



Consolidated

Financial Statements and Supplemental Information June 30, 2023 and 2022

KUB Board of Commissioners

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Knoxville Utilities Board

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June 30, 2023 and 2022

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Independent Auditor's Report

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of the Knoxville Utilities Board (KUB), a component unit of the City of Knoxville, Tennessee, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements as listed in the index.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of KUB as of June 30, 2023 and 2022, and the changes in its financial position and, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective July 1, 2021, KUB adopted new accounting guidance Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

As discussed in Note 2, KUB's basic financial statements were expanded in fiscal year 2022 to meet the requirements of Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Responsibilities of Management for the Financial Statements (continued)

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 29 and the required supplementary information on pages 76 through 80 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Supplemental Information

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

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2023, 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 31, 2023

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2023 and 2022

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

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

The Management Discussion and Analysis (MD&A) focuses on the fiscal year ended June 30, 2023, activities, resulting changes, and current known facts, and should be read in conjunction with KUB's consolidated financial statements.

Consolidated Highlights

System Highlights

KUB experienced normal operations this fiscal year. However, inflation had a significant impact to operating costs and capital projects. Supply chain issues improved throughout the year but impacted the timing of some capital projects in fiscal year 2023. KUB continued to make progress constructing its fiber network on the electric system in year two of its deployment and continues adding customers each month.

As of June 30, 2023, KUB served 486,213 customers. KUB added 8,073 new customers to these systems in fiscal year 2023, representing growth of one percent.

KUB's electric system's record peak in demand remains 1,328 megawatt hours, set in February 2015. Due to an extreme cold weather event in December 2022, the natural gas system set a new record peak in demand of 169,458 dekatherms.

KUB has completed all work associated with the 2005 Federal Consent Decree. A request for Consent Decree termination was submitted in January 2022 and was granted on June 16, 2022, by the applicable regulatory authorities.

KUB launched its new Fiber Division in fiscal year 2022 after gaining approval from TVA, state, and local authorities. Fiber infrastructure installation has begun, and broadband services were available to electric customers in fiscal year 2023.

In April 2023, KUB launched Knoxville's first community solar program in partnership with the City of Knoxville and the Tennessee Valley Authority. KUB invested \$1.4 million to build the 1 MW array, which is located at the City of Knoxville's Public Works Complex. KUB Community Solar allows customers to subscribe to clean, locally generated renewable energy and access the benefits of a shared solar array. As of the end of the fiscal year, the program was 87% subscribed.

During fiscal year 2023, KUB sold \$89 million in revenue bonds for the purpose of funding system expenditures.

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2023 and 2022

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

KUB's natural gas system was named to the American Public Gas Association's (APGA) System Operational Achievement Recognition (SOAR) Program in 2018, reflecting KUB's focus on system integrity, continuous improvement, safety, and employee development. KUB is a Gold Level winner and remains a member of the program through 2023. KUB was recognized as a Safety Contest Winner for calendar year 2022 by APGA. KUB received the 2023 APGA Communications & Marketing Award for its natural gas growth efforts.

KUB's treatment plants continue to meet high standards of operation. KUB was awarded the National Association of Clean Water Agencies (NACWA) Peak Performance recognition for all Wastewater Treatment Plants in calendar year 2022. Fourth Creek, Loves Creek, and Eastbridge Wastewater Treatment Plants won gold awards while Kuwahee won silver.

KUB continues to maintain Platinum certification with the National Biosolids Partnership following a rigorous review process and independent audit that was conducted in December 2022. Biosolids are nutrient-rich organic matter produced by wastewater treatment and is a registered fertilizer with the Tennessee Department of Agriculture.

Century II Infrastructure Program

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

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

In June 2021, the Board approved a 2 percent water rate increase effective in July 2021, generating \$1.1 million in additional annual Water Division revenue.

In September 2021, the Board approved the next phase of electric rate increases to support both the Century II program and expanded fiber network. The first two of three approved 3 percent electric rate increases went into effect April 2022 and April 2023 generating \$16.7 million and \$17.4 million in additional annual Electric Division revenue, respectively. The remaining rate increase is effective April 2024 and is expected to provide an additional \$18 million in annual Electric Division revenue.

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

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2023 and 2022

revenue. The remaining two rate increase are effective July 2023 and July 2024, and are expected to provide an additional \$4 million and \$4.2 million in annual Wastewater Division revenue, respectively.

KUB is currently in the process of implementing a Water Plant Redundancy initiative to ensure that high quality, reliable water service will be provided to customers over the long term. KUB maintains a single water treatment plant for its system. In lieu of building a second treatment facility to ensure capacity will be available to meet the needs of current and future water customers, KUB will invest approximately \$158 million in various redundant facilities at the site of its existing Mark B. Whitaker Water Treatment Plant over a 16-year period that began in fiscal year 2017. Construction of a new generator building with three 2,500 kW diesel generators and associated switchgear was completed at the Mark B. Whitaker Water Treatment Plant.

Knox County has committed \$2.6 million in a Tennessee Department of Environment and Conservation (TDEC) non-competitive grant and \$10 million in direct American Rescue Plan Act (ARPA) funding, and the City of Knoxville has committed \$7.5 million in a TDEC non-competitive grant and \$5 million in direct ARPA funding each for a total of \$25.1 million in grant money. The grants will be used to help fund KUB's new water filter project at its Mark B. Whitaker Water Treatment Plant. The project commenced in October 2022 and is projected to be completed by May 2025.

For the fiscal year, KUB stayed on track with its overall Century II capital budget and production goals. The electric system replaced 9 miles of transmission lines and 6.9 miles of underground cable. In the natural gas system, 6.3 miles of gas steel main were replaced. In the water system, 3.2 miles of galvanized water main and 5.2 miles of cast iron water main were replaced. In the wastewater system, 9.5 miles of main were rehabilitated or replaced.

Fiber Network

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

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

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

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

As of June 30, 2023, the Fiber Division had 2,331 customers.

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2023 and 2022

The Tennessee Emergency Broadband Fund selected KUB for a grant of \$15.3 million to assist in the provision of broadband access to Grainger, Jefferson, Sevier, and Union Counties.

In August 2022, the Board approved KUB's entrance into an Interlocal Cooperation Agreement with Knox County for the purpose of providing funding for KUB's Community Low-Income Internet Program for eligible low-income student households receiving KUB internet service located within the jurisdictional limits of Knox County and outside of the jurisdictional limits of the City of Knoxville. KUB's pilot program, ConnectED, provides eligible households \$50 monthly toward fiber-related charges.

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

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 provided for a biologically enhanced high-rate clarification (the BEHRC) secondary treatment system to be installed at the Fourth Creek treatment plant and at the Kuwahee treatment plant. KUB successfully completed the installation of the BEHRC system at the Fourth Creek treatment plant in the 2018 fiscal year. The project at the Kuwahee treatment plant was completed this fiscal year. The total cost of the CCP improvements at the Fourth Creek treatment plant and Kuwahee treatment plant was approximately \$120 million.

KUB's funding plan for the Consent Decree included 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, 2022, the Wastewater Division had issued \$594.8 million in bonds to fund wastewater system capital improvements since the inception of the Consent Decree. The Board approved two 50 percent rate increases, which went into effect in April 2005 and January 2007. The Board also approved an 8 percent rate increase, which was effective in September 2008, two 12 percent rate increases, which were effective in April 2011 and October 2012, three 6 percent rate increases, which were effective October 2014, October 2015, and October 2016, three 5 percent rate increases, which were effective July 2017, July 2018, and July 2019, and three 4 percent rate increases, which are effective July 2022, July 2023, and July 2024. 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,

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2023 and 2022

KUB has installed storage tanks providing 34 million gallons of wastewater storage to control wet weather overflows and rehabilitated or replaced 432 miles of collection system pipe. KUB also continues to maintain a proactive operations and maintenance plan for the wastewater collection system including inspection, grease control, and private lateral enforcement. The result of the PACE10/Century II initiative has been an 80 percent reduction in SSOs.

As of June 30, 2022, the Wastewater Division had completed its 18th full year under the Consent Decree, spending \$579.8 million on capital investments to meet Consent Decree requirements.

KUB's request for termination of the Consent Decree was submitted in January 2022 and was granted on June 16, 2022, by the applicable regulatory authorities.

Financial Highlights

During fiscal year 2023, KUB adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs), using a full retrospective approach. The objective of this Statement is to better meet the information needs of financial statement users by (a) establishing uniform accounting and financial reporting requirements for SBITAs; (b) improving the comparability of financial statements among governments that have entered into SBITAs; and (c) enhancing the understandability, reliability, relevance, and consistency of information about SBITAs. Accordingly, the accompanying financial statements, as of and for the year ended June 30, 2022, have been restated for the change, which reduced net position by \$136,963.

During fiscal year 2022, KUB adopted GASB Statement No. 87, *Leases* (Statement No. 87) using a full retrospective approach. This statement requires a lessee to recognize an intangible right of use asset and a lease liability, and a lessor to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information regarding leasing activities. Accordingly, the accompanying financial statements, as of and for the year ended June 30, 2021, have been restated for the change, which did not have an impact on the net position.

Fiscal Year 2023 Compared to Fiscal Year 2022

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

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

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

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

Capital contributions increased \$2.7 million, the result of a higher level of assets contributed by developers.

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2023 and 2022

Total capital assets (net) increased \$102.9 million or 4.6 percent over the last fiscal year.

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

Fiscal Year 2022 Compared to Fiscal Year 2021

KUB's consolidated Change in Net Position increased \$77.7 million in fiscal year 2022. Comparatively, net position increased by \$75.5 million in fiscal year 2021.

Operating revenue increased \$83.4 million as a result of the flow through of higher energy costs in KUB's rates and increased sales volumes across all divisions. Purchased energy expense (power and natural gas) increased \$70 million or 15.8 percent, the combined effect of a \$44.1 million increase in purchased power cost and a \$25.9 million increase in purchased gas cost. Margin from sales (operating revenue less purchased energy expense) increased \$13.4 million or 3.5 percent compared with the prior fiscal year.

Operating expenses (excluding purchased power and purchased gas expense) increased \$14.5 million. Operating and maintenance (O&M) expenses were \$16.3 million higher than the previous year, due to higher labor-related expenses and vegetation management expenses. Depreciation and amortization expense decreased \$2.4 million or 2.6 percent. Taxes and tax equivalents increased \$0.5 million or 1.4 percent.

Interest income was \$0.3 million higher than the prior fiscal year. Interest expense decreased \$1.5 million or 3.7 percent, reflecting the net impact of interest expense from new revenue bonds sold during fiscal year 2022 and savings on refunding of outstanding bonds.

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

Total capital assets (net) increased \$63.8 million or 2.9 percent over the last fiscal year.

Long-term debt represented 43.6 percent of KUB's consolidated capital structure, compared to 44.8 percent last fiscal year. Capital structure equals long-term debt (including the current and long-term portion of revenue bonds), plus net position.

Knoxville Utilities Board Consolidated Financial Statements

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

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

Statement of Net Position

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

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2023 and 2022

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

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

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

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

Statement of Revenues, Expenses and Changes in Net Position

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

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

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

Statement of Cash Flows

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

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

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

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Knoxville Utilities Board
Management's Discussion and Analysis
June 30, 2023 and 2022

Condensed Financial Statements

Statement of Net Position

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

Statements of Net Position
As of June 30

| <i>(in thousands of dollars)</i> | 2023 | 2022 as restated | 2021 as restated |
|---|---------------------|-----------------------------|-----------------------------|
| Current, restricted, intangible, and other assets | \$ 460,223 | \$ 510,710 | \$ 435,426 |
| Capital assets, net | 2,355,801 | 2,252,920 | 2,189,154 |
| Deferred outflows of resources | <u>67,744</u> | <u>27,740</u> | <u>24,006</u> |
| Total assets and deferred outflows of resources | <u>2,883,768</u> | <u>2,791,370</u> | <u>2,648,586</u> |
| Current and other liabilities | 277,812 | 257,650 | 202,775 |
| Long-term debt outstanding | 1,167,157 | 1,124,918 | 1,112,346 |
| Deferred inflows of resources | <u>5,939</u> | <u>45,474</u> | <u>47,820</u> |
| Total liabilities and deferred inflows of resources | <u>1,450,908</u> | <u>1,428,042</u> | <u>1,362,941</u> |
| Net position | | | |
| Net investment in capital assets | 1,154,845 | 1,098,790 | 1,049,324 |
| Restricted | 23,818 | 22,343 | 21,755 |
| Unrestricted | <u>254,197</u> | <u>242,195</u> | <u>214,566</u> |
| Total net position | <u>\$ 1,432,860</u> | <u>\$ 1,363,328</u> | <u>\$ 1,285,645</u> |

Normal Impacts on Statement of Net Position

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

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

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Impacts and Analysis

Current, Restricted, Intangible, and Other Assets

Fiscal Year 2023 Compared to Fiscal Year 2022

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

Fiscal Year 2022 Compared to Fiscal Year 2021

Current, restricted, intangible, and other assets increased \$75.3 million or 17.3 percent, due to an increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) of \$27.4 million, an increase in the actuarially determined net pension asset of \$19 million, an increase in net intangible assets of \$11.9 million, an increase in accounts receivable of \$9.2 million, an increase of \$3.8 million in inventories, and an increase in gas storage of \$3.4 million. KUB under recovered \$2.4 million in wholesale power costs from its customers in fiscal year 2022. This under recovery of costs will be charged to KUB's electric customers during the next fiscal year through adjustments to rates via the Purchased Power Adjustment.

Capital Assets

Fiscal Year 2023 Compared to Fiscal Year 2022

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

Fiscal Year 2022 Compared to Fiscal Year 2021

Capital assets (net) increased \$63.8 million or 2.9 percent. Major capital expenditures (reflected in both plant additions and work in progress) in fiscal year 2022 included \$37.7 million related to wastewater Century II projects, \$25.4 million for various electric distribution system improvements, \$17.2 million for Grid Modernization and advanced metering including Supervisory Control and Data Acquisition (SCADA) system upgrades, \$8.7 million for the construction of gas mains, \$6.9 million for pole replacements for the electric system, \$6.8 million for water main replacements, and \$6.5 million for building improvements. System assets of \$32.6 million were retired during fiscal year 2022.

Deferred Outflows of Resources

Fiscal Year 2023 Compared to Fiscal Year 2022

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

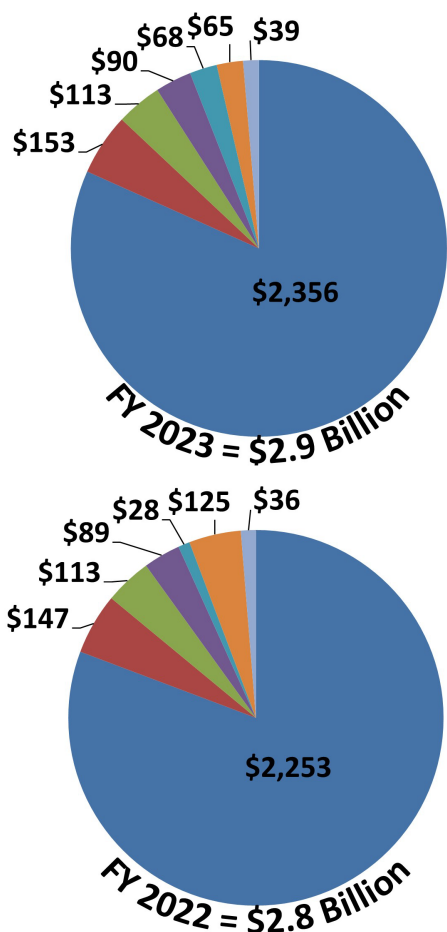
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Fiscal Year 2022 Compared to Fiscal Year 2021

Deferred outflows of resources increased \$3.7 million compared to the prior year, reflecting a \$5.2 million increase in OPEB outflow offset by a decrease in unamortized bond refunding costs of \$1 million and a decrease in pension outflow of \$0.4 million when compared to the prior fiscal year.

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**Knoxville Utilities Board
Management's Discussion and Analysis
June 30, 2023 and 2022**



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

| | <u>FY23</u> | <u>FY22</u> |
|--------------------------------|-------------|-------------|
| Plant | 82% | 81% |
| General Fund | 5% | 5% |
| Contingency Fund | 4% | 4% |
| Accounts Receivable | 3% | 3% |
| Deferred Outflows of Resources | 2% | 1% |
| Other Assets | 2% | 5% |
| Restricted Assets | 2% | 1% |

Current and Other Liabilities

Fiscal Year 2023 Compared to Fiscal Year 2022

Current and other liabilities increased \$20.2 million or 7.8 percent compared to the prior fiscal year. This reflects an increase of \$22.2 million in the actuarially determined net pension liability, an increase of \$2.6 million in accrued interest on revenue bonds, an increase of \$1.7 million in the actuarially determined net OPEB liability, and an increase of \$1.4 million in the current portion of revenue bonds offset by a decrease of \$8.4 in accrued expenses and a decrease of \$3 million in payables. KUB over recovered \$3.5 million in wholesale power costs from its customers in fiscal year 2023, as compared to a \$2.4 million under recovery in fiscal year 2022. This over recovery of costs will be credited to KUB's electric customers during the next fiscal year through adjustments to rates via the Purchased Power Adjustment. KUB over recovered \$4.4 million in wholesale gas costs from its customers in fiscal year 2023, as compared to a \$4.2 million over recovery in fiscal year 2022. This over recovery of costs will be credited to KUB's gas customers during the next fiscal year through adjustments to rates via the Purchased Gas Adjustment.

Fiscal Year 2022 Compared to Fiscal Year 2021

Current and other liabilities increased \$54.9 million or 27.1 percent compared to the prior fiscal year. This reflects an increase of \$18.2 million in payables, an increase of \$11.2 million in the actuarially determined

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net OPEB liability, an increase of \$8.3 million in current and long-term subscription liability, an increase of \$6.5 million in accrued expenses, an increase of \$3.6 million in current and long-term lease liability, and an increase of \$2.1 million in customer deposits. KUB over recovered \$4.2 million in wholesale gas costs from its customers in fiscal year 2022, as compared to a \$1.4 million under recovery in fiscal year 2021. 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.

Long-term Debt

Fiscal Year 2023 Compared to Fiscal Year 2022

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

Fiscal Year 2022 Compared to Fiscal Year 2021

Long-term debt increased \$12.6 million or 1.1 percent. The increase is due in part to the net impact of the scheduled repayment of debt and \$56.8 million in electric and wastewater system revenue bonds sold in April 2022. KUB also sold \$65.3 million in electric, water, and wastewater revenue refunding bonds in April 2022 with a premium of \$4.1 million to refund \$68.6 million in outstanding debt, resulting in a reduction of principal of \$3.3 million.

Deferred Inflows of Resources

Fiscal Year 2023 Compared to Fiscal Year 2022

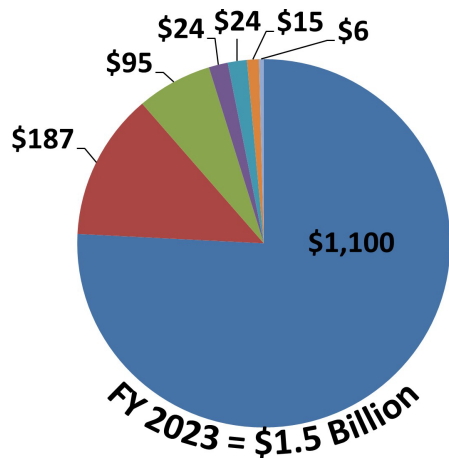
Deferred inflows decreased \$39.5 million compared to the prior fiscal year, due to a \$39.3 million decrease in pension inflow and a \$0.2 million decrease in lease inflow.

Fiscal Year 2022 Compared to Fiscal Year 2021

Deferred inflows decreased \$2.3 million compared to the prior fiscal year, due to an \$8 million decrease in OPEB inflow offset by a \$3.3 million increase in pension inflow, a \$1.4 million increase in unamortized bond refunding costs, and a \$0.9 million increase in lease inflow.

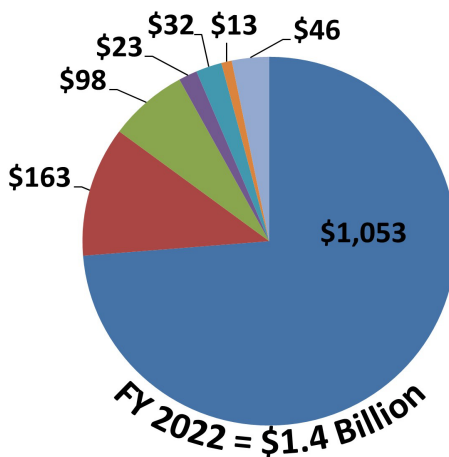
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Consolidated Total Liabilities and Deferred Inflows of Resources (in Millions)

| | <u>FY23</u> | <u>FY22</u> |
|-------------------------------|-------------|-------------|
| Bond Debt | 76% | 74% |
| Other Liabilities | 13% | 11% |
| Payables | 7% | 7% |
| Customer Deposits | 2% | 2% |
| Misc Current | 1% | 2% |
| Interest Accrued | 1% | 1% |
| Deferred Inflows of Resources | <1% | 3% |



Net Position

Fiscal Year 2023 Compared to Fiscal Year 2022

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

Fiscal Year 2022 Compared to Fiscal Year 2021

Total net position increased \$77.7 million or 6 percent. Net investment in capital assets increased \$49.5 million or 4.7 percent, the result of an increase of \$63.8 million in net plant additions and an increase of \$11.9 million in net intangible assets offset by an \$11 million increase in the current portion of revenue bonds and total long-term debt, a \$8.3 million increase in subscription liabilities, and a \$3.6 million increase in lease liabilities. Restricted net position increased \$0.6 million compared to the prior year. Unrestricted net position increased \$27.6 million or 12.9 percent compared to the previous fiscal year, primarily due to a \$27.4 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments).

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Statement of Revenues, Expenses and Changes in Net Position

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

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

| <i>(in thousands of dollars)</i> | 2023 | 2022 as restated | 2021 as restated |
|---|------------------|-----------------------------------|-----------------------------------|
| Operating revenues | \$ 972,519 | \$ 905,714 | \$ 822,290 |
| Less: Purchased energy expense | 553,595 | 512,342 | 442,299 |
| Margin from sales | <u>418,924</u> | <u>393,372</u> | <u>379,991</u> |
| Operating expenses | | | |
| Treatment | 20,707 | 18,999 | 17,098 |
| Fiber products and promotions | 3,142 | 854 | - |
| Distribution and collection | 86,742 | 77,355 | 69,388 |
| Customer service | 15,659 | 15,200 | 14,033 |
| Administrative and general | 65,698 | 35,524 | 31,086 |
| Depreciation and amortization | 93,928 | 88,121 | 90,488 |
| Taxes and tax equivalents | 39,260 | 37,964 | 37,448 |
| Total operating expenses | <u>325,136</u> | <u>274,017</u> | <u>259,541</u> |
| Operating income | 93,788 | 119,355 | 120,450 |
| Interest income | 9,122 | 1,107 | 837 |
| Interest expense | (42,674) | (40,276) | (41,827) |
| Other income/(expense) | 4,971 | (4,141) | (4,917) |
| Change in net position before capital contributions | <u>65,207</u> | <u>76,045</u> | <u>74,543</u> |
| Capital contributions | 4,325 | 1,638 | 983 |
| Change in net position | <u>\$ 69,532</u> | <u>\$ 77,683</u> | <u>\$ 75,526</u> |

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

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

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

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

Impacts and Analysis

Change in Net Position

Fiscal Year 2023 Compared to Fiscal Year 2022

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

Fiscal Year 2022 Compared to Fiscal Year 2021

KUB's consolidated Change in Net Position increased \$77.7 million in fiscal year 2022. Comparatively, net position increased \$75.5 million in fiscal year 2021.

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Margin from Sales

Fiscal Year 2023 Compared to Fiscal Year 2022

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

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

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

Fiscal Year 2022 Compared to Fiscal Year 2021

Operating revenue was \$83.4 million higher than the previous fiscal year. Both electric and natural gas experienced significant increases in wholesale energy prices. Electric Division operating revenue increased \$51.9 million, due to the net result of a three percent increase in sales volumes, additional revenue from the April 2022 rate increase, higher wholesale energy costs, and the flow through of prior year over recovered purchased power costs to electric customers. Gas Division revenue increased \$26.5 million for the fiscal year, the result of a 2.2 percent increase in billed sales and higher natural gas prices. Water Division revenue increased \$2.6 million, reflecting a 2.3 percent increase in billed sales volumes. Wastewater Division revenue was \$2.4 million higher than the previous year, reflecting a 2.2 percent increase in billable wastewater flows.

Wholesale energy expense increased \$70 million or 15.8 percent. Purchased power expense increased \$44.1 million compared to last year, reflecting the combined effect of three percent higher customer demand and flow through of higher wholesale power costs. KUB received \$9.3 million in wholesale power rate credits during the fiscal year as part of KUB's long-term Partnership Agreement with TVA, which decreased power expenses in the current fiscal year. Purchased gas expense was \$25.9 million higher, reflecting significantly higher natural gas prices and slightly higher customer demand for the fiscal year.

Margin from sales (operating revenue less purchased energy expense) increased \$13.4 million compared to the previous year.

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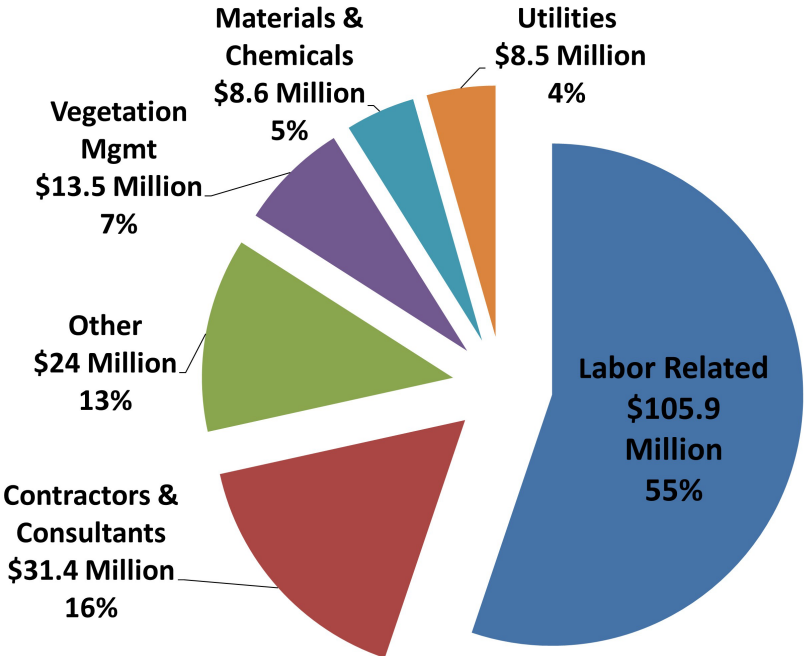
Operating Expenses

Fiscal Year 2023 Compared to Fiscal Year 2022

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

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

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



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

Fiscal Year 2022 Compared to Fiscal Year 2021

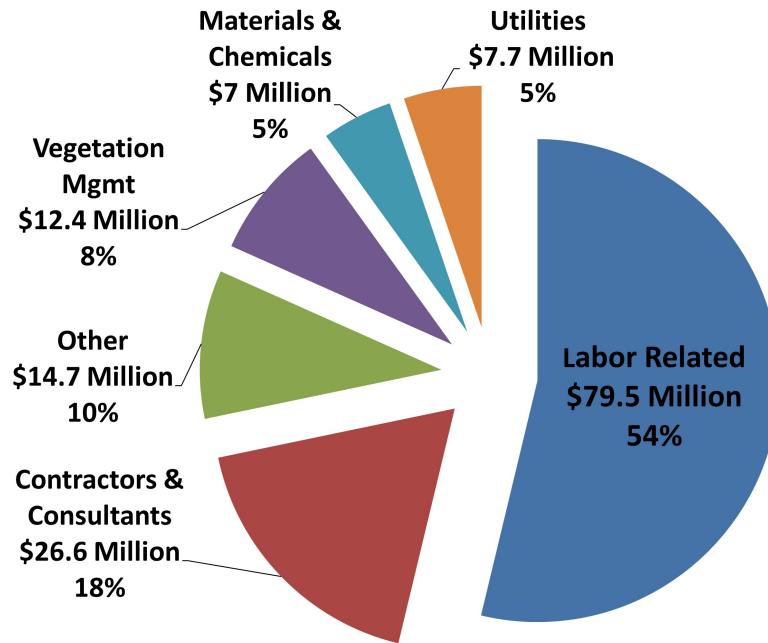
Operating expenses (excluding wholesale purchased energy expense) increased \$14.5 million compared to fiscal year 2021. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as treatment, fiber products and promotions, distribution and collection, customer service, and administrative and general.

- Treatment expenses increased \$1.9 million, primarily due to higher labor-related expenses.
- Fiber products and promotions increased \$0.9 million, primarily due to corporate advertising expense, as well as telephone and television programming expenses.
- Distribution and collection expenses increased \$8 million or 11.5 percent, primarily due to the catch up from the pandemic related timing delay on vegetation management circuit work and labor-related expenses.
- Customer service expenses increased \$1.2 million, primarily due to payment processing fees and labor-related expenses.
- Administrative and general expenses increased \$4.4 million, primarily due to an increase in labor-related expenses, including higher OPEB expenses related to the introduction of the Health Reimbursement Arrangement.

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FY 2022 Consolidated O&M Expense = \$147.9 Million

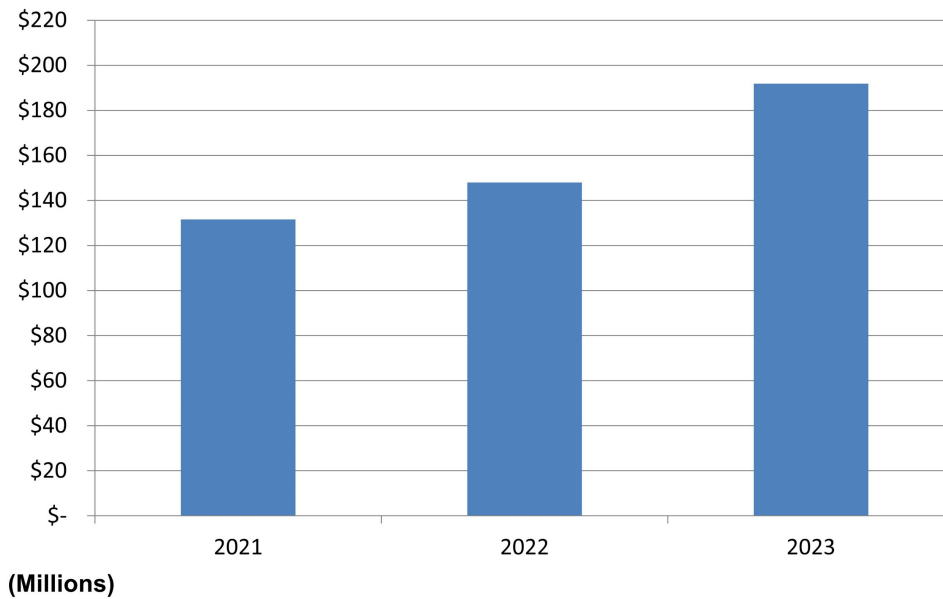


- Depreciation and amortization expense decreased \$2.4 million or 2.6 percent. KUB added \$182.5 million in assets during fiscal year 2022. A partial year of depreciation expense was recorded on these capital investments and a full year of depreciation expense was incurred on \$207.1 million in assets placed in service during fiscal year 2021. In addition, \$32.6 million of assets were retired during fiscal year 2022.
- Taxes and tax equivalents increased \$0.5 million or 1.4 percent, primarily due to increased employer Federal Insurance Contributions Act (FICA) taxes. Tax equivalent payments to taxing jurisdictions in which KUB's utility systems are located were flat this fiscal year.

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Consolidated Operation & Maintenance Expense



Other Income and Expense

Fiscal Year 2023 Compared to Fiscal Year 2022

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

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

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

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

Fiscal Year 2022 Compared to Fiscal Year 2021

Interest income increased \$0.3 million compared to the prior fiscal year, reflecting additional interest earnings on more cash on hand combined with rising interest rates throughout the year.

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

Other expense (net) decreased \$0.8 million, primarily due to smaller losses on disposal of property compared to the prior fiscal year.

Capital contributions by developers were \$0.7 million higher, due to an increase in donated utility assets compared to the prior fiscal year.

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Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

| <i>(in thousands of dollars)</i> | 2023 | 2022 as restated | 2021 |
|--|---------------------|-----------------------------------|---------------------|
| Production Plant (Intakes) | \$ 6 | \$ 6 | \$ 7 |
| Pumping and Treatment Plant | 268,410 | 271,764 | 220,317 |
| Distribution and Collection Plant | | | |
| Mains and metering | \$ 940,034 | \$ 926,287 | \$ 904,584 |
| Services and meters | 164,010 | 163,738 | 164,537 |
| Electric station equipment | 85,676 | 61,180 | 62,704 |
| Poles, towers and fixtures | 163,802 | 161,519 | 157,575 |
| Overhead conductors | 150,166 | 143,776 | 133,419 |
| Line transformers | 62,002 | 61,351 | 61,575 |
| Other accounts | 188,126 | 190,393 | 194,011 |
| Total Distribution & Collection Plant | <u>\$ 1,753,816</u> | <u>\$ 1,708,244</u> | <u>\$ 1,678,405</u> |
| General Plant | 112,247 | 111,153 | 100,917 |
| Total Plant Assets | <u>\$ 2,134,479</u> | <u>\$ 2,091,167</u> | <u>\$ 1,999,646</u> |
| Work In Progress | 221,322 | 161,753 | 189,508 |
| Total Net Plant | <u>\$ 2,355,801</u> | <u>\$ 2,252,920</u> | <u>\$ 2,189,154</u> |

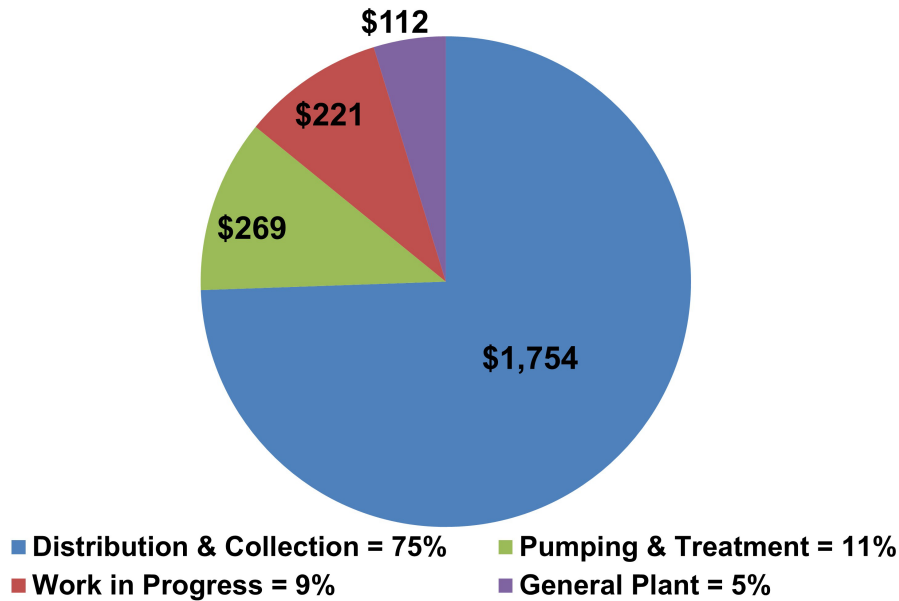
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Fiscal Year 2023 Compared to Fiscal Year 2022

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

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



Major capital asset additions during the year were as follows:

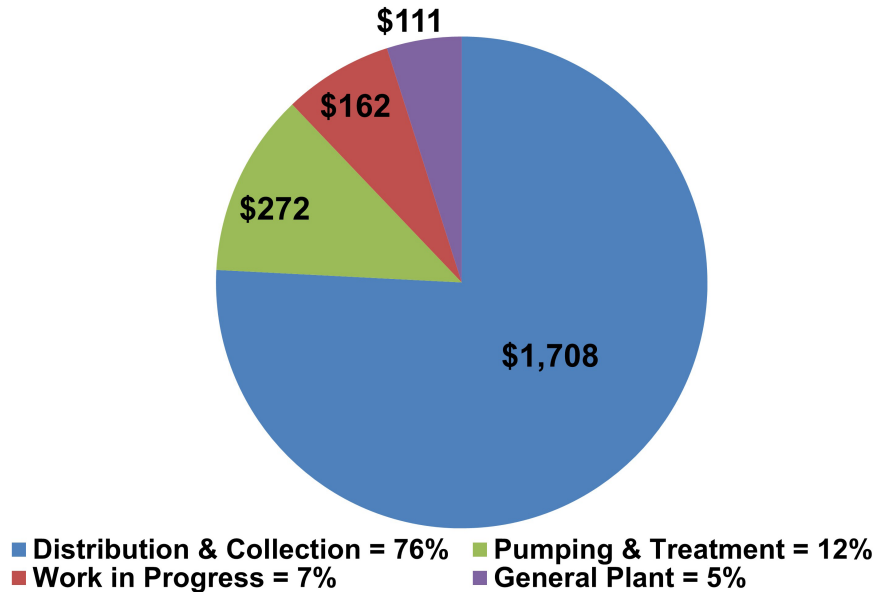
- \$46 million for fiber network buildout
- \$30.5 million for various electric distribution system improvements
- \$20.4 million related to wastewater Century II projects
 - \$8.2 million for pump station construction and improvements
 - \$5.2 million for sewer mini-basin rehabilitation and replacement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

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Fiscal Year 2022 Compared to Fiscal Year 2021

As of June 30, 2022, KUB had \$2.3 billion invested in capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of \$63.8 million or 2.9 percent over the end of the last fiscal year.

FY 2022 Consolidated Capital Assets = \$2.3 Billion (in Millions)



Major capital asset additions during the year were as follows:

- \$37.7 million related to wastewater Century II projects
 - \$19.7 million for wastewater treatment plant upgrades
 - \$8.1 million for pump station construction and improvements
 - \$4.1 million for sewer mini-basin rehabilitation and replacement
 - \$3.8 million for short line projects
 - \$2 million for sewer trunk line rehabilitation and replacement
- \$25.4 million for various electric distribution system improvements
- \$17.2 million for Grid Modernization and advanced metering, including SCADA system upgrades, for the electric system
- \$8.7 million for the construction of gas mains
- \$6.9 million for pole replacements for the electric system
- \$6.8 million for water main replacements
- \$6.5 million for building improvements

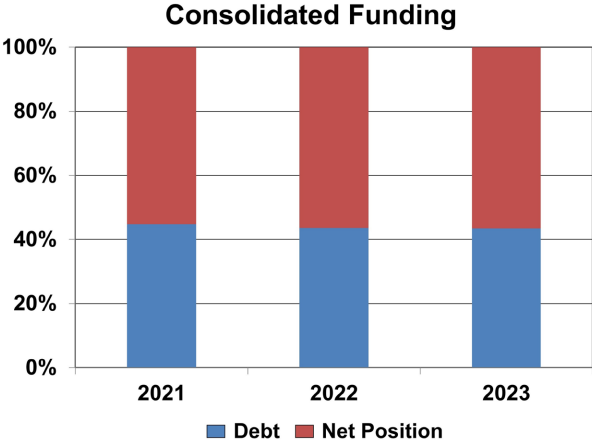
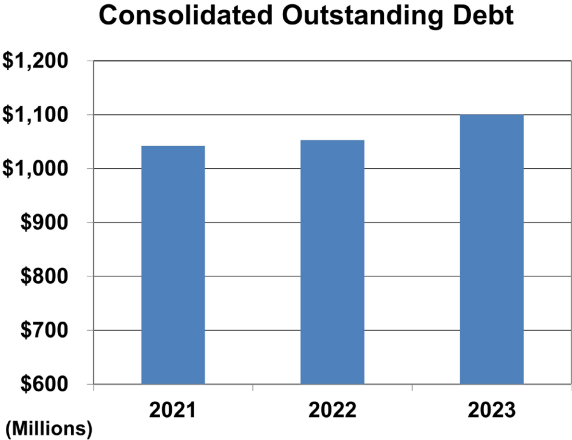
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Debt Administration

KUB’s outstanding debt was \$1.1 billion as of June 30, 2023. Debt as a percentage of capital structure was 43.4 percent in 2023, 43.6 percent in 2022, and 44.8 percent in 2021.

**Outstanding Debt
As of June 30**

| <i>(in thousands of dollars)</i> | 2023 | 2022 | 2021 |
|----------------------------------|--------------|--------------|--------------|
| Revenue bonds | \$ 1,099,510 | \$ 1,053,280 | \$ 1,042,270 |
| Total outstanding debt | \$ 1,099,510 | \$ 1,053,280 | \$ 1,042,270 |



KUB will pay \$459.5 million in principal payments over the next ten years, representing 41.8 percent of outstanding bonds.

Fiscal Year 2023 Compared to Fiscal Year 2022

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

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

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

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

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2023 and 2022

Fiscal Year 2022 Compared to Fiscal Year 2021

As of June 30, 2022, KUB had \$1.05 billion in outstanding debt (including the current portion of revenue bonds), representing an increase of \$11 million. As of June 30, 2022, KUB's weighted average cost of debt was 3.89 percent (3.85 percent including the impact of Build America Bonds rebates).

KUB sold \$45.7 million in electric system revenue bonds in April 2022 for the purpose of funding electric system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.36 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2052.

KUB sold \$27.2 million in electric system revenue refunding bonds in April 2022 for the purpose of refinancing existing electric system revenue bonds. KUB will realize a total debt service savings of \$2 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 3.55 percent. The bonds have a final maturity in fiscal year 2046.

KUB sold \$14.9 million in water system revenue refunding bonds in April 2022 for the purpose of refinancing existing water system revenue bonds. KUB will realize a total debt service savings of \$0.7 million over the life of the bonds (\$0.4 million on a net present value basis). The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.52 percent. The bonds have a final maturity in fiscal year 2045.

KUB sold \$11.1 million in wastewater system revenue bonds in April 2022 for the purpose of funding wastewater system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.4 percent. The bonds mature over a period of 30 years with a final maturity in fiscal year 2051.

KUB sold \$23.2 million in wastewater system revenue refunding bonds in April 2022 for the purpose of refinancing existing wastewater system revenue bonds. KUB will realize a total debt service savings of \$1.3 million over the life of the bonds (\$0.7 million on a net present value basis). The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.69 percent. The bonds have a final maturity in fiscal year 2050.

KUB's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2022, Standard & Poor's rated the revenue bonds of the Water Division AAA, the Wastewater Division AA+, the revenue bonds of the Electric Division AA- and the Gas Division AA. Moody's Investors Service rated the bonds of the Water Division Aa1 and the Electric, Gas, and Wastewater Divisions Aa2. Standard & Poor's dropped its Electric Division rating from AA, as a result of KUB's planned expansion of its fiber network to allow for the sale of broadband services within its electric service territory.

Impacts on Future Financial Position

KUB anticipates an increase of 16,050 customers, including 12,000 fiber system customers, during fiscal year 2024.

In May 2023, the Board approved the issuance of electric system revenue bonds not to exceed \$55 million, water system revenue bonds not to exceed \$20 million, and wastewater system revenue bonds not to exceed \$10 million, for the purpose of funding electric, water, and wastewater system capital improvements, respectively. The bonds will be sold through a competitive bidding process during fiscal year 2024.

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2023 and 2022

On August 24, 2023, TVA's board voted to approve a 4.5 percent electric base rate increase effective October 1, 2023. The 2.5 percent Pandemic Relief Credit that had been provided to local power companies for the prior three years will expire at the same time. These increases will flow through directly to KUB's electric customers.

In September 2023, KUB elected to participate in TVA's Power Supply Expanded Flexibility Program which will allow KUB to produce its own power, up to 5% of its energy supply.

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

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

The Pension Plan actuarial valuation resulted in an actuarially determined contribution of \$1,108,147 for the fiscal year ending June 30, 2024, based on the Plan's current funding policy. Subsequent to June 30, 2023, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$2,210,234 for the fiscal year ending June 30, 2025, based on the Plan's current funding policy. For the Plan year beginning January 1, 2023, the Plan's actuarial funded ratio is 106.88 percent, and the market value funded ratio is 91.43 percent.

The OPEB Plan actuarial valuation resulted in an actuarially determined contribution of \$1,187,768 for the fiscal year ending June 30, 2024, based on the Plan's current funding policy. Subsequent to June 30, 2023, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$1,279,985 for the fiscal year ending June 30, 2025, based on the Plan's current funding policy. The Plan's actuarial funded ratio is 92.14 percent, and the market value funded ratio is 79.62 percent.

GASB Statement No. 99, *Omnibus 2022*, Paragraphs 4-10 are effective for fiscal years beginning after June 15, 2023. GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB No. 62*, is effective for fiscal years beginning after June 15, 2023. GASB Statement No. 101, *Compensated Absences*, is effective for fiscal years beginning after December 15, 2023. 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 2023.

Financial Contact

KUB's financial statements are designed to present users (citizens, customers, investors, and creditors) with a general overview of KUB's financial position and results of operations for the fiscal years ended June 30, 2023, and 2022. 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, 2023 and 2022

| | 2023 | 2022 as restated |
|---|-------------------------|-----------------------------------|
| Assets and Deferred Outflows of Resources | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 152,766,323 | \$ 146,776,546 |
| Short-term contingency fund investments | 97,122,004 | 20,236,852 |
| Other current assets | 1,111,263 | 1,593,637 |
| Accrued interest receivable | 224,641 | 33,990 |
| Accounts receivable, less allowance of uncollectible accounts of \$760,386 in 2023 and \$773,791 in 2022 | 89,514,189 | 89,053,689 |
| Current portion of lease receivable | 555,779 | 516,649 |
| Inventories | 27,830,020 | 19,032,578 |
| Prepaid expenses | 1,124,777 | 1,085,686 |
| Gas storage | 9,679,117 | 9,867,611 |
| Total current assets | <u>379,928,113</u> | <u>288,197,238</u> |
| Restricted assets: | | |
| Bond funds | 39,187,155 | 35,073,534 |
| Student internet special fund | 300,000 | - |
| Other funds | 1,518 | 1,515 |
| Unused bond proceeds | 13 | 1,298,143 |
| Total restricted assets | <u>39,488,686</u> | <u>36,373,192</u> |
| Plant in service | | |
| Plant in service | 3,268,468,254 | 3,148,970,963 |
| Less accumulated depreciation | <u>(1,133,989,255)</u> | <u>(1,057,804,184)</u> |
| | 2,134,478,999 | 2,091,166,779 |
| Retirement in progress | 1,731,799 | 2,363,210 |
| Construction in progress | 219,590,439 | 159,390,109 |
| Net plant in service | <u>2,355,801,237</u> | <u>2,252,920,098</u> |
| Intangible assets: | | |
| Intangible right of use asset | 4,670,258 | 4,587,687 |
| Intangible subscription asset | 9,323,779 | 9,273,959 |
| Less accumulated amortization | <u>(3,394,948)</u> | <u>(1,521,980)</u> |
| Net intangible assets | <u>10,599,089</u> | <u>12,339,666</u> |
| Other assets: | | |
| Net pension asset | - | 64,137,714 |
| Long-term contingency fund investments | 15,810,229 | 92,549,625 |
| Long-term lease receivable | 3,815,799 | 3,972,652 |
| TVA conservation program receivable | 250,291 | 575,535 |
| Under recovered purchased power cost | - | 2,382,423 |
| Other | 10,330,017 | 10,181,850 |
| Total other assets | <u>30,206,336</u> | <u>173,799,799</u> |
| Total assets | <u>2,816,023,461</u> | <u>2,763,629,993</u> |
| Deferred outflows of resources: | | |
| Pension outflow | 48,544,818 | 7,842,910 |
| OPEB outflow | 5,478,678 | 5,209,694 |
| Unamortized bond refunding costs | 13,720,819 | 14,687,019 |
| Total deferred outflows of resources | <u>67,744,315</u> | <u>27,739,623</u> |
| Total assets and deferred outflows of resources | <u>\$ 2,883,767,776</u> | <u>\$ 2,791,369,616</u> |

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

Knoxville Utilities Board
Consolidated Statements of Net Position
June 30, 2023 and 2022

| | 2023 | 2022 as restated |
|--|-------------------------|-----------------------------------|
| Liabilities, Deferred Inflows, and Net Position | | |
| Current liabilities: | | |
| Current portion of revenue bonds | \$ 44,140,000 | \$ 42,765,000 |
| Current portion of lease liability | 830,979 | 844,904 |
| Current portion of subscription liability | 910,426 | 709,324 |
| Sales tax collections payable | 1,506,080 | 1,552,467 |
| Accounts payable | 93,625,995 | 96,628,151 |
| Unearned revenue | 84,112 | - |
| Accrued expenses | 22,273,997 | 30,689,445 |
| Customer deposits plus accrued interest | 24,344,078 | 23,259,401 |
| Accrued interest on revenue bonds | 15,370,481 | 12,731,785 |
| Total current liabilities | <u>203,086,148</u> | <u>209,180,477</u> |
| Other liabilities: | | |
| TVA conservation program | 271,138 | 613,757 |
| Accrued compensated absences | 10,546,869 | 10,759,104 |
| Customer advances for construction | 11,299,795 | 10,681,887 |
| Lease liability | 2,696,599 | 3,215,556 |
| Subscription liability | 6,722,232 | 7,563,890 |
| Net pension liability | 22,219,032 | - |
| Net OPEB liability | 12,930,655 | 11,202,507 |
| Over recovered purchased power cost | 3,548,522 | - |
| Over recovered purchased gas cost | 4,371,708 | 4,188,264 |
| Other | 119,620 | 244,656 |
| Total other liabilities | <u>74,726,170</u> | <u>48,469,621</u> |
| Long-term debt: | | |
| Revenue bonds | 1,055,370,000 | 1,010,515,000 |
| Unamortized premiums/discounts | 111,787,156 | 114,402,894 |
| Total long-term debt | <u>1,167,157,156</u> | <u>1,124,917,894</u> |
| Total liabilities | <u>1,444,969,474</u> | <u>1,382,567,992</u> |
| Deferred inflows of resources: | | |
| Pension inflow | 214,234 | 39,528,961 |
| Unamortized bond refunding costs | 1,539,009 | 1,531,357 |
| Lease inflow | 4,185,227 | 4,413,743 |
| Total deferred inflows of resources | <u>5,938,470</u> | <u>45,474,061</u> |
| Total liabilities and deferred inflows of resources | <u>1,450,907,944</u> | <u>1,428,042,053</u> |
| Net position | | |
| Net investment in capital assets | 1,154,844,526 | 1,098,789,734 |
| Restricted for: | | |
| Debt service | 23,816,674 | 22,341,750 |
| Other | 1,518 | 1,515 |
| Unrestricted | 254,197,114 | 242,194,564 |
| Total net position | <u>1,432,859,832</u> | <u>1,363,327,563</u> |
| Total liabilities, deferred inflows, and net position | <u>\$ 2,883,767,776</u> | <u>\$ 2,791,369,616</u> |

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

Knoxville Utilities Board
Consolidated Statements of Revenues, Expenses and Changes in Net Position
June 30, 2023 and 2022

| | 2023 | 2022 as restated |
|---|-------------------------|-------------------------|
| Operating revenues | | |
| Electric | \$ 649,815,033 | \$ 598,066,936 |
| Fiber | 866,833 | - |
| Gas | 146,108,765 | 141,525,161 |
| Water | 68,034,640 | 63,819,881 |
| Wastewater | 107,693,416 | 102,302,391 |
| Total operating revenues | <u>972,518,687</u> | <u>905,714,369</u> |
| Operating expenses | | |
| Purchased power | 470,554,241 | 434,366,317 |
| Purchased gas | 83,040,477 | 77,975,231 |
| Treatment | 20,706,623 | 18,999,493 |
| Fiber products and promotions | 3,141,625 | 854,452 |
| Distribution and collection | 86,741,918 | 77,354,703 |
| Customer service | 15,659,354 | 15,200,264 |
| Administrative and general | 65,698,005 | 35,524,085 |
| Depreciation and amortization | 93,927,866 | 88,120,953 |
| Taxes and tax equivalents | 39,260,576 | 37,964,437 |
| Total operating expenses | <u>878,730,685</u> | <u>786,359,935</u> |
| Operating income | <u>93,788,002</u> | <u>119,354,434</u> |
| Non-operating revenues (expenses) | | |
| Contributions in aid of construction | 16,464,196 | 5,753,345 |
| Interest income | 9,122,264 | 1,107,621 |
| Interest expense | (42,673,630) | (40,276,175) |
| Amortization of debt costs | 4,528,002 | 4,183,347 |
| Write-down of plant for costs recovered through contributions | (16,464,196) | (5,753,345) |
| Other | 442,203 | (8,324,453) |
| Total non-operating revenues (expenses) | <u>(28,581,161)</u> | <u>(43,309,660)</u> |
| Change in net position before capital contributions | 65,206,841 | 76,044,774 |
| Capital contributions | 4,325,428 | 1,637,701 |
| Change in net position | 69,532,269 | 77,682,475 |
| Net position, beginning of year, as restated | 1,363,327,563 | 1,285,645,088 |
| Net position, end of year | <u>\$ 1,432,859,832</u> | <u>\$ 1,363,327,563</u> |

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

Knoxville Utilities Board

Consolidated Statements of Cash Flows

June 30, 2023 and 2022

| | 2023 | 2022 as restated |
|---|-----------------------|-----------------------------------|
| Cash flows from operating activities: | | |
| Cash receipts from customers | \$ 982,886,025 | \$ 894,545,730 |
| Cash receipts from other operations | 18,600,726 | 11,513,747 |
| Cash payments to suppliers of goods or services | (692,162,690) | (595,651,020) |
| Cash payments to employees for services | (81,439,080) | (65,895,305) |
| Payment in lieu of taxes | (33,337,681) | (32,447,067) |
| Cash receipts from collections of TVA conservation loan program participants | 347,182 | 581,728 |
| Cash payments for TVA Conservation loan program | (364,556) | (598,877) |
| Net cash provided by operating activities | <u>194,529,926</u> | <u>212,048,936</u> |
| Cash flows from capital and related financing activities: | | |
| Net proceeds from bond issuance | 91,636,173 | 62,023,967 |
| Principal paid on revenue bonds | (42,765,000) | (42,545,000) |
| Increase (decrease) in unused bond proceeds | 1,298,130 | (1,298,143) |
| Interest paid on revenue bonds | (39,590,694) | (39,065,102) |
| Acquisition and construction of plant | (220,706,513) | (162,933,188) |
| Changes in bond funds, restricted | (4,113,621) | (1,487,885) |
| Customer advances for construction | 1,263,519 | 843,152 |
| Proceeds received on disposal of plant | 288,181 | 388,899 |
| Principal paid on lease liabilities | (900,865) | (604,425) |
| Principal paid on subscription liabilities | (709,324) | (676,147) |
| Interest paid on lease and subscription liabilities | (444,240) | (311,050) |
| Implementation costs paid for subscription asset | - | (304,802) |
| Cash received from developers and individuals for capital purposes | 16,464,196 | 5,753,345 |
| Net cash used in capital and related financing activities | <u>(198,280,058)</u> | <u>(180,216,379)</u> |
| Cash flows from investing activities: | | |
| Purchase of investment securities | (19,523,792) | (81,164,257) |
| Maturities of investment securities | 20,329,649 | 75,680,769 |
| Interest received | 8,891,802 | 1,047,141 |
| Other property and investments | 42,250 | 2,461 |
| Net cash provided by (used in) investing activities | <u>9,739,909</u> | <u>(4,433,886)</u> |
| Net increase in cash and cash equivalents | 5,989,777 | 27,398,671 |
| Cash and cash equivalents, beginning of year | <u>146,776,546</u> | <u>119,377,875</u> |
| Cash and cash equivalents, end of year | <u>\$ 152,766,323</u> | <u>\$ 146,776,546</u> |
| Reconciliation of operating income to net cash provided by operating activities | | |
| Operating income | \$ 93,788,002 | \$ 119,354,434 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization expense | 96,800,042 | 91,152,921 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 9,110,151 | (9,246,789) |
| Lease receivable | 117,723 | (964,597) |
| Inventories | (8,797,442) | (3,838,054) |
| Prepaid expenses | 149,403 | (3,574,350) |
| TVA conservation program receivable | 325,244 | 527,650 |
| Other assets | 279,148 | (306,358) |
| Sales tax collections payable | (46,387) | 158,688 |
| Accounts payable and accrued expenses | (4,011,484) | 14,458,555 |
| TVA conservation program payable | (342,619) | (544,799) |
| Unrecovered purchased power cost | 5,930,945 | (2,809,774) |
| Underrecovered gas costs | 183,444 | 5,560,040 |
| Customer deposits plus accrued interest | 1,084,677 | 2,101,992 |
| Other liabilities | (40,921) | 19,377 |
| Net cash provided by operating activities | <u>\$ 194,529,926</u> | <u>\$ 212,048,936</u> |
| Noncash capital activities: | | |
| Acquisition of plant assets through developer contributions | \$ 4,325,428 | \$ 1,637,701 |
| Record intangible right of use asset and lease liability | \$ 367,983 | \$ 4,194,029 |
| Record intangible subscription asset and subscription liability | \$ 68,768 | \$ 8,949,361 |

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

Knoxville Utilities Board
Statements of Fiduciary Net Position
June 30, 2023 and 2022

| | 2023 | | | 2022 | | |
|--|----------------------|--------------------------------------|-----------------------|----------------------|--------------------------------------|-----------------------|
| | Pension Plan | Other Post Employment Benefits Trust | Total Fiduciary Funds | Pension Plan | Other Post Employment Benefits Trust | Total Fiduciary Funds |
| Assets | | | | | | |
| Cash and cash equivalents | \$ 1,231,407 | \$ 209,362 | \$ 1,440,769 | \$ 1,993,568 | \$ 195,558 | \$ 2,189,126 |
| Interest and dividends receivable | 516,960 | - | 516,960 | 528,281 | - | 528,281 |
| Due from broker for investment sales | 361,962 | - | 361,962 | 67,500 | - | 67,500 |
| Prepaid assets | - | 10,000 | 10,000 | - | - | - |
| Investments at fair value | 230,723,302 | 49,494,378 | 280,217,680 | 304,471,594 | 48,284,215 | 352,755,809 |
| Total assets | 232,833,631 | 49,713,740 | 282,547,371 | 307,060,943 | 48,479,773 | 355,540,716 |
| Liabilities | | | | | | |
| Accounts payable | 280,054 | 31,579 | 311,633 | 269,209 | 32,781 | 301,990 |
| Due to broker for investment purchases | 365,886 | - | 365,886 | 452,240 | - | 452,240 |
| Benefit obligations | - | 975,714 | 975,714 | - | 1,113,219 | 1,113,219 |
| Total liabilities | 645,940 | 1,007,293 | 1,653,233 | 721,449 | 1,146,000 | 1,867,449 |
| Net position restricted for Pensions and Other Post Employment Benefits | <u>\$232,187,691</u> | <u>\$ 48,706,447</u> | <u>\$280,894,138</u> | <u>\$306,339,494</u> | <u>\$ 47,333,773</u> | <u>\$353,673,267</u> |

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

Knoxville Utilities Board
Statements of Changes in Fiduciary Net Position
June 30, 2023 and 2022

| | 2023 | | | 2022 | | |
|--|----------------------|--------------------------------------|-----------------------|----------------------|--------------------------------------|-----------------------|
| | Pension Plan | Other Post Employment Benefits Trust | Total Fiduciary Funds | Pension Plan | Other Post Employment Benefits Trust | Total Fiduciary Funds |
| Additions (reductions) | | | | | | |
| Contributions: | | | | | | |
| Employer | \$ 3,144,770 | \$ 1,413,392 | \$ 4,558,162 | \$ 3,416,428 | \$ 1,989,066 | \$ 5,405,494 |
| Participants | 3,812,595 | - | 3,812,595 | 3,939,687 | - | 3,939,687 |
| Total contributions | 6,957,365 | 1,413,392 | 8,370,757 | 7,356,115 | 1,989,066 | 9,345,181 |
| Investment income (loss): | | | | | | |
| Net change in fair value of investments | (69,612,173) | 4,399,322 | (65,212,851) | 29,797,721 | (8,045,801) | 21,751,920 |
| Less investment expenses | (366,989) | (65,784) | (432,773) | (437,318) | (76,616) | (513,934) |
| Interest income | 2,386,899 | - | 2,386,899 | 2,056,828 | - | 2,056,828 |
| Dividend income | 4,098,278 | - | 4,098,278 | 6,158,335 | - | 6,158,335 |
| Net investment income (loss) | (63,493,985) | 4,333,538 | (59,160,447) | 37,575,566 | (8,122,417) | 29,453,149 |
| Other | 9,415 | - | 9,415 | 112,484 | - | 112,484 |
| Total net additions (reductions) | (56,527,205) | 5,746,930 | (50,780,275) | 45,044,165 | (6,133,351) | 38,910,814 |
| Deductions | | | | | | |
| Benefit payments | 17,065,610 | 3,937,977 | 21,003,587 | 17,653,963 | 3,576,893 | 21,230,856 |
| Claims processing fees | - | 335,093 | 335,093 | - | 331,742 | 331,742 |
| General and administrative expenses | 498,988 | 101,186 | 600,174 | 441,017 | 71,187 | 512,204 |
| Death benefits | 60,000 | - | 60,000 | 72,000 | - | 72,000 |
| Total deductions | 17,624,598 | 4,374,256 | 21,998,854 | 18,166,980 | 3,979,822 | 22,146,802 |
| Change in net position | (74,151,803) | 1,372,674 | (72,779,129) | 26,877,185 | (10,113,173) | 16,764,012 |
| Net position restricted for Pensions and Other Post Employment Benefits | | | | | | |
| Beginning of the year | 306,339,494 | 47,333,773 | 353,673,267 | 279,462,309 | 57,446,946 | 336,909,255 |
| End of the year | <u>\$232,187,691</u> | <u>\$ 48,706,447</u> | <u>\$280,894,138</u> | <u>\$306,339,494</u> | <u>\$ 47,333,773</u> | <u>\$353,673,267</u> |

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

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

1. Description of Business

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

2. Significant Accounting Policies

Basis of Accounting

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

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

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

Recently Adopted New Accounting Pronouncements

In May 2019, the GASB issued GASB Statement No. 91 (Statement No. 91), *Conduit Debt Obligations*. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. Statement No. 91 is effective for fiscal years beginning after December 15, 2021. Adoption of this Statement did not have a significant impact on KUB's financial statements.

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In March 2020, the GASB issued GASB Statement No. 94 (Statement No. 94), *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to better meet the information needs of financial statement users by improving the comparability of financial statements among governments that enter in PPPs and APAs. Statement No. 94 is effective for fiscal years beginning after June 15, 2022. Adoption of this Statement did not have a significant impact on KUB's financial statements.

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

Principles of Consolidation

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

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

Plant

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

The provision for depreciation of plants in service is based on the estimated useful lives of the assets, which range from three to sixty-seven years, and is computed using the straight-line method. Pursuant to FERC/NARUC, the caption "Depreciation and amortization" in the consolidated Statements of Revenues, Expenses and Changes in Net Position does not include depreciation for transportation equipment of \$2,872,176 in fiscal year 2023 and \$3,031,968 in fiscal year 2022.

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 \$2,181,182 in fiscal year 2023 and \$2,529,796 in fiscal year 2022.

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.

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Net Position

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

These classifications are defined as follows:

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

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

OPEB Trust

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

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KUB's policy is to fully fund the annual actuarially determined contributions, which are determined by actuarial valuation. As required by GASB Statement No. 75, KUB measures net OPEB liability as total OPEB liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2023, and 2022, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2023, and 2022, are based on a June 30, 2023, and 2022, measurement date, respectively. The net OPEB liability is \$12,930,655 as of June 30, 2023, and \$11,202,507 as of June 30, 2022.

Pension Plan and Qualified Excess Benefit Arrangement

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 12). KUB's policy is to fully fund the annual actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2023, and 2022, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2023, and 2022, are based on a December 31, 2022, and 2021, measurement date, respectively. The net pension liability is \$22,219,032 as of June 30, 2023, and the net pension asset is \$64,137,714 as of June 30, 2022.

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

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.

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Restricted and Designated Assets

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

Cash Equivalents

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

Leases

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

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

Subscription-Based Information Technology Arrangements

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

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

Deferred Outflows and Inflows of Resources

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

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Debt Premium/Discount

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

Debt Issuance Costs

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

Deferred Gain/Loss on Refunding of Debt

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

Compensated Absences

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

TVA Conservation Program

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

Restatement for GASB 96

During fiscal year 2023, KUB adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96) using a full retrospective approach. GASB 96 requires the recognition of an intangible subscription asset and a subscription liability, thereby enhancing the relevance and reliability of information regarding subscription activities. Accordingly, the accompanying financial statements, as of and for the year ended June 30, 2022, have been restated for the change, which impacted net position by \$136,963.

As a result of adopting GASB 96, as of June 30, 2022, KUB recorded total subscription assets of \$9,273,959 with accumulated amortization of \$832,906 and recognized total subscription liabilities of \$8,273,214 (\$709,324 current). KUB also reclassified the net amount of \$914,103 from administrative and general expense to \$832,905 as amortization expense and \$218,161 as interest expense, with a net impact of \$136,963 to net position. In addition, there were \$304,802 in implementation costs for the year ended June 30, 2022, that were previously recorded in plant in service and reclassified to the subscription asset.

Additional disclosures, as well as other reclassifications in the statement of cash flows, also resulted from the adoption of GASB 96.

Subsequent Events

KUB has evaluated events and transactions through October 31, 2023, the date these financial statements were available to be issued, for items that should potentially be recognized or disclosed.

Purchased Power Adjustment

In October 2002, the Board adopted a Purchased Power Adjustment (PPA) to address changes in wholesale power costs. The PPA was established in response to an amendment to KUB's power supply contract under which, among other things, TVA relinquished its regulatory authority over KUB retail electric rates. The PPA allows KUB to promptly adjust retail electric rates in response to wholesale rate changes or adjustments, thus ensuring that KUB will recover the costs incurred for purchased power. These changes in electric costs are reflected as adjustments to the base electric rates established by the Board. The rate-setting authority vested in the Board by the City Charter

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meets the “self-regulated” provisions of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and KUB meets the remaining criteria of Statement No. 62.

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

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

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

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

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

Under the PPA mechanism, KUB tracks the actual over/(under) recovered amount in the Over/(Under) Recovered Purchased Power Cost accounts. These accounts are rolled into the PPA rate adjustments thereby assuring that any over/(under) recovered amounts are promptly passed on to KUB’s electric customers. The amount of over/(under) recovered cost was \$3,548,522 as of June 30, 2023, and (\$2,382,423) as of June 30, 2022.

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 \$4,371,708 as of June 30, 2023, and \$4,188,264 as of June 30, 2022.

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Recently Issued Accounting Pronouncements

In April 2022, the GASB issued GASB Statement No. 99 (Statement No. 99), *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements and accounting and financial reporting for financial guarantees. Paragraphs 26-32 were effective immediately. Paragraphs 11-25 are effective for fiscal years beginning after June 15, 2022. Paragraphs 4-10 are effective for fiscal years beginning after June 15, 2023.

In June 2022, the GASB issued GASB Statement No. 100 (Statement No. 100), *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. Statement No. 100 is effective for fiscal years beginning after June 15, 2023.

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

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

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

Classification of deposits and investments per Statement of Net Position:

| | 2023 | 2022 |
|---|-----------------------|-----------------------|
| Current assets | | |
| Cash and cash equivalents | \$ 152,766,323 | \$ 146,776,546 |
| Short-term contingency fund investments | 97,029,690 | 20,236,708 |
| Other assets | | |
| Long-term contingency fund investments | 15,661,112 | 92,390,868 |
| Restricted assets | | |
| Unused bond proceeds | 13 | 1,298,143 |
| Bond fund | 39,187,155 | 35,073,534 |
| Student internet special fund | 300,000 | - |
| Other funds | 1,518 | 1,515 |
| | <u>\$ 304,945,811</u> | <u>\$ 295,777,314</u> |

The above amounts do not include accrued interest of \$241,431 in fiscal year 2023 and \$158,901 in fiscal year 2022. 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, 2023:

| | Deposit and Investment Maturities (in Years) | | |
|-----------------------------------|---|-----------------------|----------------------|
| | Fair Value | Less Than 1 | 1-5 |
| Supersweep NOW and Other Deposits | \$ 178,516,265 | \$ 178,516,265 | \$ - |
| State Treasurer's Investment Pool | 23,862,746 | 23,862,746 | - |
| Agency Bonds | 103,789,986 | 88,128,874 | 15,661,112 |
| Certificates of Deposits | 3,757,083 | 3,757,083 | - |
| | <u>\$ 309,926,080</u> | <u>\$ 294,264,968</u> | <u>\$ 15,661,112</u> |

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

KUB has the following recurring fair value measurements as of June 30, 2023:

- U.S. Agency bonds of \$15,661,112, which have a maturity at purchase of greater than one year, are valued using quoted market prices (Level 1 inputs)

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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:

| | 2023 | 2022 |
|--------------------------------------|----------------------|----------------------|
| Wholesale and retail customers | | |
| Billed services | \$ 47,349,019 | \$ 51,992,050 |
| Unbilled services | 29,988,499 | 35,838,200 |
| Other | 12,937,057 | 1,997,230 |
| Allowance for uncollectible accounts | (760,386) | (773,791) |
| | <u>\$ 89,514,189</u> | <u>\$ 89,053,689</u> |

5. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

| | 2023 | 2022 |
|----------------------------|-----------------------|-----------------------|
| Trade accounts | \$ 93,625,995 | \$ 96,628,151 |
| Salaries and wages | 1,598,485 | 1,296,808 |
| Advances on pole rental | 1,482,546 | 1,393,933 |
| Self-insurance liabilities | 2,566,095 | 2,252,221 |
| Other current liabilities | 16,626,871 | 25,746,483 |
| | <u>\$ 115,899,992</u> | <u>\$ 127,317,596</u> |

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6. Long-Term Obligations

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

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| | Balance June 30, 2021 | Additions | Payments | Defeased | Balance June 30, 2022 | Amounts Due Within One Year |
|---------------------------|-----------------------------|----------------|---------------|---------------|-----------------------------|--------------------------------------|
| Electric | | | | | | |
| AA-2012 - 3.0 - 5.0% | \$ 3,270,000 | \$ - | \$ 3,270,000 | - | \$ - | \$ - |
| BB-2012 - 3.0 - 4.0% | 825,000 | - | 825,000 | - | - | - |
| CC-2013 - 3.0 - 4.0% | 540,000 | - | 540,000 | - | - | - |
| DD-2014 - 2.0 - 4.0% | 875,000 | - | 875,000 | - | - | - |
| EE-2015 - 2.0 - 5.0% | 23,765,000 | - | 2,235,000 | - | 21,530,000 | 2,300,000 |
| FF-2015 - 2.0 - 5.0% | 31,375,000 | - | 800,000 | 28,900,000 | 1,675,000 | 825,000 |
| GG-2016 - 2.0 - 5.0% | 36,650,000 | - | 950,000 | - | 35,700,000 | 1,000,000 |
| HH-2017 - 2.5 - 5.0% | 17,420,000 | - | 2,195,000 | - | 15,225,000 | 2,305,000 |
| II-2017 - 3.0 - 5.0% | 37,730,000 | - | 845,000 | - | 36,885,000 | 890,000 |
| JJ-2018 - 3.0 - 5.0% | 38,405,000 | - | 855,000 | - | 37,550,000 | 895,000 |
| KK-2020 - 5.0% | 14,380,000 | - | 1,155,000 | - | 13,225,000 | 1,215,000 |
| LL-2021 - 4.0 - 5.0% | 70,180,000 | - | - | - | 70,180,000 | 4,610,000 |
| MM-2022 - 4.0 - 5.0% | - | 45,650,000 | - | - | 45,650,000 | - |
| NN-2022 - 4.0 - 5.0% | - | 27,215,000 | - | - | 27,215,000 | - |
| Total bonds | \$ 275,415,000 | \$ 72,865,000 | \$ 14,545,000 | \$ 28,900,000 | \$ 304,835,000 | \$ 14,040,000 |
| Unamortized Premium | 25,718,420 | 6,718,375 | 1,731,604 | 1,612,754 | 29,092,437 | - |
| Total long term debt | \$ 301,133,420 | \$ 79,583,375 | \$ 16,276,604 | \$ 30,512,754 | \$ 333,927,437 | \$ 14,040,000 |
| Gas | | | | | | |
| U-2015 - 2.0 - 5.0% | \$ 8,915,000 | \$ - | \$ 740,000 | \$ - | \$ 8,175,000 | \$ 795,000 |
| V-2016 - 2.125 - 5.0% | 10,800,000 | - | 275,000 | - | 10,525,000 | 300,000 |
| W-2017 - 5.0% | 5,280,000 | - | 780,000 | - | 4,500,000 | 815,000 |
| X-2017 - 2.0 - 5.0% | 11,060,000 | - | 270,000 | - | 10,790,000 | 285,000 |
| Y-2018 - 3.0 - 5.0% | 7,475,000 | - | 170,000 | - | 7,305,000 | 180,000 |
| Z-2020 - 4.0 - 5.0% | 6,145,000 | - | 560,000 | - | 5,585,000 | 585,000 |
| AA-2021 - 4.0 - 5.0% | 41,920,000 | - | 4,005,000 | - | 37,915,000 | 3,730,000 |
| Total bonds | \$ 91,595,000 | \$ - | \$ 6,800,000 | \$ - | \$ 84,795,000 | \$ 6,690,000 |
| Unamortized Premium | 9,823,667 | - | 922,376 | - | 8,901,291 | - |
| Total long term debt | \$ 101,418,667 | \$ - | \$ 7,722,376 | \$ - | \$ 93,696,291 | \$ 6,690,000 |
| Water | | | | | | |
| BB-2015 - 2.0 - 5.0% | \$ 19,075,000 | \$ - | \$ 1,000,000 | \$ - | \$ 18,075,000 | \$ 1,050,000 |
| CC-2015 - 2.0 - 4.0% | 17,575,000 | - | 475,000 | 15,050,000 | 2,050,000 | 475,000 |
| DD-2016 - 3.0 - 5.0% | 22,675,000 | - | 575,000 | - | 22,100,000 | 625,000 |
| EE-2016 - 2.0 - 5.0% | 18,430,000 | - | 1,245,000 | - | 17,185,000 | 1,315,000 |
| FF-2017 - 3.0 - 5.0% | 3,405,000 | - | 510,000 | - | 2,895,000 | 530,000 |
| GG-2017 - 2.125 - 5.0% | 18,610,000 | - | 440,000 | - | 18,170,000 | 460,000 |
| HH-2018 - 3.0 - 5.0% | 18,695,000 | - | 410,000 | - | 18,285,000 | 430,000 |
| II-2019 - 3.0 - 5.0% | 19,230,000 | - | 380,000 | - | 18,850,000 | 400,000 |
| JJ-2020 - 3.0 - 5.0% | 18,890,000 | - | 495,000 | - | 18,395,000 | 445,000 |
| KK-2020 - 3.0 - 5.0% | 8,835,000 | - | 170,000 | - | 8,665,000 | 180,000 |
| LL-2021 - 4.0 - 5.0% | 33,180,000 | - | 1,225,000 | - | 31,955,000 | 1,265,000 |
| MM-2022 - 3.0 - 5.0% | - | 14,915,000 | - | - | 14,915,000 | 100,000 |
| Total bonds | \$ 198,600,000 | \$ 14,915,000 | \$ 6,925,000 | \$ 15,050,000 | \$ 191,540,000 | \$ 7,275,000 |
| Unamortized Premium | 15,798,371 | 448,952 | 788,056 | 218,595 | 15,240,672 | - |
| Total long term debt | \$ 214,398,371 | \$ 15,363,952 | \$ 7,713,056 | \$ 15,268,595 | \$ 206,780,672 | \$ 7,275,000 |
| Wastewater | | | | | | |
| 2010C - 1.18 - 6.1% | \$ 20,250,000 | \$ - | \$ - | \$ - | \$ 20,250,000 | \$ - |
| 2015A - 3.0 - 5.0% | 110,625,000 | - | 5,675,000 | - | 104,950,000 | 6,005,000 |
| 2015B - 3.0 - 5.0% | 26,950,000 | - | 550,000 | 24,600,000 | 1,800,000 | 575,000 |
| 2016 - 2.0 - 5.0% | 17,800,000 | - | 500,000 | - | 17,300,000 | 525,000 |
| 2017A - 3.0 - 5.0% | 5,970,000 | - | 1,685,000 | - | 4,285,000 | 1,775,000 |
| 2017B - 2.0 - 5.0% | 23,205,000 | - | 570,000 | - | 22,635,000 | 600,000 |
| 2018 - 3.0 - 5.0% | 11,240,000 | - | 255,000 | - | 10,985,000 | 270,000 |
| 2019 - 3.0 - 5.0% | 15,450,000 | - | 315,000 | - | 15,135,000 | 330,000 |
| 2020A - 3.0 - 5.0% | 27,445,000 | - | 680,000 | - | 26,765,000 | 715,000 |
| 2020B - 3.0 - 4.0% | 26,910,000 | - | 555,000 | - | 26,355,000 | 580,000 |
| 2021A - 4.0 - 5.0% | 190,815,000 | - | 3,490,000 | - | 187,325,000 | 3,060,000 |
| 2022A - 4.0 - 5.0% | - | 11,125,000 | - | - | 11,125,000 | 225,000 |
| 2022B - 4.0 - 5.0% | - | 23,200,000 | - | - | 23,200,000 | 100,000 |
| Total bonds | \$ 476,660,000 | \$ 34,325,000 | \$ 14,275,000 | \$ 24,600,000 | \$ 472,110,000 | \$ 14,760,000 |
| Unamortized Premium | 61,280,352 | 2,748,402 | 2,410,559 | 449,701 | 61,168,494 | - |
| Total long term debt | \$ 537,940,352 | \$ 37,073,402 | \$ 16,685,559 | \$ 25,049,701 | \$ 533,278,494 | \$ 14,760,000 |
| Consolidated | | | | | | |
| Total Bonds | \$ 1,042,270,000 | \$ 122,105,000 | \$ 42,545,000 | \$ 68,550,000 | \$ 1,053,280,000 | \$ 42,765,000 |
| Total unamortized premium | 112,620,811 | 9,915,728 | 5,852,595 | 2,281,050 | 114,402,894 | - |
| Total long term debt | \$ 1,154,890,811 | \$ 132,020,728 | \$ 48,397,595 | \$ 70,831,050 | \$ 1,167,682,894 | \$ 42,765,000 |

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

| Fiscal Year | Principal | Interest | Total |
|----------------|-------------------------|-----------------------|-------------------------|
| 2024 | \$ 44,140,000 | \$ 42,680,879 | \$ 86,820,879 |
| 2025 | 46,580,000 | 40,624,649 | 87,204,649 |
| 2026 | 45,040,000 | 38,750,601 | 83,790,601 |
| 2027 | 46,420,000 | 36,867,572 | 83,287,572 |
| 2028 | 47,700,000 | 34,887,722 | 82,587,722 |
| 2029-2033 | 229,555,000 | 145,698,392 | 375,253,392 |
| 2034-2038 | 216,770,000 | 102,911,893 | 319,681,893 |
| 2039-2043 | 231,160,000 | 58,533,149 | 289,693,149 |
| 2044-2048 | 146,450,000 | 22,212,562 | 168,662,562 |
| 2049-2053 | 45,695,000 | 3,908,519 | 49,603,519 |
| Total | <u>\$ 1,099,510,000</u> | <u>\$ 527,075,938</u> | <u>\$ 1,626,585,938</u> |

The Divisions have pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet bond principal and interest payments of revenue bonds when due. Such bond requirements are being met through monthly deposits to the bond funds as required by the bond covenants. As of June 30, 2023, these requirements have been satisfied.

During fiscal year 2022, KUB's Electric Division issued Series MM 2022 bonds to fund electric system capital improvements. KUB's Electric Division also issued Series NN 2022 bonds to retire a portion of outstanding Series FF 2015 bonds. On May 13, 2022, \$27.2 million in revenue refunding bonds with an average interest rate of 4.1 percent were issued to advance refund \$28.9 million of outstanding bonds with an average interest rate of 4.1 percent. The net proceeds of \$29.5 million (after payment of \$0.4 million in issuance costs plus premium of \$2 million and an additional issuer equity contribution of \$0.6 million) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the bonds, with the exception of the July 1, 2022, and the July 1, 2023, debt service payments. As a result, the remaining bonds are considered to be refunded and the liability of \$28.9 million for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the life of the debt by \$2 million, resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1.3 million.

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

During fiscal year 2022, KUB's Water Division issued Series MM 2022 bonds to retire a portion of outstanding Series CC 2015 bonds. On May 13, 2022, \$14.9 million in revenue refunding bonds with an average interest rate of 3.6 percent were issued to currently refund \$15.1 million of outstanding bonds with an average interest rate of 3.9 percent. The net proceeds of \$15.2 million (after payment of \$0.3 million in issuance costs plus premium of \$0.4 million and an additional issuer equity contribution of \$0.1 million) were used to refund the bonds. As a result, the bonds are considered to be refunded and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the life of the debt by \$0.7 million, resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$0.4 million.

During fiscal year 2011, KUB's Wastewater Division issued Series 2010C bonds to fund capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment.

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These bonds are subject to a reduction in rebate payment amounts which is subject to change based on Congressional action. As of October 1, 2021, the effective reduction in rebate is 5.7 percent.

During fiscal year 2022, KUB's Wastewater Division issued Series 2022A bonds to fund wastewater system capital improvements. KUB's Wastewater Division also issued Series 2022B bonds to retire a portion of outstanding Series 2015B bonds. On May 13, 2022, \$23.2 million in revenue refunding bonds with an average interest rate of 4.2 percent were issued to currently refund \$24.6 million of outstanding bonds with an average interest rate of 4 percent. The net proceeds of \$24.7 million (after payment of \$0.3 million in issuance costs plus premium of \$1.7 million and an additional issuer equity contribution of \$0.1 million) were used to refund the bonds. As a result, the bonds are considered to be refunded and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the life of the debt by \$1.3 million, resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$0.7 million.

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

Other liabilities consist of the following:

| | Balance June 30, 2022 | Increase | Decrease | Balance June 30, 2023 |
|---------------------------------------|--------------------------------------|----------------------|------------------------|--------------------------------------|
| TVA conservation program | \$ 613,757 | \$ 25,487 | \$ (368,106) | \$ 271,138 |
| Accrued compensated absences | 10,759,104 | 21,378,328 | (21,590,563) | 10,546,869 |
| Customer advances for construction | 10,681,887 | 4,972,019 | (4,354,111) | 11,299,795 |
| Other | 244,656 | 199,418 | (324,454) | 119,620 |
| | <u>\$ 22,299,404</u> | <u>\$ 26,575,252</u> | <u>\$ (26,637,234)</u> | <u>\$ 22,237,422</u> |

| | Balance June 30, 2021 | Increase | Decrease | Balance June 30, 2022 |
|---------------------------------------|--------------------------------------|----------------------|------------------------|--------------------------------------|
| TVA conservation program | \$ 1,158,556 | \$ 64,619 | \$ (609,418) | \$ 613,757 |
| Accrued compensated absences | 10,341,485 | 22,498,166 | (22,080,547) | 10,759,104 |
| Customer advances for construction | 10,373,106 | 4,764,867 | (4,456,086) | 10,681,887 |
| Other | 225,278 | 325,770 | (306,392) | 244,656 |
| | <u>\$ 22,098,425</u> | <u>\$ 27,653,422</u> | <u>\$ (27,452,443)</u> | <u>\$ 22,299,404</u> |

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7. Lease Receivables

KUB, as lessor, leases office space, land, and fiber optic cables under non-cancelable lease arrangements. Terms of the leases range from one to ten years and contain fixed payment terms. Certain leases contain an option to renew that has been considered in the lease receivable when the lessee is reasonably certain to exercise the renewal option. KUB recognized lease revenue, which is included in other operating revenues, of \$631,140 in 2023 and \$451,074 in 2022. KUB also recognized interest income from leases, which is included in non-operating revenues, totaling \$153,241 in 2023 and \$127,593 in 2022. Total lease receivables were \$4,371,578 (\$555,779 current) and \$4,489,301 (\$516,649 current) as of June 30, 2023, and 2022, respectively, and are included in other assets on the Statement of Net Position.

8. Lease Liability

Changes in lease liabilities are summarized as follows:

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

| | Balance June 30, 2021 | | Increase | | Decrease | | Balance June 30, 2022 |
|-------------------------|--|----|------------------|----|------------------|----|--|
| Total lease liabilities | \$ 470,858 | \$ | <u>4,300,561</u> | \$ | <u>(710,959)</u> | \$ | 4,060,460 |
| Less current portion | <u>(377,192)</u> | | | | | | <u>(844,904)</u> |
| Long-term portion | <u>\$ 93,666</u> | | | | | \$ | <u>3,215,556</u> |

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

Maturities and future interest requirements related to the balances of lease liabilities outstanding as of June 30, 2023, are summarized as follows:

| | Lease Maturities | | Interest Requirements |
|-----------|-------------------------|----|------------------------------|
| 2024 | \$ 830,980 | \$ | 119,183 |
| 2025 | 880,026 | | 88,904 |
| 2026 | 914,471 | | 56,015 |
| 2028 | 744,564 | | 21,227 |
| 2028 | 19,470 | | 6,992 |
| 2029-2033 | 32,592 | | 30,070 |
| 2034-2038 | 45,904 | | 26,739 |
| 2039-2043 | 59,571 | | 18,573 |
| | <u>\$ 3,527,578</u> | \$ | <u>367,703</u> |

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9. Subscription-Based Information Technology Agreement Liabilities

Changes in SBITA liabilities are summarized as follows:

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

| | Balance June 30, 2021 | Increase | Decrease | Balance June 30, 2022 |
|-------------------------|--|---------------------|---------------------|--|
| Total SBITA liabilities | \$ - | \$ <u>8,949,361</u> | \$ <u>(676,147)</u> | \$ 8,273,214 |
| Less current portion | <u>-</u> | | | <u>(709,324)</u> |
| Long-term portion | \$ <u>-</u> | | | \$ <u>7,563,890</u> |

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

Maturities and future interest requirements related to the balances of SBITA liabilities outstanding as of June 30, 2023, are summarized as follows:

| | Subscription Maturities | Interest Requirements |
|-----------|--------------------------------|------------------------------|
| 2024 | \$ 910,427 | \$ 280,086 |
| 2025 | 1,037,806 | 243,407 |
| 2026 | 1,206,487 | 199,923 |
| 2027 | 1,237,452 | 151,139 |
| 2028 | 1,296,953 | 101,933 |
| 2029-2032 | 1,943,534 | 125,307 |
| | \$ <u>7,632,659</u> | \$ <u>1,101,795</u> |

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Notes to Consolidated Financial Statements
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10. Capital and Intangible Assets

Capital and intangible asset activity was as follows:

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

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| | Balance | | | Balance | | |
|--|------------------|----------------|------------------|------------------|--|--|
| | June 30, 2021 | Increase | Decrease | June 30, 2022 | | |
| Production Plant (Intakes) | \$ 742,503 | \$ - | \$ - | \$ 742,503 | | |
| Pumping and Treatment Plant | 354,812,995 | 60,466,147 | (2,176,972) | 413,102,170 | | |
| Distribution and Collection Plant | | | | | | |
| Mains and metering | 1,152,024,908 | 47,031,973 | (7,821,651) | 1,191,235,230 | | |
| Services and meters | 235,855,917 | 9,064,223 | (1,209,248) | 243,710,892 | | |
| Electric station equipment | 182,343,725 | 6,005,230 | (378,781) | 187,970,174 | | |
| Poles, towers and fixtures | 219,670,116 | 10,399,090 | (750,586) | 229,318,620 | | |
| Overhead conductors | 180,227,318 | 14,958,175 | (5,294,990) | 189,890,503 | | |
| Line transformers | 106,735,123 | 2,395,194 | (667,606) | 108,462,711 | | |
| Other accounts | 308,765,680 | 7,007,574 | (10,000,392) | 305,772,862 | | |
| Total Distribution & Collection Plant | \$ 2,385,622,787 | \$ 96,861,459 | \$ (26,123,254) | \$ 2,456,360,992 | | |
| | - | - | - | - | | |
| General Plant | 257,906,388 | 25,181,782 | (4,322,872) | 278,765,298 | | |
| Total Plant Assets | \$ 2,999,084,673 | \$ 182,509,388 | \$ (32,623,098) | \$ 3,148,970,963 | | |
| Less Accumulated Depreciation | (999,438,900) | (89,664,008) | 31,298,724 | (1,057,804,184) | | |
| Net Plant Assets | \$ 1,999,645,773 | \$ 92,845,380 | \$ (1,324,374) | \$ 2,091,166,779 | | |
| Work In Progress | 189,507,909 | 156,312,285 | (184,066,875) | 161,753,319 | | |
| Total Net Plant | \$ 2,189,153,682 | \$ 249,157,665 | \$ (185,391,249) | \$ 2,252,920,098 | | |
| Intangible Right of Use Assets | | | | | | |
| Office space | \$ 645,078 | \$ 4,239,246 | \$ (522,827) | \$ 4,361,497 | | |
| Equipment | 92,684 | 27,415 | (37,692) | 82,407 | | |
| Other | 154,143 | 52,204 | (62,564) | 143,783 | | |
| Total Intangible Right of Use Assets | \$ 891,905 | \$ 4,318,865 | \$ (623,083) | \$ 4,587,687 | | |
| Less Accumulated Amortization | (421,047) | (689,074) | 421,047 | (689,074) | | |
| Net Intangible Right of Use Assets | \$ 470,858 | \$ 3,629,791 | \$ (202,036) | \$ 3,898,613 | | |
| Intangible Subscription Assets | | | | | | |
| Intangible Subscription Assets | \$ - | \$ 9,273,959 | \$ - | \$ 9,273,959 | | |
| Less Accumulated Amortization | - | (832,906) | - | (832,906) | | |
| Net Intangible Subscription Assets | \$ - | \$ 8,441,053 | \$ - | \$ 8,441,053 | | |

11. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. On June 30, 2023, and June 30, 2022, the amount of these liabilities was \$2,566,095 and \$2,252,221, respectively, resulting from the following changes:

| | 2023 | 2022 |
|--|---------------------|---------------------|
| Balance, beginning of year | \$ 2,252,221 | \$ 1,936,245 |
| Current year claims and changes in estimates | 21,658,882 | 18,435,605 |
| Claims payments | (21,345,008) | (18,119,629) |
| Balance, end of year | \$ <u>2,566,095</u> | \$ <u>2,252,221</u> |

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12. Pension Plan

Description of Plan

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

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

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

| | <u>2022</u> | <u>2021</u> |
|--------------------------------|--------------|--------------|
| Inactive plan members: | | |
| Terminated vested participants | 14 | 12 |
| Retirees and beneficiaries | 603 | 600 |
| Active plan members | <u>431</u> | <u>478</u> |
| Total | <u>1,048</u> | <u>1,090</u> |

Retirement Benefits

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

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

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

The Plan also provides retirement benefits through “Plan B” for former “City System Plan B” participants. Plan B is a closed plan providing benefits to participants not covered by Social Security.

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Benefits provided to Plan B participants include several different forms of monthly annuity payments available to participants.

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

Contributions

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

Plan Funding

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

Investments

The Plan's investments are held by State Street Bank and Trust Company (the "Trustee"). The Plan's policy in regard to the allocation of invested assets is established by the Retirement System Investment Committee and approved by the KUB Board of Commissioners and may only be amended by the KUB Board of Commissioners. It is the policy of the Retirement System Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Plan's adopted asset allocation policy as of December 31, 2022:

| 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 \$2,624,373 and \$3,665,168 for 2021 and 2020, respectively, were made during the Plan sponsor's fiscal years ended June 30, 2023, and 2022, respectively. The fiscal year 2023 contribution was determined as part of the January 1, 2021, valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability, or death.

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Net Pension Liability (Asset)

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (“GASB 68”), which requires measurement of the net pension liability as total pension liability less the amount of the Plan’s fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB’s measurements as of June 30, 2023, and 2022, will be based on the December 31, 2022, and 2021, measurement date, respectively.

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

| | 2022 | 2021 |
|--------------------------------------|----------------------|------------------------|
| Total pension liability | \$ 254,406,723 | \$ 242,201,780 |
| Plan fiduciary net position | <u>(232,187,691)</u> | <u>(306,339,494)</u> |
| Plan’s net pension liability (asset) | <u>\$ 22,219,032</u> | <u>\$ (64,137,714)</u> |

| | | |
|--|--------|---------|
| Plan fiduciary net position as a percentage of the total pension liability | 91.27% | 126.48% |
|--|--------|---------|

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

| | Total Pension Liability (a) | Increase (Decrease) Plan Fiduciary Net Position (b) | Net Pension Liability (Asset) (a) - (b) |
|--|--------------------------------|--|--|
| Balances at December 31, 2021 | \$ 242,201,780 | \$ 306,339,494 | \$ (64,137,714) |
| Changes for the year: | | | |
| Service cost | 6,349,402 | - | 6,349,402 |
| Interest | 17,430,465 | - | 17,430,465 |
| Changes of Benefits | - | - | - |
| Differences between Expected and Actual Experience | 282,014 | - | 282,014 |
| Changes of Assumptions | 5,268,672 | - | 5,268,672 |
| Contributions - employer | - | 3,144,770 | (3,144,770) |
| Contributions - rollovers | - | 3,080 | (3,080) |
| Contributions - member | - | 3,809,515 | (3,809,515) |
| Net investment income | - | (63,484,570) | 63,484,570 |
| Benefit payments | (17,125,610) | (17,125,610) | - |
| Administrative expense | - | (498,988) | 498,988 |
| Net changes | <u>12,204,943</u> | <u>(74,151,803)</u> | <u>86,356,746</u> |
| Balances at December 31, 2022 | <u>\$ 254,406,723</u> | <u>\$ 232,187,691</u> | <u>\$ 22,219,032</u> |

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Actuarial Assumptions

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

| | |
|------------------|---|
| Valuation dates | January 1, 2022, rolled forward to December 31, 2022; January 1, 2021, rolled forward to December 31, 2021 |
| Discount rate | 7.00% as of December 31, 2022; 7.25% as of December 31, 2021 |
| Salary increases | From 2.50% to 5.65%, based on years of service as of December 31, 2022, and 2021 |
| Mortality | 115% and 110% of the PubG-2010 table for males and females, respectively, using the Public Sector General Employee Table for ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of December 31, 2022, and 2021 |
| Inflation | 2.5% as of December 31, 2022, and 2021 |

The actuarial assumptions used in the January 1, 2022, and 2021, valuations were based on an actuarial experience study covering the period January 1, 2014, through December 31, 2018.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2022, and 2021, 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 | |
|--------------------|---|-------------|
| | 2022 | 2021 |
| Domestic equity | 5.0% | 5.1% |
| Non-U.S. equity | 6.1% | 6.0% |
| Real estate equity | 5.4% | 5.4% |
| Debt securities | 0.5% | 0.2% |
| Cash and deposits | (0.1%) | (0.3%) |

Discount rate

The discount rate used to measure the total pension liability was 7.00 percent as of December 31, 2022, and 7.25 percent as of December 31, 2021. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability of the Plan as of December 31, 2022, calculated using the discount rate of 7.00 percent, as well as what the Plan's net pension liability would be if

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it were calculated using a discount rate that is one percent lower (6.00 percent) or one percent higher (8.00 percent) than the current rate:

| | 1% Decrease (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
|------------------------------|------------------------------------|--|------------------------------------|
| Plan's net pension liability | \$ 45,400,841 | \$ 22,219,032 | \$ 2,259,345 |

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

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

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

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

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

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

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

\$1,312,188 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, 2024. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

| Year ended June 30: | |
|---------------------|--------------|
| 2024 | \$ 4,785,008 |
| 2025 | 10,279,066 |
| 2026 | 14,888,108 |
| 2027 | 17,062,854 |
| Thereafter | - |

For the year ended June 30, 2022, KUB recognized pension expense of (\$11,639,307).

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, 2020, this average was four years. During the measurement year, there was a liability experience loss of \$1,935,276, with approximately \$483,819 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$1,451,457.

Unrecognized liability experience losses from prior periods were \$1,544,136, of which \$386,034 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,158,102. The combination of unrecognized liability experience losses this year, along with unrecognized liability experience losses from prior periods, results in a deferred outflow of \$2,609,559. Unrecognized liability gains from prior periods were \$1,092,163, of which \$549,386 was recognized as a decrease in Pension Expense in the current year and resulted in a deferred inflow of \$542,777.

During the measurement year, there were no benefit changes or assumption changes. Net unrecognized assumption change losses from prior periods were \$5,083,896, of which \$1,694,632 was recognized as an increase in Pension Expense in the current year and resulted in a net deferred outflow of \$3,389,264. Net unrecognized assumption change gains from prior periods were \$71,525, of which the remaining \$71,525 was recognized as a decrease in Pension Expense in the current year.

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$17,812,070, of which \$3,562,414 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment gains from prior periods were \$34,994,864, of which \$10,275,263 was

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recognized as a decrease in Pension Expense in the current year. The combination of unrecognized investment gains this year, along with unrecognized investment gains from prior periods, results in a deferred inflow of \$38,969,257.

In addition, KUB recorded a deferred outflow of resources of \$1,832,582 for employer contributions made between December 31, 2021, and June 30, 2022.

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 2,609,559 | \$ 542,777 |
| Changes in assumptions | 3,389,264 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 38,969,257 |
| Contributions subsequent to measurement date | 1,832,582 | - |
| Total | <u>\$ 7,831,405</u> | <u>\$ 39,512,034</u> |

13. Qualified Excess Benefit Arrangement

Description

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

As of June 30, 2023, there are 404 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the KUB Pension Plan. The KUB Pension Plan was amended to include the provision of QEBA benefits; therefore, amendments to the QEBA require the same authority as amendments to the KUB Pension Plan. As required by federal tax law, the QEBA is unfunded within the meaning of the federal tax laws. KUB may not pre-fund the QEBA to cover future liabilities beyond the current year. KUB has established procedures to pay for these benefits on a pay-as-you-go basis. There are no assets accumulated in a trust that meets the GASB's criteria. Due to the increase in the section 415(d) annual benefit limitation from 2021 to 2022, the pension benefit for the sole participant in the Excess Benefit Arrangement is now fully payable under the KUB Pension Plan and, as such, there is no benefit payable under the Excess Benefit Arrangement as of June 30, 2023, and 2022.

Total Pension Liability of the QEBA

The below summarizes the disclosures of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"). GASB 73 extends a similar approach of financial reporting to plans meeting specific criteria that are not administered through trusts that GASB 68 established for pension plans. GASB 73 requires

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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, 2023, and 2022, are based on a December 31, 2022, and 2021, measurement date, respectively. There is no Total Pension Liability as of June 30, 2023, and 2022.

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

| | 2022 | 2021 |
|---|------------------|----------------|
| Total pension liability | \$0 | \$0 |
| Deferred outflows | (6,779) | (11,505) |
| Deferred inflows | 3,408 | 16,927 |
| Net impact on Statement of Net Position | <u>(\$3,371)</u> | <u>\$5,422</u> |
| | | |
| Covered payroll | \$37,412,132 | \$38,074,863 |
| Total pension liability as a % of covered payroll | 0.00% | 0.00% |

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

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

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

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

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

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

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

| Year ended June 30: | | |
|---------------------|----|-------|
| 2024 | \$ | 3,023 |
| 2025 | | 348 |
| 2026 | | - |
| 2027 | | - |
| 2028 | | - |
| Thereafter | | - |

For the year ended June 30, 2022, KUB recognized pension expense of \$16,613 for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA [\$19,875], but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [\$5,422 - \$8,684 + \$19,875].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2020, this average was four years. During the measurement year, there was an experience gain of \$6,816, with \$1,704 recognized in the current year and each of the next three years, resulting in a deferred inflow of \$5,112. There was a deferred inflow at the end of the measurement year of \$7,225 from experience gains in prior years and a deferred outflow of \$6,112 from experience losses in prior years.

During the measurement year, there were no assumption changes. There was a deferred inflow at the end of the measurement year of \$4,590 and a deferred outflow of \$5,393 from assumption changes in prior years.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 6,112 | \$ 12,337 |
| Changes in assumptions | 5,393 | 4,590 |
| Total | <u>\$ 11,505</u> | <u>\$ 16,927</u> |

14. Defined Contribution Plan

The KUB Asset Accumulation 401(k) Plan (the "401(k) Plan") is a defined contribution 401(k) employee retirement savings plan covering eligible KUB employees established by the KUB Board of Commissioners in accordance with the Charter of the City of Knoxville, Tennessee. The 401(k) Plan's assets are held in trust under an agreement between KUB and Fidelity Management Trust Company. Employees hired prior to January 1, 2011, may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of three percent. Employees hired on or after January 1, 2011, have an enhanced 401(k) due to the closure of the Defined Benefit Pension Plan. They may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of three percent. They also receive a non-

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elective KUB contribution of three percent to six percent, depending on years of service, whether they contribute or not.

KUB funded 401(k) matching contributions and non-elective contributions of \$3,794,561 and \$3,125,903, respectively, for the years ended June 30, 2023, and 2022.

15. Other Post-Employment Benefits (OPEB)

Description of Trust

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

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

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

| | HRA | | Retiree Medical Benefit | |
|---------------------------|-----------|-----------|-------------------------|--------------|
| | 2023 | 2022 | 2023 | 2022 |
| Retirees | 6 | 4 | 542 | 549 |
| Dependents of retirees | 2 | 2 | 596 | 612 |
| Eligible active employees | 25 | 15 | 140 | 145 |
| Total | 33 | 21 | 1,278 | 1,306 |

Benefits

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

Contributions and Funding

The primary goal of the Funding Policy for the Trust is to document the method KUB has adopted

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

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

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

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

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

Investments

The Trust holds investments in a balanced fund, which invests in passively managed common trust index funds, managed and sponsored by State Street Global Advisors (SSgA), with an asset allocation mirroring the asset allocation of the Trust and rebalanced monthly. The Trust's Investment Policy was established and may only be amended by the KUB Board of Commissioners. The Trust's Investment Policy is to invest in a manner that will provide sufficient investment return to meet current and future retiree health benefits, while conforming to all governing State and Federal statutes. It allows investment of Trust assets in any type of security instrument allowed for in T.C.A 8-50-1203. The following was the Trust's adopted investment target allocations as set forth in the Trust's Investment Policy as of June 30, 2023:

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

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Actuarially determined contributions for the fiscal year ended June 30, 2023, were \$1,413,392. For the fiscal year ended June 30, 2022, an actuarially determined contribution of \$489,066 was made to the OPEB Trust, along with an additional \$1,500,000 contribution to help fund the HRA. These were based on the OPEB actuarial valuations as of January 1, 2021, and 2020.

Net OPEB Liability

The below summarizes the disclosures of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"), which requires measurement of the net OPEB liability as total OPEB liability less the amount of the Trust's fiduciary net position. The amounts reported as of June 30 are based on the reporting date for the KUB Other Post-Employment Benefits Plan which is June 30. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2023, and 2022, and the Total OPEB Liability as of the valuation date January 1, 2022, updated to June 30, 2023, and January 1, 2021, updated to June 30, 2022, respectively. KUB's total net OPEB liability was \$12,930,655 as of June 30, 2023, and \$11,202,507 as of June 30, 2022.

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

| | 2023 | 2022 |
|---|----------------------|----------------------|
| Total OPEB liability | \$ 61,637,102 | \$ 58,536,280 |
| Plan fiduciary net position | 48,706,447 | 47,333,773 |
| Net OPEB liability | <u>\$ 12,930,655</u> | <u>\$ 11,202,507</u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 79.02% | 80.86% |

Changes in Net OPEB Liability are as follows:

| | Total OPEB Liability (a) | Increase (Decrease) Plan Fiduciary Net Position (b) | Net OPEB Liability (a) - (b) |
|--|--------------------------------|---|------------------------------------|
| Balances at June 30, 2022 | \$ 58,536,280 | \$ 47,333,773 | \$ 11,202,507 |
| Changes for the year: | | | |
| Service cost | 595,392 | - | 595,392 |
| Interest | 4,133,008 | - | 4,133,008 |
| Changes of Benefits | - | - | - |
| Differences between Expected and Actual Experience | 117,668 | - | 117,668 |
| Changes of Assumptions | 2,527,824 | - | 2,527,824 |
| Contributions - employer | - | 1,413,392 | (1,413,392) |
| Contributions - member | - | - | - |
| Net investment income | - | 4,333,538 | (4,333,538) |
| Benefit payments | (4,273,070) | (4,273,070) | - |
| Administrative expense | - | (101,186) | 101,186 |
| Net changes | <u>3,100,822</u> | <u>1,372,674</u> | <u>1,728,148</u> |
| Balances at June 30, 2023 | <u>\$ 61,637,102</u> | <u>\$ 48,706,447</u> | <u>\$ 12,930,655</u> |

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Actuarial assumptions

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

| | |
|------------------------------|---|
| Valuation dates: | January 1, 2022, rolled forward to June 30, 2023; January 1, 2021, rolled forward to June 30, 2022 |
| Discount rate: | 7.00% as of June 30, 2023, and 7.25% as of June 30, 2022 |
| Healthcare cost trend rates: | Pre-Medicare: 5.75% grading down to 3.935% over 20 years as of June 30, 2023, and 6.75% grading down to 4.04% as of June 30, 2022 Medicare: 11.30% grading down to 3.935% over 20 years as of June 30, 2023, and 6.30% grading down to 4.04% as of June 30, 2022 Administrative expenses: 3.0% per year |
| Salary increases: | From 2.50% to 5.65 |
| Mortality: | 115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010) for males and females, respectively, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Healthy Annuitant Mortality Table, both projected using scale MP2018 fully generational |
| Inflation: | 2.50% |

The actuarial assumptions used in the January 1, 2022, and January 1, 2021, valuations were based on the results of actuarial experience studies for the periods January 1, 2014, through December 31, 2018.

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

| Asset Class | Long Term Expected Real Rate of Return | |
|------------------------|---|-------------|
| | 2023 | 2022 |
| Domestic equity | 5.1% | 5.5% |
| International equity | 6.1% | 6.5% |
| Emerging Market equity | 8.4% | 8.6% |
| Real estate equity | 5.3% | 5.7% |
| Debt securities | 1.8% | 1.2% |
| Cash and deposits | 0.7% | 0.2% |

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Discount rate

The discount rate used to measure the total OPEB liability was 7.00 percent as of June 30, 2023, and 7.25 percent as of June 30, 2022. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the 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, 2023, calculated using the discount rate of 7.00 percent, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is one percent lower (6.00 percent) or one percent higher (8.00 percent) than the current rate:

| | 1% Decrease (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
|--------------------|------------------------------------|--|------------------------------------|
| Net OPEB liability | \$19,738,026 | \$12,930,655 | \$7,246,454 |

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, 2023, as well as what the Trust's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percent lower or one percent higher than the current rate:

| | 1% Decrease | Baseline Trends | 1% Increase |
|--------------------|------------------------|----------------------------|------------------------|
| Net OPEB liability | \$7,364,325 | \$12,930,655 | \$19,461,880 |

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

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

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

During the measurement year, there were no benefit changes.

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

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$1,007,293, of which \$201,459 was

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recognized in the current year and will be recognized in each of the next four years, resulting in a deferred inflow of resources of \$805,834. Net unrecognized investment losses from prior periods were \$5,179,219, of which \$1,162,271 was recognized as an increase in OPEB expense in the current year, resulting in a net deferred outflow of \$4,016,948. The combination of unrecognized gains this year, along with the net unrecognized investment losses from prior periods, results in a deferred outflow of resources of \$3,211,114. The following table summarizes the current balances of deferred outflows and deferred inflows of resources.

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

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

| Year ended June 30: | |
|---------------------|--------------|
| 2024 | \$ 1,221,213 |
| 2025 | 705,391 |
| 2026 | 2,619,751 |
| 2027 | 176,471 |
| 2028 | 377,928 |
| Thereafter | 377,924 |

For the year ended June 30, 2022, KUB recognized OPEB expense of \$5,976,502.

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 two years. During the measurement year, there was an experience loss of \$60,951, with \$30,476 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 \$30,475. Unrecognized experience losses from prior periods were \$21,401, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there were benefit changes that increased the Total OPEB Liability by \$6,594,293. Unrecognized assumption changes from prior periods were \$2,052,917, of which the entire amount is recognized as a decrease in OPEB expense in the current year.

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment loss of \$12,216,418, of which \$2,443,284 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred outflow of resources of \$9,773,134. Net unrecognized investment gains from prior periods were \$5,905,689, of which \$1,311,774 was recognized as a decrease in OPEB expense in the current year, resulting in a net deferred inflow of \$4,593,915. The combination of unrecognized losses this year, along with the net unrecognized investment gains from prior periods, results in a

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deferred outflow of resources of \$5,179,219. The following table summarizes the current balances of deferred outflows and deferred inflows of resources.

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 30,475 | \$ - |
| Changes in assumptions | - | - |
| Net difference between projected and actual earnings on OPEB plan investments | 5,179,219 | - |
| Total | <u>\$ 5,209,694</u> | <u>\$ -</u> |

16. Related Party Transactions

KUB, in the normal course of operations, is involved in transactions with the City of Knoxville. Such transactions for the years ended June 30, 2023, and 2022, are summarized as follows:

| | 2023 | 2022 |
|--|---------------|---------------|
| City of Knoxville | | |
| Amounts billed by KUB for utilities and related services | \$ 14,835,602 | \$ 13,087,853 |
| Payments by KUB in lieu of property tax | 22,798,626 | 21,305,955 |
| Payments by KUB for services provided | 1,684,395 | 2,209,682 |
| Grant expenditures incurred | 2,937,000 | - |

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

| | 2023 | 2022 |
|--|-------------|-------------|
| Accounts receivable | \$ 686,079 | \$ 838,238 |
| Amounts eligible for reimbursement from grants | 2,937,000 | - |

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17. Natural Gas Supply Contract Commitments

For fiscal year 2023, the Gas Division hedged 25 percent of its total gas purchases via gas supply contracts. As of June 30, 2023, the Gas Division had hedged the price on approximately six percent of its anticipated gas purchases for fiscal year 2024.

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

Firm obligations related to purchased gas – demand

| | 2024 | 2025 | 2026 | 2027 | 2028 |
|----------------------------|----------------------|----------------------|---------------------|---------------------|---------------------|
| Transportation | | | | | |
| Tennessee Gas Pipeline | \$ 3,404,232 | \$ 3,404,232 | \$ 1,134,744 | \$ - | \$ - |
| East Tennessee Natural Gas | 12,582,997 | 12,582,997 | 3,435,624 | - | - |
| Texas Eastern | 328,500 | 328,500 | 109,500 | - | - |
| Storage | | | | | |
| Tennessee Gas Pipeline | 1,513,248 | 1,513,248 | 504,416 | - | - |
| East Tennessee Natural Gas | 1,081,500 | 1,081,500 | - | - | - |
| Saltville Natural Gas | 2,000,160 | 1,845,150 | 1,380,120 | 1,380,120 | 1,035,090 |
| Bobcat | 198,000 | 198,000 | 66,000 | - | - |
| Demand Total | <u>\$ 21,108,637</u> | <u>\$ 20,953,627</u> | <u>\$ 6,630,404</u> | <u>\$ 1,380,120</u> | <u>\$ 1,035,090</u> |

Firm obligations related to purchased gas – commodity

| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029-2054 |
|----------------------------|----------------------|---------------------|---------------------|---------------------|---------------------|-----------------------|
| Baseload | | | | | | |
| BP Energy Company | \$ 1,198,770 | \$ - | \$ - | \$ - | \$ - | \$ - |
| NextEra Energy | 1,898,880 | - | - | - | - | - |
| CNX | 3,249,912 | - | - | - | - | - |
| Enervest Operating LLC | 2,839,998 | 2,496,676 | - | - | - | - |
| Tennergy Corporation 2021A | 2,581,424 | 3,192,756 | 3,442,778 | 3,457,684 | 3,391,300 | 81,345,066 |
| Tennergy Corporation 2022 | 2,715,493 | 3,325,946 | 3,576,325 | 3,586,436 | 3,583,028 | 92,553,420 |
| Commodity Total | <u>\$ 14,484,477</u> | <u>\$ 9,015,378</u> | <u>\$ 7,019,103</u> | <u>\$ 7,044,120</u> | <u>\$ 6,974,328</u> | <u>\$ 173,898,486</u> |

The total commodity values presented here are based upon firm supply obligations with each individual natural gas supplier. The firm obligations value for BP Energy Company and NextEra Energy are based upon firm supply obligations and locked prices with those suppliers. The firm obligations value for CNX and Enervest Operating LLC are based upon firm supply obligations and the applicable NYMEX strip prices on June 30, 2023. The firm obligations value for Tennergy Corporation are based upon 30-year prepay gas contracts valued at the applicable Tennessee Zone 0 and Tennessee 800L strip prices on June 30, 2023.

18. Other Commitments and Contingencies

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

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

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 provided for a biologically enhanced high-rate clarification (the BEHRC) secondary treatment system to be installed at the Fourth Creek treatment plant and at the Kuwahee treatment plant. KUB successfully completed the installation of the BEHRC system at the Fourth Creek treatment plant in the 2018 fiscal year. The project at the Kuwahee treatment plant was completed this fiscal year. The total cost of the CCP improvements at the Fourth Creek treatment plant and Kuwahee treatment plant is approximately \$120 million.

KUB's funding plan for the Consent Decree included 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, 2022, the Wastewater Division had issued \$594.8 million in bonds to fund wastewater system capital improvements since the inception of the Consent Decree. The Board approved two 50 percent rate increases, which went into effect in April 2005 and January 2007. The Board also approved an 8 percent rate increase, which was effective in September 2008, two 12 percent rate increases, which were effective in April 2011 and October 2012, three 6 percent rate increases, which were effective October 2014, October 2015, and October 2016, three 5 percent rate increases, which were effective July 2017, July 2018, and July 2019, and three 4 percent rate increases, which are effective July 2022, July 2023, and July 2024. 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 432 miles of collection system pipe. KUB also continues to maintain a proactive operations and maintenance plan for the wastewater collection system including inspection, grease control, and private lateral enforcement. The result of the PACE10/Century II initiative has been an 80 percent reduction in SSOs.

As of June 30, 2022, the Wastewater Division had completed its 18th full year under the Consent Decree, spending \$579.8 million on capital investments to meet Consent Decree requirements.

KUB's request for termination of the Consent Decree was submitted in January 2022 and was granted on June 16, 2022, by the applicable regulatory authorities.

Knoxville Utilities Board
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

19. Segment Information

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

Condensed Statement of Net Position

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

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Knoxville Utilities Board
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

Condensed Statement of Net Position

| | 2022 as restated | | | | |
|--|-----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Electric | Fiber | Gas | Water | Wastewater |
| Assets and Deferred Outflows of Resources | | | | | |
| Current assets | \$ 158,820,919 | \$ 3,508,355 | \$ 48,281,211 | \$ 40,660,318 | \$ 37,333,853 |
| Restricted assets | 20,266,914 | - | 3,354,168 | 4,534,404 | 8,217,706 |
| Net capital assets | 712,994,298 | 4,037,681 | 329,129,124 | 375,152,303 | 831,606,692 |
| Net intangible assets | 4,231,336 | 5,785,290 | 1,171,270 | 1,017,435 | 134,337 |
| Other assets | 84,355,546 | 2,761 | 30,073,394 | 24,586,111 | 44,406,984 |
| Total assets | <u>\$ 980,669,013</u> | <u>\$ 13,334,087</u> | <u>\$ 412,009,167</u> | <u>\$ 445,950,571</u> | <u>\$ 921,699,572</u> |
| Deferred outflows of resources | 6,233,902 | - | 2,518,890 | 4,558,876 | 15,166,134 |
| Total assets and deferred outflows of resources | <u>\$ 986,902,915</u> | <u>\$ 13,334,087</u> | <u>\$ 414,528,057</u> | <u>\$ 450,509,447</u> | <u>\$ 936,865,706</u> |
| Liabilities and Deferred Inflows of Resources | | | | | |
| Current liabilities | \$ 149,737,880 | \$ 785,921 | \$ 23,024,524 | \$ 13,406,742 | \$ 22,632,827 |
| Other liabilities | 22,601,060 | 5,488,555 | 11,355,510 | 4,476,311 | 4,548,185 |
| Long-term debt | 319,887,437 | 9,625,000 | 87,006,291 | 199,505,672 | 518,518,494 |
| Total liabilities | <u>\$ 492,226,377</u> | <u>\$ 15,899,476</u> | <u>\$ 121,386,325</u> | <u>\$ 217,388,725</u> | <u>\$ 545,699,506</u> |
| Deferred inflows of resources | 22,151,109 | - | 8,674,041 | 7,536,771 | 7,850,319 |
| Total liabilities and deferred inflows of resources | <u>\$ 514,377,486</u> | <u>\$ 15,899,476</u> | <u>\$ 130,060,366</u> | <u>\$ 224,925,496</u> | <u>\$ 553,549,825</u> |
| Net position | | | | | |
| Net investment in capital assets | \$ 373,317,161 | \$ 97,314 | \$ 234,171,043 | \$ 172,829,853 | \$ 314,336,681 |
| Restricted | 14,040,851 | - | 2,230,358 | 2,411,963 | 3,660,092 |
| Unrestricted | 85,167,417 | (2,662,703) | 48,066,290 | 50,342,135 | 65,319,108 |
| Total net position | <u>\$ 472,525,429</u> | <u>\$ (2,565,389)</u> | <u>\$ 284,467,691</u> | <u>\$ 225,583,951</u> | <u>\$ 383,315,881</u> |

Restated per GASB 96, see Footnote 2 for further disclosure.

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Knoxville Utilities Board
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

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

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

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

| | 2022 as restated | | | | |
|---|-----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Electric | Fiber | Gas | Water | Wastewater |
| Operating revenues | \$ 606,335,419 | \$ - | \$ 141,949,970 | \$ 64,558,346 | \$ 102,936,574 |
| Operating expenses | 524,061,008 | 1,950,847 | 106,300,769 | 32,394,619 | 43,597,681 |
| Depreciation and amortization | 38,871,150 | 269,399 | 15,310,127 | 11,840,748 | 21,829,529 |
| Total operating expenses | <u>562,932,158</u> | <u>2,220,246</u> | <u>121,610,896</u> | <u>44,235,367</u> | <u>65,427,210</u> |
| Operating income (loss) | 43,403,261 | (2,220,246) | 20,339,074 | 20,322,979 | 37,509,364 |
| Non-operating expense | (14,212,120) | (345,143) | (3,329,912) | (7,007,352) | (18,415,133) |
| Change in net position before capital contributions | 29,191,141 | (2,565,389) | 17,009,162 | 13,315,627 | 19,094,231 |
| Capital contributions | - | - | 86,435 | 1,043,657 | 507,609 |
| Change in net position | <u>29,191,141</u> | <u>(2,565,389)</u> | <u>17,095,597</u> | <u>14,359,284</u> | <u>19,601,840</u> |
| Net position | | | | | |
| Beginning of year | 443,334,288 | - | 267,372,094 | 211,224,667 | 363,714,041 |
| End of year | <u>\$ 472,525,429</u> | <u>\$ (2,565,389)</u> | <u>\$ 284,467,691</u> | <u>\$ 225,583,951</u> | <u>\$ 383,315,881</u> |

Restated per GASB 96, see Footnote 2 for further disclosure.

Knoxville Utilities Board
Notes to Consolidated Financial Statements
June 30, 2023 and 2022

Condensed Statement of Cash Flows

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

Condensed Statement of Cash Flows

| | 2022 as restated | | | | |
|--|-----------------------------|---------------------|----------------------|----------------------|----------------------|
| | Electric | Fiber | Gas | Water | Wastewater |
| Net cash provided by operating activities | \$ 90,283,073 | \$ (1,985,556) | \$ 37,547,001 | \$ 30,459,088 | \$ 55,745,328 |
| Net cash used in capital and related financing activities | (42,034,612) | (4,491,697) | (39,041,544) | (29,791,226) | (64,857,303) |
| Net cash provided by noncapital and related financing activities | - | 9,740,667 | - | - | - |
| Net cash provided by (used in) investing activities | (14,884,130) | 10,729 | 220,510 | 175,533 | 302,808 |
| Net increase (decrease) in cash and cash equivalents | 33,364,331 | 3,274,143 | (1,274,033) | 843,395 | (8,809,167) |
| Cash and cash equivalents, beginning of year | 39,974,435 | - | 23,998,681 | 25,024,961 | 30,379,799 |
| Cash and cash equivalents, end of year | <u>\$ 73,338,766</u> | <u>\$ 3,274,143</u> | <u>\$ 22,724,648</u> | <u>\$ 25,868,356</u> | <u>\$ 21,570,632</u> |

Restated per GASB 96, see Footnote 2 for further disclosure.

Knoxville Utilities Board

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

June 30, 2023

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

Notes to Schedule:

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

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board

Required Supplementary Information - Schedule of Employer Pension Contributions

June 30, 2023

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

Notes to Schedule:

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

Valuation Dates: January 1, 2021 and January 1, 2020

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Individual entry age

Asset valuation method: 5-year smoothed market

Amortization method: As of January 1, 2021: Level dollar, 30-year closed period with 20 years remaining, or a level dollar, 30-year open period for a negative unfunded liability
As of January 1, 2020: Level dollar, 30-year closed period with 21 years remaining, or a level dollar, 30-year open period for a negative unfunded liability
As of January 1, 2021 and 2020, the unfunded liability was negative.

Discount rate: 7.25% as of January 1, 2021 and January 1, 2020

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

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

Inflation: 2.5%

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board

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

June 30, 2023

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

Notes to Schedule:

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

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board

Required Supplementary Information – Schedule of Employer OPEB Contributions

June 30, 2023

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

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

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

Notes to Schedule:

Valuation Date: January 1, 2021 and January 1, 2020
Timing: Actuarially determined contribution rates are calculated based on the actuarial valuation completed 18 months before the beginning of the fiscal year.

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age normal
Asset valuation method: 5-year smoothed market
Amortization method: Level dollar, 30-year closed period with 15 years remaining as of January 1, 2021 (16 years as of January 1, 2020), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2020 and 2021, the unfunded liability was positive
Discount rate: 7.25%
Healthcare cost trend rate: Pre-Medicare: 6.50% grading down to 4.04% over 19 years as of January 1, 2021; 6.75% grading down to 4.04% over 20 years as of January 1, 2020
Medicare: 6.20% grading down to 4.04% over 19 years as of January 1, 2021; 6.30% grading down to 4.04% over 20 years as of January 1, 2020
Administrative expenses: 3.0% per year
Salary increases: From 2.50% to 5.65%, based on years of service
Mortality: 115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational
Inflation: 2.5%
Investment rate of return: 7.25%
Retirement age: 2% at ages 50-57, grading up to 100% at age 70

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board
Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement
Schedule of Changes in Total Pension Liability and Related Ratios
June 30, 2023

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

Notes to Schedule:

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

See accompanying Independent Auditor's Report

**Knoxville Utilities Board
Supplemental Information
Schedule of Expenditures of Federal Awards
June 30, 2023**

| <u>Federal Grantor/ Pass-Through Grantor</u> | <u>Program Name</u> | <u>Assistance Listing Number</u> | <u>Pass-Through Entity Identifying Number</u> | <u>Expenditures</u> |
|--|--|--------------------------------------|---|----------------------------|
| U.S. Department of Treasury through City of Knoxville | COVID-19: Coronavirus State and Local Fiscal Recovery Fund | 21.027 | DW20191385 | \$2,937,000 |
| U.S. Department of Treasury through Knox County | COVID-19: Coronavirus State and Local Fiscal Recovery Fund | 21.027 | DW-COSTR-1 | \$2,576,160 |
| U.S. Department of Treasury through Tennessee Department of Economic and Community Development | COVID-19: Tennessee Emergency Broadband Fund - American Rescue Plan - Union County | 21.027 | 33007-44923 | \$ 1,512,383 |
| U.S. Department of Treasury through Tennessee Department of Economic and Community Development | COVID-19: Tennessee Emergency Broadband Fund - American Rescue Plan - Grainger County | 21.027 | 33007-46723 | <u>\$ 2,200,106</u> |
| Total Program 21.027 | | | | \$ 9,225,649 |
| U.S. Department of Homeland Security through Tennessee Department of Military | Disaster Grants - Public Assistance | 97.036 | 714348 | <u>\$ 84,970</u> |
| Total Federal Awards | | | | <u>\$ 9,310,619</u> |

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards and State Financial Assistance includes the award activity of Knoxville Utilities Board (KUB) under programs of the federal government for the year ended June 30, 2023, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State of Tennessee Audit Manual. KUB did not elect to use 10% de minimis indirect cost rate.

See accompanying Independent Auditor's Report

Knoxville Utilities Board
Statistical Information - Schedule of Insurance in Force
June 30, 2023
(Unaudited)

Crime

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

Directors' and Officers' Liability Insurance

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

Employment Practices Liability

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

Fiduciary

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

Environmental and Pollution Legal Liability

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

Property Insurance

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

Travel Accident

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

Excess Insurance for General Liability

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

Excess Insurance for Workers' Compensation

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

Employee Health Plan Stop Loss Coverage

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

Cyber Security Liability

Covers losses resulting from employee dishonesty, robbery, burglary, and computer fraud. Limits of coverage - \$3,000,000; \$500,000 retention.

See accompanying Independent Auditor's Report



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

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the Knoxville Utilities Board (KUB), a component unit of the City of Knoxville, Tennessee, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements, and have issued our report thereon dated October 31, 2023.

Report on Internal Control over Financial Reporting

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

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

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

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Report on Compliance and Other Matters

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

Purpose of this Report

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

Coulter & Justus, P. C.

Knoxville, Tennessee
October 31, 2023



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

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited compliance of the Knoxville Utilities Board (KUB), a component unit of the City of Knoxville, Tennessee, with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on KUB's major federal program for the year ended June 30, 2023. KUB's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, KUB complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

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

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

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Report on Internal Control Over Compliance

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

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

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

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

Coulter & Justus, P. C.

Knoxville, Tennessee
October 31, 2023

Knoxville Utilities Board
Schedule of Findings and Questioned Costs
June 30, 2023

Section I -- Summary of Auditor's Results

Financial Statements

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

Federal Awards

| Internal control over major programs: Material weakness(es) identified? | No | | | | |
|---|--|-------------|------------------------|--------|---|
| Significant deficiency(s) identified not considered to be material weaknesses? | None reported | | | | |
| Type of auditors' report issued on compliance for major programs: | Unmodified | | | | |
| Any audit findings disclosed that are required to be reported in accordance with Section 200.516 of the Uniform Guidance? | No | | | | |
| Identification of major programs: | <table> <thead> <tr> <th><u>CFDA</u></th> <th><u>Name of Program</u></th> </tr> </thead> <tbody> <tr> <td>21.027</td> <td>Coronavirus State and Local Fiscal Recovery Funds</td> </tr> </tbody> </table> | <u>CFDA</u> | <u>Name of Program</u> | 21.027 | Coronavirus State and Local Fiscal Recovery Funds |
| <u>CFDA</u> | <u>Name of Program</u> | | | | |
| 21.027 | Coronavirus State and Local Fiscal Recovery Funds | | | | |
| 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.