developers and individuals for capital purposes	2,237,910	723,825
Net cash used in capital and related financing activities	(39,967,945)	(49,735,917)
Cash flows from investing activities:		
Purchase of investment securities	(15,048,777)	(15,807,997)
Maturities of investment securities	19,572,141	10,832,597
Interest received	1,171,280	595,577
Other property and investments	(120,339)	(221,540)
Net cash provided by (used in) investing activities	5,574,305	(4,601,363)
Net increase (decrease) in cash and cash equivalents	23,323,653	(4,751,785)
Cash and cash equivalents, beginning of year	18,973,860	23,725,645
Cash and cash equivalents, end of year	$ 42,297,513	$ 18,973,860
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 39,600,074	$ 33,273,835
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	19,440,304	18,777,420
Changes in operating assets and liabilities:		
Accounts receivable	(642,611)	(757,319)
Inventories	(187,839)	(22,111)
Prepaid expenses	6,234	6,694
Other assets	240,335	(730,075)
Accounts payable and accrued expenses	(795,127)	(837,342)
Customer deposits plus accrued interest	29,281	(97,807)
Other liabilities	26,642	(27,800)
Net cash provided by operating activities	$ 57,717,293	$ 49,585,495
Noncash capital activities:		
Acquisition of plant assets through developer contributions	$ 278,222	$ 463,784

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

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, 2018 and 2017, 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 June 2015, the GASB issued GASB Statement No. 75 (Statement No. 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Statement addresses reporting by governments that provide OPEB to their employees. Statement No. 75 is effective for fiscal years beginning after June 15, 2017.

In March 2017, the GASB issued GASB Statement No. 85 (Statement No. 85), *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. Statement No. 85 is effective for fiscal years beginning after June 15, 2017.

In May 2017, the GASB issued GASB Statement No. 86 (Statement No. 86), *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The Statement provides guidance for transactions in which cash and other monetary assets acquired with existing resources or resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. Statement No. 86 is effective for fiscal years beginning after June 15, 2017.

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 $302,444 in fiscal year 2018 and $260,017 in fiscal year 2017. 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 $297,270 in fiscal year 2018 and $183,561 in fiscal year 2017.

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.

- 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.

Change in method of accounting for OPEB

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide OPEB to their employees. This standard was adopted by KUB in 2018 and resulted in a restatement of beginning net position of $4,522,695 (Division's share $994,993) to increase the net OPEB asset by $4,522,695 (Division's share $994,993) based on revised actuarial assumptions to conform with GASB 75.

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 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, 2018 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2018 are based on a June 30, 2018 measurement date.

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, 2018 and 2017 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2018 and 2017 are based on a December 31, 2017 and 2016 measurement date, respectively. The net pension asset is $19,778,372 (Division's share $4,351,242) as of June 30, 2018 and $123,941 (Division's share $27,267) as of June 30, 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 (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, 2018 and 2017 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2018 and 2017 will be based on the December 31, 2017 and 2016 measurement dates. The total pension liability of the QEBA is $280,341 (Division's share $61,675) and $185,077 (Division's share $40,717) as of June 30, 2017.

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 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 Statement No. 68 and Statement No. 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

KUB has evaluated events and transactions through October 25, 2018, the date these financial statements were issued, for items that should potentially be recognized or disclosed. KUB sold $12 million in wastewater system revenue bonds in August 2018 for the purpose of funding wastewater system capital improvements in fiscal year 2019. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.49 percent. Annual debt service payments including principal and interest range from $513,941 to $648,756 with final maturity in fiscal year 2048.

Reclassifications

Certain reclassifications have been made to the fiscal year 2017 balances to conform to fiscal year 2018 presentation.

Recently Issued Accounting Pronouncements

In November 2016, the GASB issued GASB Statement No. 83 (Statement No. 83), *Certain Asset Retirement Obligations*. The objective of this Statement is to define asset retirement obligations as a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations is required to perform future asset retirement activities related to its tangible capital assets to recognize a liability based on the guidance in this Statement. Statement No. 83 is effective for fiscal years beginning after June 15, 2018.

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, 2018.

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 December 15, 2019.

In April 2018, the GASB issued GASB Statement No. 88 (Statement No. 88), *Certain Disclosure Related to Debt, Including Direct Borrowings and Direct Placements.* The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. Statement No. 88 is effective for fiscal years beginning after June 15, 2018.

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, 2019.

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.

Classification of deposits and investments per Statement of Net Position:

	2018	**2017**
Current assets		
Cash and cash equivalents	$ 42,297,513	$ 18,973,860
Short-term investments	-	4,982,900
Short-term contingency fund investments	11,101,917	14,559,854
Other assets		
Long-term contingency fund investments	22,756,018	19,090,029
Restricted assets		
Wastewater bond fund	8,232,210	7,909,840
Other funds	4,718	6,915
	$ 84,392,376	$ 65,523,398

The above amounts do not include accrued interest of $158,730 in fiscal year 2018 and $139,043 in fiscal year 2017. 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, 2018:

	Deposit and Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	$ 36,505,314	$ 36,505,314	$ -
State Treasurer's Investment Pool	4,436,823	4,436,823	-
Agency Bonds	41,259,686	11,101,917	30,157,769
Certificates of Deposits	3,795,286	3,795,286	-
	$ 85,997,109	$ 55,839,340	$ 30,157,769

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 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, 2018:

- U.S. Agency bonds of $30,157,769, 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:

	2018	2017
Wholesale and retail customers		
Billed services	$ 5,637,649	$ 5,733,191
Unbilled services	4,013,123	3,595,200
Other	1,012,159	688,040
Allowance for uncollectible accounts	(86,556)	(82,667)
	$ 10,576,375	$ 9,933,764

5. Accounts Payable and Accruals

Accounts payable and accruals were composed of the following:

	2018	2017
Trade accounts	$ 1,566,588	$ 1,522,921
Salaries and wages	412,966	348,485
Self-insurance liabilities	400,992	416,193
	$ 2,380,546	$ 2,287,599

6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2017	Additions	Payments	Defeased	Balance June 30, 2018	Amounts Due Within One Year
2008 - 4.0 - 6.0%	$ 1,950,000	$ -	$ 1,950,000	$ -	$ -	$ -
2010 - 6.3 - 6.5%	30,000,000	-		-	30,000,000	-
2010C - 1.18 - 6.1%	63,100,000	-	1,500,000	-	61,600,000	1,550,000
2012A - 2.0 - 4.0%	13,755,000	-	985,000	-	12,770,000	970,000
2012B - 1.25 - 5.0%	61,375,000	-	1,000,000	-	60,375,000	1,050,000
2013A - 2.0 - 4.0%	111,095,000	-	635,000	-	110,460,000	660,000
2014A - 2.0 - 4.0%	28,750,000	-	475,000	-	28,275,000	475,000
2015A - 3.0 - 5.0%	129,235,000	-	2,835,000	-	126,400,000	5,010,000
2015B - 3.0 - 5.0%	28,975,000	-	475,000	-	28,500,000	500,000
2016 - 2.0 - 5.0%	19,650,000	-	450,000	-	19,200,000	450,000
2017A - 3.0 - 5.0%	11,965,000	-	1,405,000	-	10,560,000	1,460,000
2017B - 2.0 - 5.0%	-	25,000,000	250,000	-	24,750,000	490,000
Total bonds	$ 499,850,000	$ 25,000,000	$ 11,960,000	$ -	$ 512,890,000	$ 12,615,000
Unamortized Premium	12,067,331	473,638	680,576	-	11,860,393	-
Total long term debt	$ 511,917,331	$ 25,473,638	$ 12,640,576	$ -	$ 524,750,393	$ 12,615,000

	Balance June 30, 2016	**Additions**	**Payments**	**Defeased**	**Balance June 30, 2017**	**Amounts Due Within One Year**
2005B - 3.0 - 5.0%	$ 14,635,000	$ -	$ 1,470,000	$ 13,165,000	$ -	$ -
2008 - 4.0 - 6.0%	6,550,000	-	4,600,000	-	1,950,000	1,950,000
2010 - 6.3 - 6.5%	30,000,000	-	-	-	30,000,000	-
2010C - 1.18 - 6.1%	64,500,000	-	1,400,000	-	63,100,000	1,500,000
2012A - 2.0 - 4.0%	14,595,000	-	840,000	-	13,755,000	985,000
2012B - 1.25 - 5.0%	62,350,000	-	975,000	-	61,375,000	1,000,000
2013A - 2.0 - 4.0%	111,715,000	-	620,000	-	111,095,000	635,000
2014A - 2.0 - 4.0%	29,200,000	-	450,000	-	28,750,000	475,000
2015A - 3.0 - 5.0%	129,360,000	-	125,000	-	129,235,000	2,835,000
2015B - 3.0 - 5.0%	29,425,000	-	450,000	-	28,975,000	475,000
2016 - 2.0 - 5.0%	-	20,000,000	350,000	-	19,650,000	450,000
2017A - 3.0 - 5.0%	-	11,965,000	-	-	11,965,000	1,405,000
Total bonds	$ 492,330,000	$ 31,965,000	$ 11,280,000	$ 13,165,000	$ 499,850,000	$ 11,710,000
Unamortized Premium	11,066,224	1,684,616	600,100	83,409	12,067,331	-
Total long term debt	$ 503,396,224	$ 33,649,616	$ 11,880,100	$ 13,248,409	$ 511,917,331	$ 11,710,000

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

Fiscal		**Total**	**Grand**
Year	**Principal**	**Interest**	**Total**
2019	$ 12,615,000	$ 20,313,437	$ 32,928,437
2020	13,180,000	19,776,753	32,956,753
2021	13,725,000	19,220,382	32,945,382
2022	14,345,000	18,576,278	32,921,278
2023	14,990,000	17,901,135	32,891,135
2024-2028	77,795,000	80,476,018	158,271,018
2029-2033	89,285,000	65,889,294	155,174,294
2034-2038	106,480,000	48,343,995	154,823,995
2039-2043	110,370,000	26,516,295	136,886,295
2044-2048	55,330,000	6,097,513	61,427,513
2049-2050	4,775,000	248,975	5,023,975
Total	$ 512,890,000	$ 323,360,075	$ 836,250,075

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, 2018, those bond covenants had been satisfied.

During fiscal year 2009, KUB's Wastewater Division issued Series 2008 bonds to fund wastewater system capital improvements.

During fiscal year 2010, KUB's Wastewater Division issued Series 2010 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. Effective October 1, 2017 these bonds became subject to a 6.6 percent 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.

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. Effective October 1, 2017 these bonds became subject to a 6.6 percent 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.

During fiscal year 2012, KUB's Wastewater Division issued Series 2012A bonds to retire Series 2004A bonds.

During fiscal year 2013, KUB's Wastewater Division issued Series 2012B bonds to fund wastewater system capital improvements. KUB's Wastewater Division also issued Series 2013A bonds to retire a portion of outstanding Series 2005A bonds.

During fiscal year 2015, KUB's Wastewater Division issued Series 2015A bonds to retire a portion of outstanding Series 2005A, Series 2007, and Series 2008 bonds. KUB's Wastewater Division also issued Series 2014A and Series 2015B bonds to fund wastewater system capital improvements.

During fiscal year 2017, KUB's Wastewater Division issued Series 2016 bonds to fund wastewater system capital improvements. KUB's Wastewater Division also issued Series 2017A bonds to retire outstanding Series 2005B bonds.

During fiscal year 2018, KUB's Wastewater Division issued Series 2017B bonds to fund wastewater system capital improvements.

Other liabilities consist of the following:

	Balance June 30, 2017	**Increase**	**Decrease**	**Balance June 30, 2018**
Accrued compensated absences	$ 1,507,005	$ 3,147,407	$ (3,306,067)	$ 1,348,345
Customer advances for construction	-	4,600	-	4,600
Other	40,081	99,005	(72,363)	66,723
	$ 1,547,086	$ 3,251,012	$ (3,378,430)	$ 1,419,668

	Balance June 30, 2016	Increase	Decrease	Balance June 30, 2017
Accrued compensated absences	$ 1,584,302	$ 2,802,419	$ (2,879,716)	$ 1,507,005
Other	67,881	75,785	(103,585)	40,081
	$ 1,652,183	$ 2,878,204	$ (2,983,301)	$ 1,547,086

7. Lease Commitments

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

2019	$ 45,512
2020	30,742
Total operating minimum lease payments	$ 76,254

8. Capital Assets

Capital asset activity was as follows:

	Balance June 30, 2017	Increase	Decrease	Balance June 30, 2018
Pumping & Treatment Plant	$ 227,029,539	$ 8,782,379	$ (1,941,717)	$ 233,870,201
Collection Plant				
Mains and Metering	516,446,174	19,007,807	(2,309,760)	533,144,221
Mains and Metering - Meters	-	154,826	-	154,826
Other Accounts	80,354,716	-	(1,000)	80,353,716
Total Collection Plant	$ 596,800,890	$ 19,162,633	$ (2,310,760)	$ 613,652,763
Total General Plant	29,323,894	1,517,108	(1,355,739)	29,485,263
Total Wastewater Plant	$ 853,154,323	$ 29,462,120	$ (5,608,216)	$ 877,008,227
Less accumulated depreciation	(181,093,401)	(19,447,763)	5,551,525	(194,989,639)
Net Plant Assets	$ 672,060,922	$ 10,014,357	$ (56,691)	$ 682,018,588
Work In Progress	34,691,025	32,540,508	(29,270,631)	37,960,902
Total Net Plant	$ 706,751,947	$ 42,554,865	$ (29,327,322)	$ 719,979,490

	Balance June 30, 2016	Increase	Decrease	Balance June 30, 2017
Pumping & Treatment Plant	$ 219,766,603	$ 9,868,174	$ (2,605,238)	$ 227,029,539
Collection Plant				
Mains and Metering	483,684,427	39,595,263	(6,833,516)	516,446,174
Other Accounts	80,385,881	31,266	(62,431)	80,354,716
Total Collection Plant	$ 564,070,308	$ 39,626,529	$ (6,895,947)	$ 596,800,890
Total General Plant	28,589,760	2,244,371	(1,510,237)	29,323,894
Total Wastewater Plant	$ 812,426,671	$ 51,739,074	$ (11,011,422)	$ 853,154,323
Less accumulated depreciation	(173,316,844)	(18,784,879)	11,008,322	(181,093,401)
Net Plant Assets	$ 639,109,827	$ 32,954,195	$ (3,100)	$ 672,060,922
Work In Progress	47,946,144	38,244,076	(51,499,195)	34,691,025
Total Net Plant	$ 687,055,971	$ 71,198,271	$ (51,502,295)	$ 706,751,947

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, 2018 and June 30, 2017, the amount of these liabilities was $400,992 and $416,193, respectively, resulting from the following changes:

	2018	2017
Balance, beginning of year	$ 416,193	$ 385,656
Current year claims and changes in estimates	3,428,491	3,522,910
Claims payments	(3,443,692)	(3,492,373)
Balance, end of year	$ 400,992	$ 416,193

10. Pension Plan

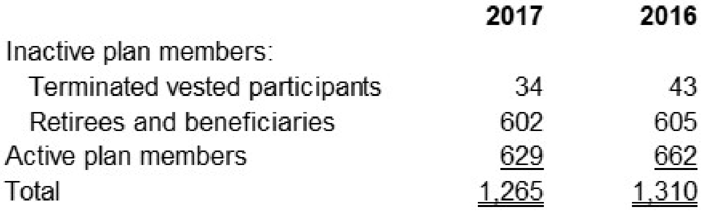
Description of Plan

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, 2017 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). 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:



	2017	**2016**
Inactive plan members:		
Terminated vested participants	34	43
Retirees and beneficiaries	602	605
Active plan members	629	662
Total	1,265	1,310

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

Plan Funding

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

Investments

The Plan's investments are held by State Street Bank and Trust Company (the "Trustee"). The Plan's policy in regard to the allocation of invested assets is established by the Retirement System Investment Committee and approved by the KUB Board of Commissioners and may only be amended by the KUB Board of Commissioners. It is the policy of the Retirement System Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Plan's adopted asset allocation policy as of December 31, 2017:

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 $3,756,283 and $4,816,913 for 2016 and 2015, respectively, were made during the Plan sponsor's fiscal years ending June 30, 2018 and 2017, respectively. Of these amounts, $826,382 and $1,059,721 are attributable to the Wastewater Division. The fiscal year 2018 contribution was determined as part of the January 1, 2016 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability or death.

Net Pension Liability

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*("GASB 68"), which requires measurement of the net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2018 and 2017 will be based on the December 31, 2017 and 2016 measurement date, respectively. The Division's share of the net pension asset at June 30, 2018 is $4,351,242 and at June 30, 2017 is $27,267.

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

		2017		2016
Total pension liability	$	207,598,733	$	204,390,738
Plan fiduciary net position		(227,377,105)		(204,514,679)
Plan's net pension (asset) liability	$	(19,778,372)	$	(123,941)
Plan fiduciary net position as a percentage of the total pension liability		109.50%		100.06%

Changes in Net Pension Liability are as follows:

		Total Pension Liability (a)		Increase (Decrease) Plan Fiduciary Net Position (b)		Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2016	$	204,390,738	$	204,514,679	$	(123,941)
Changes for the year:						
Service cost		4,607,486		-		4,607,486
Interest		15,015,282		-		15,015,282
Differences between Expected and Actual Experience		(1,087,161)		-		(1,087,161)
Changes of Assumptions		(357,633)		-		(357,633)
Contributions - employer		-		4,286,597		(4,286,597)
Contributions - rollovers		-		1,482,701		(1,482,701)
Contributions - member		-		5,931		(5,931)
Net investment income		-		32,442,458		(32,442,458)
Benefit payments		(14,969,979)		(14,969,979)		-
Administrative expense		-		(385,282)		385,282
Net changes		3,207,995		22,862,426		(19,654,431)
Balances at December 31, 2017	$	207,598,733	$	227,377,105	$	(19,778,372)

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Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2017 and 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Individual entry age
Asset valuation method	5-year smoothed market
Amortization method	Level dollar closed period with 25 years remaining as of January 1, 2016 and 26 years remaining as of January 1, 2015
Discount rate	7.5%
Salary increase	From 2.80% to 5.15% for January 1, 2016 and January 1, 2015, based on years of service
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation	2.8 %

The actuarial assumptions used in the December 31, 2017 and 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013.

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, 2017 and 2016 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.

	Long Term Expected Real Rate of Return	
Asset Class	**2017**	**2016**
Domestic equity	5.0%	5.6%
Non-U.S. equity	6.6%	7.2%
Real estate equity	5.6%	6.3%
Debt securities	1.4%	1.6%
Cash and deposits	0.7%	0.6%

Discount rate

The discount rate used to measure the total pension liability was 7.5 percent as of January 1, 2017 and 2016. 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 to changes in the discount rate
The following presents the net pension liability of the Plan as of December 31, 2017, calculated using the discount rate of 7.5 percent, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one percent lower (6.5 percent) or one percent higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Plan's net pension liability	$ (2,624,670)	$ (19,778,372)	$ (34,742,817)

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

For the year ended June 30, 2018, KUB recognized pension expense of ($15,659) (Division's share ($3,445)).

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, 2016, this average was 5.00 years. During the measurement year, there was an experience gain of $1,087,161 with $217,432 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $869,729 (Division's share $191,340). Unrecognized experience gains from prior periods were $2,921,210 of which $824,819 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $2,096,391 (Division's share $461,206).

During the measurement year, there were no benefit changes. There was a gain due to assumption changes of $357,633 with $71,526 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $286,107 (Division's share $62,944). Unrecognized assumption change gains from prior periods were $2,346,307 of which $586,577 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,759,730 (Division's share $387,141).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of $17,456,614. $3,491,323 of that gain was recognized in the current year and an identical amount will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were $6,682,351 of which $1,642,445 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, 2017 of ($8,925,384) (Division's share ($1,963,584)). 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 $1,878,146 (Division's share $413,192) at June 30, 2018 for employer contributions made between December 31, 2017 and June 30, 2018.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,966,120
Changes in assumptions	-	2,045,837
Net difference between projected and actual earnings on pension plan investments	-	8,925,385
Contributions subsequent to measurement date	1,878,146	-
Total	$ 1,878,146	$ 13,937,342
Division's share	$ 413,192	$ 3,066,215

$1,878,146 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, 2019. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2019	$ (3,549,235)
2020	(1,954,655)
2021	(4,653,172)
2022	(3,780,280)
Thereafter	-

For the year ended June 30, 2017, KUB recognized pension expense of $4,674,543 (Division's share $1,028,399).

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, 2015, this average was 5.00 years. During the measurement year, there was an experience gain of $2,233,762 with $446,752 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $1,787,010 (Division's share $393,142). Unrecognized experience gains from prior periods were $1,512,267 of which $378,067 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,134,200 (Division's share $249,524).

During the measurement year, there were no benefit changes. There was a gain due to assumption changes of $2,932,884 with $586,577 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $2,346,307 (Division's share $516,188).

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 $802,197. $160,439 of that loss was recognized in the current year and an identical amount will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were $7,522,599 of which $1,482,006 was recognized as an increase in pension expense in the current year. The combination of unrecognized investment losses this year along with the net unrecognized investment losses from prior periods results in a deferred outflow of resources as of December 31, 2016 of $6,682,351 (Division's share $1,470,117). 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 $2,408,459 (Division's share $529,861) at June 30, 2017 for employer contributions made between December 31, 2016 and June 30, 2017.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,921,210
Changes in assumptions	-	2,346,307
Net difference between projected and actual earnings on pension plan investments	6,682,351	-
Contributions subsequent to measurement date	2,408,459	-
Total	$ 9,090,810	$ 5,267,517
Division's share	$ 1,999,978	$ 1,158,854

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 not subject to cost of living adjustments.

As of June 30, 2018, there are 602 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. There are no inactive employees or retirees currently in 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.

Implementation of GASB 73

In fiscal year 2016, KUB adopted 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, 2018 and 2017 will be based on the December 31, 2017 and 2016 measurement dates, respectively. The Division's share of the total pension liability at June 30, 2018 is $61,675 and at June 30, 2017 is $40,717.

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

	2017	**2016**
Total pension liability	$280,341	$185,077
Deferred outflows	(69,716)	-
Deferred inflows	-	-
Net impact on Statement of Net Position	$210,625	$185,077
Covered payroll	$43,309,374	$44,437,747
Total pension liability as a % of covered payroll	0.65%	0.42%

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

	Increase (Decrease) Total Pension Liability
Balances at December 31, 2016	$ 185,077
Changes for the year:	
Service cost	584
Interest	7,535
Changes of Benefits	-
Differences between Expected and Actual Experience	13,684
Changes of Assumptions	73,461
Contributions – employer	-
Contributions – rollovers	-
Contributions – member	-
Net investment income	-
Benefit payments	-
Net changes	95,264
Balances at December 31, 2017	$ 280,341

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Actuarial Assumptions
The total pension liability of the QEBA was determined by an actuarial valuation as of January 1, 2017 and projected to December 31, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Individual entry age
Asset valuation method	5-year smoothed market
Amortization method	Level dollar closed period with 24 years remaining as of January 1, 2017 and 25 years remaining as of January 1, 2016
Salary increase	From 2.80% to 5.15% for January 1, 2017 and January 1, 2016, based on years of service
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation	2.8 percent

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013.

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 3.44% at December 31, 2017.

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, 2017, calculated using the discount rate of 3.44 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 (2.44 percent) or one percent higher (4.44 percent) than the current rate:

	1% Decrease (2.44%)	Current Discount Rate (3.44%)	1% Increase (4.44%)
QEBA's total pension liability	$ 307,013	$ 280,341	$ 257,483

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

For the year ended June 30, 2018, KUB recognized pension expense of $29,527 for the QEBA (Division's share $6,496). This amount is not expected to be the same as KUB's contribution to the QEBA ($3,979), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [$210,625 - $185,077 + $3,979].

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, 2016, this average was 5 years. During the measurement year, there was an experience loss of $13,684 with approximately $2,737 recognized in the current year and each of the next four years, resulting in a deferred outflow of $10,947 (Division's share $2,409).

During the measurement year, there were no benefit changes. There was an increase in the total pension liability due to assumption changes of $73,461 with approximately $14,692 recognized in the current year and each of the next four years, resulting in a deferred outflow of $58,769 (Division's share $12,929).

The table below summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 10,947	$ -
Changes in assumptions	58,769	-
Total	$ 69,716	$ -
Division's share	$ 15,338	$ -

Year ended June 30:	
2019	$ 17,429
2020	17,429
2021	17,429
2022	17,429
Thereafter	-

For the year ended June 30, 2017, KUB recognized pension expense of $185,077 for the QEBA (Division's share $40,717). This amount is not expected to be the same as KUB's contribution to the QEBA ($0), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions.

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, 2015, this average was 5 years. During the measurement year, there were no assumption changes or experience gains or losses. The benefit change of $0.2 million is due to the implementation of the QEBA. Benefit changes are reflected immediately in the total pension liability of the QEBA.

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 from 3 percent to 6 percent, depending on years of service, whether they contribute or not.

Matching contributions were previously remitted to the KUB Pension Plan (a separate defined benefit plan) in the name of the participant for employees hired prior to January 1, 2011. As of December 9, 2015, these Pension match assets moved from the KUB Pension Plan to the 401(k) Plan. Effective December 9, 2015, all matching contributions are remitted to the 401(k) Plan. The match and nonelective contributions for employees hired on or after January 1, 2011 are paid directly by KUB. KUB funded 401(k) matching contributions and nonelective contributions of $2,174,711 (Division's share $478,436) and $1,963,541 (Division's share $431,979), respectively, for the years ended June 30, 2018 and 2017.

13. Other Post-Employment Benefits (OPEB)

Description of Trust

The Knoxville Utilities Board Other Post Employment Benefits Trust (the Trust) is a single-employer Other Post Employment Benefits Plan (OPEB Plan) established by the Knoxville Utilities Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. The applicable documentation was submitted to the State Funding Board and, in December 2007, the State Funding Board approved the Trust. The Trust was also approved by the Internal Revenue Service in June 2008. KUB administers the Trust through a Board of Trustees consisting of seven KUB employees that are appointed by KUB's President and CEO. Any amendments to the Trust involving costs not approved in the operating budget must be approved by KUB's Board of Commissioners, upon recommendation by KUB's President and CEO. All other amendments to the Trust may be approved by KUB's President and CEO upon 60 days notification to the Board's Audit and Finance Committee. The investment of all deposits to the Trust is governed by an Investment Policy, which was adopted by the KUB Board and approved by the State Funding Board. The Trust issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017. For purposes of this disclosure, presentation is on a consolidated basis unless division's share is specified.

Effective 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:

	2018	2017
Retirees	562	567
Dependents of retirees	561	580
Eligible active employees	309	334
Total	1,432	1,481

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 $250 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 $250 for single coverage and $500 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, 2018:

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%

Contributions of zero and $620,015 were made to the OPEB Trust for the fiscal years ending June 30, 2018 and 2017, respectively, based on the OPEB Plan's actuarial valuations as of January 1, 2016, and 2015. Of these amounts, zero and $136,403 were attributable to the Wastewater Division.

Implementation of GASB 75

In fiscal year 2018, KUB adopted 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, 2018 are based on the reporting date for the KUB Other Post-Employment Benefits Plan which is June 30, 2018. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2018 and the Total OPEB Liability as of the valuation date, January 1, 2017, updated to June 30, 2018. The Division's share of the total net OPEB asset at June 30, 2018 is $825,235 and at June 30, 2017 is $994,993.

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

	2018	2017
Total OPEB liability	$ 45,604,431	$ 44,477,738
Plan fiduciary net position	(49,355,499)	(49,000,433)
Net OPEB (asset) liability	$ (3,751,068)	$ (4,522,695)
Plan fiduciary net position as a percentage of the total OPEB liability	108.23%	110.17%

Changes in Net OPEB Liability are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2017	$ 44,477,738	$ 49,000,433	$ (4,522,695)
Changes for the year:			
Service cost	202,603	-	202,603
Interest	3,295,240	-	3,295,240
Differences between Expected and Actual Experience	1,324,769	-	1,324,769
Changes of Assumptions	(397,180)	-	(397,180)
Contributions - employer	-	-	-
Contributions - member	-	-	-
Net investment income	-	3,705,473	(3,705,473)
Benefit payments	(3,298,739)	(3,298,739)	-
Administrative expense	-	(51,668)	51,668
Net changes	1,126,693	355,066	771,627
Balances at June 30, 2018	$ 45,604,431	$ 49,355,499	$ (3,751,068)

Actuarial assumptions
The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, updated to June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate:	7.5%
Healthcare cost trend rates:	Pre-Medicare: 7.83% grading down to 4.5% over 20 years; Medicare: 6.88% grading down to 4.5% over 20 years; Administrative expenses: 3.0% per year
Salary increases:	From 2.80% to 5.15%, based on years of service
Mortality:	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation	2.8%

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013, with subsequent revisions to retirement and termination assumptions based upon a special experience study, which reflected experience through December 31, 2016.

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 2018**	**Long Term Expected Real Rate of Return 2017**
Domestic equity	5.1%	5.5%
International equity	6.6%	6.8%
Real estate equity	5.8%	6.0%
Debt securities	1.6%	1.4%
Cash and deposits	0.8%	0.6%

Discount rate

The discount rate used to measure the total OPEB liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the net OPEB liability of the Trust as of June 30, 2018, calculated using the discount rate of 7.5 percent, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is 1 percent lower (6.5 percent) or 1 percent higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	**Current Discount Rate (7.5%)**	**1% Increase (8.5%)**
Net OPEB liability (asset)	$1,172,935	$(3,751,068)	$(7,892,399)

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

The following presents the net OPEB liability of the Trust as of June 30, 2018, as well as what the Trust's net OPEB liability 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 Trend**	**1% Increase**
Net OPEB liability (asset)	$(8,393,131)	$(3,751,068)	$1,703,576

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

For the year ended June 30, 2018, KUB recognized OPEB expense of $430,880 (Division’s share $94,794).

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 $1,324,769 with $662,385 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 $662,384 (Division’s share $145,724).

During the measurement year, there were no benefit changes. There was a decrease in the Total OPEB Liability due to assumption changes of $397,180 with $198,590 of that recognized in the current year and in the next year, resulting in a deferred inflow of $198,590 (Division’s share $43,690).

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 $153,809. $30,762 of that was recognized in the current year and $123,047 (Division’s share $27,070) will become a deferred inflow of resources recognized over the next four years. The table below summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 662,384	$ -
Changes in assumptions	-	198,590
Net difference between projected and actual earnings on OPEB plan investments	-	123,047
Total	$ 662,384	$ 321,637
Division's share	$ 145,724	$ 70,760

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

Year ended June 30:	
2019	$ 433,032
2020	(30,762)
2021	(30,762)
2022	(30,761)
Thereafter	-

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, 2018 and 2017 are summarized as follows:

	2018	**2017**
City of Knoxville		
Amounts billed by the Division for utilities and related services	$ 1,067,941	$ 965,919
Payments by the Division in lieu of property tax	4,218,257	4,017,388
Payments by the Division for services provided	682,763	1,700,079
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	346,746	312,380
Interdivisional rental expense	313,388	313,517
Interdivisional rental income	122,211	122,211
Amounts billed to the Division by other divisions for utilities services provided	3,251,471	3,148,117

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

	2018	**2017**
Accounts receivable	$ 75,833	$ 49,812

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 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 by June 30, 2018 and at the Kuwahee treatment plant by June 30, 2021. KUB successfully completed the installation of the BEHRC system at the Fourth Creek treatment plant ahead of schedule in April 2018. Work is currently ongoing at the Kuwahee treatment plant and remains on schedule for completion before the deadline of June 30, 2021. The total cost of such improvements is estimated to be approximately $58 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, 2018, the Wastewater Division had issued $530 million in bonds to fund 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 effective October 2014, October 2015 and October 2016 and three 5 percent rate increases 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 approximately 368.8 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 83 percent reduction in SSOs.

As of June 30, 2018, the Wastewater Division had completed its 14th full year under the Consent Decree, spending $536.9 million on capital investments to meet Consent Decree requirements.

Knoxville Utilities Board Wastewater Division

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

June 30, 2018

(Unaudited)

	*Year ended December 31			
	2017	2016	2015	2014
Total pension liability				
Service cost	$ 4,607,486	$ 4,226,985	$ 4,157,062	$ 4,092,808
Interest	15,015,282	14,966,559	14,812,784	14,698,657
Differences between expected and actual experience	(1,087,161)	(2,233,762)	(1,890,334)	-
Changes of assumptions	(357,633)	(2,932,883)	-	-
Benefit payments, including refunds of member contributions	(14,969,979)	(14,138,511)	(15,350,926)	(15,533,167)
Net change in total pension liability	3,207,995	(111,612)	1,728,586	3,258,298
Total pension liability - beginning	204,390,738	204,502,350	202,773,764	199,515,466
Total pension liability - ending (a)	$ 207,598,733	$ 204,390,738	$ 204,502,350	$ 202,773,764
Plan fiduciary net position				
Contributions - employer	$ 4,286,597	$ 5,243,146	$ 5,991,887	$ 5,908,541
Contributions - participants	1,488,632	555,075	487,546	475,854
Net investment income	32,360,219	13,788,263	(95,430)	22,292,369
Other additions	82,239	45,848	30,879	29,733
Benefit payments, including refunds of member contributions	(14,895,979)	(14,044,511)	(15,274,926)	(15,405,167)
Administrative expense	(385,282)	(441,332)	(397,160)	(378,085)
Death benefits	(74,000)	(94,000)	(76,000)	(128,000)
Net change in plan fiduciary net position**	22,862,426	5,052,489	(9,333,204)	12,795,245
Plan fiduciary net position - beginning**	204,514,679	199,462,190	208,795,394	196,000,149
Plan fiduciary net position - ending (b)**	$ 227,377,105	$ 204,514,679	$ 199,462,190	$ 208,795,394
Plan's net pension liability - ending (a) - (b)	$ (19,778,372)	$ (123,941)	$ 5,040,160	$ (6,021,630)
Plan fiduciary net position as a percentage of the total pension liability	109.53%	100.06%	97.54%	102.97%
Covered payroll	$ 43,309,374	$ 44,437,747	$ 44,446,743	$ 44,076,351
Plan's net pension liability as a percentage of covered payroll	(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.

Knoxville Utilities Board Wastewater Division
Required Supplementary Information – Schedule of Employer Pension Contributions
June 30, 2018
(Unaudited)

	*Year ended December 31 2017	2016	2015	2014
Actuarially determined contribution	$ 4,286,597	$ 5,243,146	$ 5,991,887	$ 5,908,541
Contribution in relation to the actuarially determined contribution	4,286,597	5,243,146	5,991,887	5,908,541
Contribution deficiency	$ -	$ -	$ -	$ -
Covered payroll	$ 43,309,374	$ 44,437,747	$ 44,446,743	$ 44,076,351
Contributions as a percentage of covered payroll	9.90%	11.80%	13.48%	13.41%

Notes to Schedule:

Valuation Dates:	January 1, 2012 - 2016
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.

Key methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry age normal at January 1, 2012; Individual entry age of January 1, 2013 - 2016
Asset valuation method:	5-year smoothed market
Amortization method:	Level dollar closed period with 25 years remaining as of January 1, 2016
Discount rate:	8% at January 1, 2012 - 2013, 7.5% at January 1, 2014 - 2016
Salary increases:	From 2.58% to 7.92% for January 1, 2012 - 2013 and from 2.80% to 5.15% for January 1, 2014 - 2016, based on years of service
Mortality:	Sex distinct RP-2000 Combined Mortality projected to 2018 using Scale AA for the January 1, 2012 - 2013 valuations. Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA for the January 1, 2014 - 2016 valuations.
Inflation:	2.8 percent

* 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.

Knoxville Utilities Board Wastewater Division
Required Supplementary Information – Schedule of Changes in Net OPEB Liability and Related Ratios
June 30, 2018
(Unaudited)

	*Year ended June 30 2018
Total OPEB liability	
Service cost	$ 202,603
Interest	3,295,240
Differences between expected and actual experience	1,324,769
Changes of assumptions	(397,180)
Benefit payments	(3,298,739)
Net change in total OPEB liability	1,126,693
Total OPEB liability - beginning	44,477,738
Total OPEB liability - ending (a)	$ 45,604,431
Plan fiduciary net position	
Contributions - employer	$ -
Net investment income	3,705,473
Benefit payments	(3,298,739)
Administrative expense	(51,668)
Net change in plan fiduciary net position	355,066
Plan fiduciary net position - beginning	49,000,433
Plan fiduciary net position - ending (b)	$ 49,355,499
Net OPEB liability - ending (a) - (b)	$ (3,751,068)
Plan fiduciary net position as a percentage of the total OPEB liability	108.23%
Covered employee payroll	$ 23,677,080
Net OPEB liability as a percentage of covered employee payroll	(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.

Knoxville Utilities Board Wastewater Division
Required Supplementary Information – Schedule of Employer OPEB Contributions
June 30, 2018
(Unaudited)

	*Year ended June 30 2018
Actuarially determined contribution	$ -
Contribution in relation to the annual required contribution	-
Contribution deficiency/(excess)	$ -
Covered employee payroll	$ 23,677,080
Contributions as a percentage of covered employee payroll	0.00%

Notes to Schedule:

Valuation Date:	January 1, 2016
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, closed period with 20 years remaining as of January 1, 2016
Discount rate:	7.5%
Healthcare cost trend rate:	Pre-Medicare: 8.00% to 4.50 % grading down over 20 years Medicare: 7.00% to 4.50% grading down over 20 years Administrative expenses: 3.0% per year

* 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.

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, 2018
(Unaudited)

	*Year ended December 31	
	2017	**2016**
Total pension liability		
Service cost	$ 584	$ -
Interest (includes interest on service cost)	7,535	-
Changes of benefit terms	-	185,077
Differences between expected and actual experience	13,684	-
Changes of assumptions	73,461	-
Benefit payments, including refunds of member contributions	-	-
Net change in total pension liability	95,264	185,077
Total pension liability - beginning	185,077	-
Total pension liability - ending	$ 280,341	$ 185,077
Covered payroll	$ 43,309,374	$ 44,437,747
Total pension liability as a percentage of covered payroll	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.

Knoxville Utilities Board Wastewater Division
Supplemental Information - Schedule of Insurance in Force
June 30, 2018
(Unaudited) Schedule 1

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; $1,000,000 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 - $1,500,000 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 $500,000 per individual participant.

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Debt Maturities by Fiscal Year
June 30, 2018
(Unaudited)

Schedule 2

Continued on Next Page

	2010			2010C			2012A		2012B		2013A		2014A	
FY	Principal	Interest	Rebate*	Principal	Interest	Rebate*	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
18-19		1,910,000	668,500	1,550,000	3,525,625	1,233,968	970,000	498,775	1,050,000	1,891,875	660,000	3,513,300	475,000	1,058,119
19-20		1,910,000	668,500	1,600,000	3,460,990	1,211,346	950,000	467,250	1,100,000	1,878,750	685,000	3,486,900	500,000	1,039,119
20-21		1,910,000	668,500	1,650,000	3,394,270	1,187,994	1,085,000	434,000	1,150,000	1,862,250	710,000	3,459,500	525,000	1,019,119
21-22		1,910,000	668,500	1,700,000	3,325,465	1,163,912	1,175,000	390,600	1,200,000	1,804,750	740,000	3,431,100	550,000	998,119
22-23		1,910,000	668,500	1,750,000	3,246,925	1,136,424	1,165,000	343,600	1,250,000	1,744,750	770,000	3,401,500	575,000	981,619
23-24		1,910,000	668,500	1,850,000	3,162,575	1,106,902	1,250,000	297,000	1,300,000	1,694,750	4,600,000	3,370,700	600,000	964,369
24-25		1,910,000	668,500	1,950,000	3,065,450	1,072,908	1,140,000	247,000	1,375,000	1,642,750	4,900,000	3,232,700	625,000	946,369
25-26		1,910,000	668,500	2,375,000	2,961,125	1,036,394	1,190,000	201,400	1,425,000	1,587,750	5,040,000	3,085,700	650,000	927,619
26-27		1,910,000	668,500	2,500,000	2,830,738	990,758	1,235,000	153,800	1,500,000	1,530,750	5,200,000	2,934,500	700,000	908,119
27-28		1,910,000	668,500	2,600,000	2,688,488	940,970	1,280,000	104,400	1,575,000	1,470,750	6,305,000	2,778,500	725,000	880,119
28-29		1,910,000	668,500	2,725,000	2,536,388	887,736	1,330,000	53,200	1,625,000	1,423,500	6,535,000	2,573,588	750,000	851,119
29-30		1,910,000	668,500	2,850,000	2,376,975	831,942			1,700,000	1,374,750	8,315,000	2,377,538	775,000	821,119
30-31		1,910,000	668,500	2,975,000	2,210,250	773,588			1,775,000	1,323,750	8,550,000	2,128,088	825,000	790,119
31-32		1,910,000	668,500	3,100,000	2,031,750	711,112			1,875,000	1,270,500	8,840,000	1,871,588	850,000	757,119
32-33		1,910,000	668,500	3,250,000	1,845,750	646,012			1,950,000	1,214,250	9,120,000	1,606,388	900,000	723,119
33-34		1,910,000	668,500	3,375,000	1,650,750	577,762			2,025,000	1,155,750	9,390,000	1,332,788	925,000	687,119
34-35		1,910,000	668,500	3,550,000	1,448,250	506,882			2,125,000	1,095,000	9,705,000	1,015,875	975,000	650,119
35-36		1,910,000	668,500	3,700,000	1,235,250	432,338			2,225,000	1,031,250	10,025,000	688,331	1,025,000	611,119
36-37		1,910,000	668,500	3,875,000	1,009,550	353,342			2,325,000	964,500	10,370,000	349,988	1,075,000	570,119
37-38		1,910,000	668,500	4,050,000	773,175	270,612			2,425,000	894,750			500,000	527,119
38-39		1,910,000	668,500	4,225,000	526,125	184,144			2,550,000	822,000			500,000	507,119
39-40		1,910,000	668,500	4,400,000	268,400	93,940			2,650,000	745,500			500,000	488,994
40-41		1,910,000	668,500						2,775,000	666,000			1,175,000	470,869
41-42		1,910,000	668,500						2,900,000	582,750			1,225,000	428,275
42-43	10,000,000	1,910,000	668,500						3,025,000	495,750			1,300,000	382,950
43-44	10,000,000	1,260,000	441,000						3,150,000	405,000			1,350,000	334,850
44-45	10,000,000	630,000	220,500						3,300,000	310,500			1,400,000	284,900
45-46									3,450,000	211,500			1,475,000	233,100
46-47									3,600,000	108,000			1,550,000	178,525
47-48													1,600,000	121,175
48-49													1,675,000	61,975
49-50														
Total	$ 30,000,000	$ 49,640,000	$ 17,374,000	$ 61,600,000	$ 49,574,264	$ 17,350,986	$ 12,770,000	$ 3,191,025	$ 60,375,000	$ 33,204,125	$ 110,460,000	$ 46,638,572	$ 28,275,000	$ 20,203,612

*Series 2010 and 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, 2017 these bonds became subject to a 6.6% 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.

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Debt Maturities by Fiscal Year
June 30, 2018
(Unaudited)

Schedule 2

Continued from Previous Page

	2015A		2015B		2016		2017A		2017B		TOTALS		Grand Total (P + I)	Grand Total (Less Rebates)
FY	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest		
18-19	5,010,000	4,967,762	500,000	1,104,688	450,000	531,031	1,460,000	490,800	490,000	821,462	12,615,000	20,313,437	32,928,437	31,025,969
19-20	5,305,000	4,717,262	525,000	1,079,688	475,000	522,031	1,525,000	417,800	515,000	796,963	13,180,000	19,776,753	32,956,753	31,076,907
20-21	5,460,000	4,452,012	525,000	1,063,938	475,000	512,531	1,605,000	341,550	540,000	771,212	13,725,000	19,220,382	32,945,382	31,088,888
21-22	5,675,000	4,179,012	550,000	1,042,938	500,000	488,781	1,685,000	261,300	570,000	744,213	14,345,000	18,576,278	32,921,278	31,088,866
22-23	6,005,000	3,895,262	575,000	1,020,936	525,000	463,781	1,775,000	177,050	600,000	715,712	14,990,000	17,901,135	32,891,135	31,086,211
23-24	3,720,000	3,595,012	600,000	997,938	550,000	437,531	595,000	88,300	630,000	685,713	15,695,000	17,203,888	32,898,888	31,123,486
24-25	3,785,000	3,483,412	625,000	973,938	575,000	421,031	615,000	70,450	660,000	654,212	16,250,000	16,647,312	32,897,312	31,155,904
25-26	1,425,000	3,369,864	650,000	955,188	575,000	409,531	640,000	52,000	690,000	621,213	14,660,000	16,081,390	30,741,390	29,036,496
26-27	1,490,000	3,323,550	675,000	935,688	600,000	398,031	660,000	26,400	715,000	600,512	15,275,000	15,552,088	30,827,088	29,167,830
27-28	1,405,000	3,271,400	700,000	915,438	600,000	386,032			725,000	586,213	15,915,000	14,991,340	30,906,340	29,296,870
28-29	1,450,000	3,222,226	725,000	887,438	625,000	374,032			745,000	570,806	16,510,000	14,402,297	30,912,297	29,356,061
29-30	1,455,000	3,178,726	775,000	858,438	625,000	361,532			760,000	553,112	17,255,000	13,812,190	31,067,190	29,566,748
30-31	1,515,000	3,135,076	800,000	827,436	650,000	348,250			785,000	530,313	17,875,000	13,203,282	31,078,282	29,636,194
31-32	1,520,000	3,089,626	825,000	795,436	675,000	333,625			805,000	506,762	18,490,000	12,566,406	31,056,406	29,676,794
32-33	1,580,000	3,042,125	850,000	762,436	675,000	318,438			830,000	482,613	19,155,000	11,905,119	31,060,119	29,745,607
33-34	1,635,000	2,992,750	900,000	733,750	700,000	302,406			855,000	457,712	19,805,000	11,223,025	31,028,025	29,781,763
34-35	1,690,000	2,939,612	925,000	703,375	700,000	284,906			880,000	432,063	20,550,000	10,479,200	31,029,200	29,853,818
35-36	1,750,000	2,884,688	975,000	671,000	725,000	267,406			910,000	405,662	21,335,000	9,704,706	31,039,706	29,938,868
36-37	1,825,000	2,827,812	1,000,000	632,000	750,000	249,282			935,000	378,363	22,155,000	8,891,614	31,046,614	30,024,772
37-38	13,420,000	2,768,500	500,000	592,000	775,000	229,594			965,000	350,312	22,635,000	8,045,450	30,680,450	29,741,338
38-39	13,895,000	2,298,800	500,000	572,000	775,000	209,250			995,000	320,156	23,440,000	7,165,450	30,605,450	29,752,806
39-40	14,480,000	1,743,000	500,000	552,000	800,000	186,000			1,025,000	289,063	24,355,000	6,182,957	30,537,957	29,775,517
40-41	15,130,000	1,236,200	1,100,000	532,000	825,000	162,000			1,055,000	257,032	22,060,000	5,234,101	27,294,101	26,625,601
41-42	15,775,000	631,000	1,150,000	488,000	850,000	137,250			1,090,000	224,062	22,990,000	4,401,337	27,391,337	26,722,837
42-43			1,200,000	442,000	875,000	111,750			1,125,000	190,000	17,525,000	3,532,450	21,057,450	20,388,950
43-44			1,250,000	394,000	900,000	85,500			1,160,000	154,844	17,810,000	2,634,194	20,444,194	20,003,194
44-45			1,300,000	344,000	950,000	58,500			1,195,000	118,594	18,145,000	1,746,494	19,891,494	19,670,994
45-46			1,350,000	292,000	1,000,000	30,000			1,230,000	81,250	8,505,000	847,850	9,352,850	9,352,850
46-47			1,400,000	238,000					1,270,000	41,275	7,820,000	565,800	8,385,800	8,385,800
47-48			1,450,000	182,000							3,050,000	303,175	3,353,175	3,353,175
48-49			1,525,000	124,000							3,200,000	185,975	3,385,975	3,385,975
49-50			1,575,000	63,000							1,575,000	63,000	1,638,000	1,638,000
Total	$ 126,400,000	$ 75,244,689	$ 28,500,000	$ 21,776,687	$ 19,200,000	$ 8,620,032	$ 10,560,000	$ 1,925,650	$ 24,750,000	$ 13,341,419	$ 512,890,000	$ 323,360,075	$ 836,250,075	$ 801,525,089

*Series 2010 and 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, 2017 these bonds became subject to a 6.6% 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.

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Current Rates in Force
June 30, 2018
(Unaudited)

Schedule 3

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:	55,368

Commodity Charge

First	2	100 Cubic Feet Per Month at $1.05 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	$	31.30
1" meter		46.30
1 1/2" meter		58.30
2" meter		78.30

Rate Class	Base Charge	Number of Customers
Non-Residential Inside City rate	For wastewater service furnished to premises entirely within the corporate limits of the City of Knoxville:	7,543

Commodity Charge

First	2	100 Cubic Feet Per Month at $0.90 Per 100 Cubic Feet
Next	8	100 Cubic Feet Per Month at $11.65 Per 100 Cubic Feet
Next	90	100 Cubic Feet Per Month at $10.40 Per 100 Cubic Feet
Next	300	100 Cubic Feet Per Month at $8.95 Per 100 Cubic Feet
Next	4,600	100 Cubic Feet Per Month at $7.25 Per 100 Cubic Feet
Next	5,000	100 Cubic Feet Per Month at $4.30 Per 100 Cubic Feet

Additional Monthly Customer Charge

5/8" meter	$	31.30
1" meter		46.30
1 1/2" meter		58.30
2" meter		78.30
3" meter		145.00
4" meter		237.00
6" meter		505.00
8" meter		878.00
10" meter		1,331.00
12" meter		1,960.00

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Current Rates in Force
June 30, 2018
(Unaudited)
Schedule 3

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:	8,032

Commodity Charge

First	2	100 Cubic Feet Per Month at $1.20 Per 100 Cubic Feet
Over	2	100 Cubic Feet Per Month at $9.30 Per 100 Cubic Feet

Additional Monthly Customer Charge

5/8" meter	$ 35.30
1" meter	49.30
1 1/2" meter	66.30
2" meter	86.30

Non-Residential Outside City rate	For wastewater service furnished to premises entirely or partly outside the corporate limits of the City of Knoxville:	299

Commodity Charge

First	2	100 Cubic Feet Per Month at $1.05 Per 100 Cubic Feet
Next	8	100 Cubic Feet Per Month at $12.85 Per 100 Cubic Feet
Next	90	100 Cubic Feet Per Month at $11.40 Per 100 Cubic Feet
Next	300	100 Cubic Feet Per Month at $9.75 Per 100 Cubic Feet
Next	4,600	100 Cubic Feet Per Month at $8.15 Per 100 Cubic Feet
Next	5,000	100 Cubic Feet Per Month at $4.80 Per 100 Cubic Feet

Additional Monthly Customer Charge

5/8" meter	$ 35.30
1" meter	49.30
1 1/2" meter	66.30
2" meter	86.30
3" meter	164.00
4" meter	262.00
6" meter	555.00
8" meter	966.00
10" meter	1,459.00
12" meter	2,153.00

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Report of Independent Auditors 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, 2018, 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, 2018.

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) to determine the 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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 determination of financial statement amounts. 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 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, 2018