Knoxville Utilities Board

Consolidated Financial Statements and Supplemental Information

June 30, 2014 and 2013

Knoxville Utilities Board
Index
June 30, 2014 and 2013

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Independent Auditors' Report

To the Board of Commissioners
Knoxville Utilities Board - Consolidated
Knoxville, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Knoxville Utilities Board ("KUB"), an independent agency reported as a component unit for financial reporting purposes only, of Knoxville, Tennessee, as of and for the years ended June 30, 2014 and 2013, and the related notes to the consolidated financial statements, which collectively comprise the KUB's basic consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of KUB of Knoxville, Tennessee, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Schedule of Funding Progress on pages 3-26 and 51 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise KUB's basic consolidated financial statements. The supplemental schedules on pages 52-53 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic consolidated 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 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated 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 consolidated financial statements or to the basic consolidated 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 consolidated financial statements as a whole.

The supplemental schedules have not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014, 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 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 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.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
October 24, 2014

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

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

The Management Discussion and Analysis ("MD&A") focuses on the fiscal year ending June 30, 2014 activities, resulting changes and current known facts, and should be read in conjunction with KUB's consolidated financial statements.

Consolidated Highlights

System Highlights

As of June 30, 2014, KUB served 445,261 customers. 887 new customers were added in fiscal year 2014, representing growth of less than 1 percent.

Cold weather events resulted in new system peaks for the electric and natural gas systems. The natural gas system set a new daily peak in January 2014 at 133,366 dekatherms. The previous gas system peak was 119,282 dekatherms in January 2010. In January 2014, KUB's electric system also set a new hourly peak at 1,313 megawatt hours. The previous hourly peak was 1,246 megawatt hours, which occurred in January 2009.

The final in a series of three annual electric and water rate increases previously adopted by the KUB Board of Commissioners went into effect in fiscal year 2014. The one percent electric rate increase, effective October 2013, and a five percent water rate increase, effective January 2014, will provide additional revenue to help fund each system's respective Century II infrastructure program. In June 2013, the Board of Commissioners approved a five percent gas rate increase, effective on October 2013 bills, to fund capital system improvements.

In spite of several cold weather events and a heavy wet snow in February, electric system outages were minimal.

In October 2013, KUB sold $50 million of new revenue bonds to fund capital system improvements, including $25 million for the gas system and $25 million for the water system.

Two historic storm events, with a combined cost of $8.4 million, impacted the electric, water and wastewater system during fiscal year 2011. To date, KUB has received $4.4 million in reimbursements from the Federal Emergency Management Agency (FEMA), including $0.1 million during fiscal year 2014. KUB anticipates an additional $1.5 million in reimbursements from FEMA in fiscal year 2015.

KUB was awarded a grant from the Department of Energy in October 2009 under DOE's Smart Grid Investment Grant Program. The grant, which totals $3.58 million, was used to help fund a smart grid pilot project in the University of Tennessee and surrounding areas. The pilot project includes the installation of over 6,000 digital electronic smart meters and an advanced metering infrastructure (AMI) communications backbone, which will provide coverage for KUB's entire service territory. The communications infrastructure will enable KUB to remotely read the meters, and also provide remote service connection/disconnection capabilities. The term of the pilot is approximately four years. During fiscal year 2014, KUB developed a customer e-portal to provide detailed utility consumption information. The deployment strategy of the customer e-portal to customers is underway. Successful completion of the integration of polyphase meter data into KUB's customer billing system for commercial and industrial customers was also achieved during fiscal year 2014. The grant funded $0.3 million of the communications infrastructure installed this fiscal year. KUB is in the process with DOE to close out this phase of the project, as all requirements of this grant have been completed during fiscal year 2014.

KUB completed its tenth full year of wastewater operations under the requirements of the federal Consent Decree. All collection system projects required under the federal Consent Decree were completed as of June 30, 2014.

During fiscal year 2014, KUB continued to construct upgrades to its Kuwahee and Fourth Creek wastewater treatment facilities in order to comply with the requirements of the Federal Consent Decree in the wastewater system. KUB's treatment plants continue to meet high standards of operation. KUB's Eastbridge wastewater treatment plant won an Operational Excellence award from the Tennessee Kentucky Water Environment Association. The Kuwahee and Eastbridge wastewater plants were awarded the National Association of Clean Water Agencies Peak Performance award for outstanding compliance within the permitted limits. KUB's Biosolids Program won Tennessee's award from the Tennessee Kentucky Water Environment Association for Beneficial Use of Biosolids Award.

KUB continued to maintain certification with the National Biosolids Partnership following a rigorous review process and independent audit that was conducted in December 2013. (Biosolids are nutrient-rich organic matter produced by wastewater treatment that can be recycled as fertilizer).

Century II Infrastructure Program

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

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

In 2013, the Board extended the funding approach for Century II to include the natural gas and wastewater systems. The Board formally endorsed and adopted by resolution, ten year funding plans for the natural gas and wastewater systems.

In May 2014, KUB management provided an updated assessment of the overall condition of each utility and the progress made during the resumption of the Century II program. At that time the Board endorsed long range ten year funding plans for the continuation of Century II programs for each of the division, including a combination of rate increases and debt issues to fully fund the programs for the next ten years.

In June 2014, the Board approved a series of three annual rate increases for all KUB systems. The electric rate increase will generate an additional $5 million, while the gas rate increase will generate an additional $1.8 million, water will produce an additional $2 million and wastewater will produce $4.7 million of annual sales revenues.

For the fiscal year, KUB maintained its overall Century II capital budget. The electric system replaced 2,674 poles, exceeding the target level of 2,600 and 14.7 miles of underground electric cable, exceeding the target level of 14 miles. The natural gas system had 6.6 miles of cast iron/ductile iron gas main replaced. 10.2 miles of galvanized water main and 7.1 miles of cast iron water main were replaced in the water system. The wastewater system rehabilitated or replaced 46.2 miles of wastewater system main, exceeding the target level of 25 miles. All systems remain on track to achieve long term infrastructure goals.

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 must be completed by June 30, 2016. Through its PACE 10 program, KUB is addressing the terms of the Consent Decree. PACE 10 is an accelerated ten-year program to help improve Knoxville's waterways, the quality of life, and the economic well being of the community. The Consent Decree also required KUB to perform an evaluation of the wet-weather performance and capacity of its wastewater treatment plants.

In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB's Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provides for a biologically enhanced high-rate clarification (the "BEHRC") secondary treatment system to be installed at the Fourth Creek treatment plant by June 30, 2018 and at the Kuwahee treatment plant by June 30, 2021. The total cost of such improvements is estimated to be approximately $120 million.

KUB's funding plan for the Consent Decree includes long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2014, the Wastewater Division had issued $425 million in bonds to fund system capital improvements since the inception of the Consent Decree. The KUB Board of Commissioners approved two 50 percent rate increases, which went into effect in April 2005 and January 2007, respectively. The Board also approved an 8 percent rate increase, which was effective in September 2008, and two 12 percent rate increases, which were effective in April 2011 and October 2012, respectively. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

KUB continues to be in compliance with Consent Decree requirements. As part of the PACE 10 program, KUB has installed storage tanks providing 34 million gallons of wastewater storage to control wet-weather overflows and rehabilitated or replaced approximately 276.5 miles of collection system pipe. KUB also continues to maintain a proactive operations and maintenance plan for the wastewater collection system including inspection, cleaning, grease control, and private lateral enforcement. The result of the PACE 10 program is a substantial reduction in sanitary sewer overflows.

During fiscal year 2014, the Wastewater Division incurred $42.3 million in total expenditures related to Consent Decree requirements, including $4.3 million for operating costs and $38 million in capital improvements which included the rehabilitation or replacement of 46.2 miles of wastewater main. During the fiscal year, $26 million was spent on sewer mini-basin rehab and replacement. Upgrades completed at the Fourth Creek treatment facility accounted for $3.7 million of fiscal year 2014 capital expenditures. Trunk line replacement and rehabilitation accounted for $2.2 million of capital expenditures during the fiscal year, while pump station improvements accounted for $3.7 million.

As of June 30, 2014, the Wastewater Division had completed its tenth full year under the Consent Decree, spending $467.5 million on capital investments to meet Consent Decree requirements. All collection system projects required under the federal Consent Decree were completed as of June 30, 2014.

Financial Highlights

Fiscal Year 2014 Compared to Fiscal Year 2013

KUB's consolidated net position increased $29.8 million in fiscal year 2014, compared to a $28.3 million increase last fiscal year.

Operating revenue increased $8.5 million or 1.1 percent, the result of higher electric and natural gas sales volumes and additional revenue from electric, gas, and water rate increases. Purchased energy expense (power and natural gas) decreased $5.2 million or 1.1 percent, the net effect of $12.1 million decline in purchased power and an increase of $6.9 million in purchased gas. Margin from sales (operating revenue less purchased energy expense) was up $13.7 million or 5.4 percent compared with the prior fiscal year.

Operating expenses (excluding purchased power and purchased gas expense) increased $10.4 million, or 5.4 percent. Operating and maintenance (O&M) expenses were $5.8 million or 5.1 percent higher than the previous year. Depreciation and amortization expense increased $3.5 million or 6.7 percent. Taxes and tax equivalents increased $1.1 million or 4.1 percent.

Lower interest rates on investments resulted in a $0.2 million decrease in interest income. Interest expense increased $1.8 million or 5 percent, reflecting interest costs on $50 million in gas and water revenue bonds sold during the fiscal year and a full year of interest on $110 million of electric, gas and wastewater system bonds sold the previous fiscal year. Interest expense was reduced by lower interest rates from debt refunding in the previous fiscal years. These items contributed to a net decrease in non-operating revenues (expenses) of $2.3 million compared to the prior year.

Capital contributions increased $0.4 million, the result of an increase in contributed assets from developers.

Total plant assets (net) increased $83.2 million or 6 percent over the last fiscal year.

Long-term debt represented 49.2 percent of KUB's capital structure, compared to 49.3 percent last year. Capital structure equals long-term debt (including the current portion of revenue bonds and notes, as applicable, due to be retired next fiscal year), plus net position.

Fiscal Year 2013 Compared to Fiscal Year 2012

KUB's consolidated net position increased $28.3 million in fiscal year 2013, compared to a $26.3 million increase in fiscal year 2012.

Operating revenue increased $49.7 million or 7.2 percent, the result of higher electric and natural gas sales volumes and additional revenue from electric, water, and wastewater rate increases. Purchased energy expense (power and natural gas) increased $33.3 million or 7.3 percent, reflecting increased customer demand in fiscal year 2013. Margin from sales (operating revenue less purchased energy expense) was up $16.4 million or 6.9 percent compared with the prior fiscal year.

Operating expenses (excluding purchased power and purchased gas expense) increased $10.2 million, or 5.7 percent. Operating and maintenance (O&M) expenses was $4 million or 3.7 percent higher than the previous year. Depreciation and amortization expense increased $4.8 million or 10 percent. Taxes and tax equivalents increased $1.5 million or 6 percent.

Lower interest rates on investments resulted in a $0.5 million decrease in interest income. Interest expense increased $1.2 million or 3.5 percent, reflecting interest cost on $110 million in electric, gas, and wastewater revenue bonds sold during the fiscal year and a full year of interest on $25 million of water system bonds issued the previous year. Interest expense was reduced by lower interest rates from debt refunding in the current and previous fiscal years. These items contributed to a net decrease in non-operating revenues (expenses) of $1.5 million compared to the prior year.

Capital contributions decreased $2.7 million, the result of a decline in contributed assets from developers.

Total plant assets (net) increased $98.2 million or 7.2 percent over the last fiscal year.

Long-term debt represented 49.3 percent of KUB's capital structure, compared to 47 percent last year. Capital structure equals long-term debt (including the current portion of revenue bonds and notes, as applicable, due to be retired next fiscal year), plus net position.

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Cash Budget Appropriations

KUB's Board of Commissioners adopted a total cash budget of $851.8 million for fiscal year 2014. In April 2014, additional appropriations were approved by the Board in the amount of $21 million to cover higher than anticipated wholesale energy costs and debt service expenses. Actual disbursements exceeded the original budget by $0.4 million, with Purchased Energy exceeding the original budget by $15.2 million and O&M and Capital expenses lagging the budget by a total of $15.1 million. KUB's general fund balance was $17.2 million higher than originally budgeted as a result of higher than anticipated revenues from operations, driven primarily by the colder than normal winter. The chart below depicts KUB's original budget compared to actual results.

KUB Consolidated Cash Report
As of June 30, 2014

(in thousands of dollars)	**FY 2014 Budget****	**FY 2014 Actual FYTD**	**Dollar Variance***	**Percent Variance**
Beginning Balance General Fund	$153,223	$153,223		
Operating Receipts	749,622	766,486	16,864	2.2%
Disbursements				
Purchased Energy Expense	470,316	485,597	(15,281)	-3.2%
Operation & Maintenance Expense	127,109	121,762	5,347	4.2%
Capital Expenditures	166,173	156,440	9,733	5.9%
Debt Service & Taxes	88,250	88,496	(246)	0.3%
Total Disbursements	851,848	852,295	(447)	0.5%
Bond Proceeds	49,500	48,536	(964)	-1.9%
Net Flow throughs and Transfers	(4,617)	(2,871)	1,746	37.8%
Ending General Fund Balance	$ 95,880	113,079	$ 17,199	17.9%

* *Impact to Cash; (-) indicates a decrease or negative impact to cash*
** *Excludes additional appropriations of $21 million*

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Knoxville Utilities Board Consolidated Financial Statements

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

Statement of Net Position

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

Liabilities are classified as current, other, or long-term debt. Net position is classified as net investment in capital assets; restricted; or unrestricted. Net position tells the user what KUB has done with its accumulated earnings, not just the balance.
Net investment in capital assets, reflects the book value of all capital assets less the outstanding balances of debt used to acquire, construct, or improve those assets.

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

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

Statement of Revenues, Expenses and Changes in Net Position

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

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

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

Statement of Cash Flows

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

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

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

Condensed Financial Statements

Statement of Net Position

The following table reflects the condensed consolidated Statement of Net Position for KUB compared to the prior year and the year preceding the prior year.

Statements of Net Position
As of June 30

(in thousands of dollars)	2014	2013	2012
Current and other assets	$ 339,215	$ 370,932	$ 334,984
Capital assets, net	1,548,874	1,465,671	1,367,479
Deferred outflows of resources	12,252	13,002	3,647
Total assets and deferred outflows of resources	1,900,341	1,849,605	1,706,110
Current and other liabilities	161,522	163,262	144,589
Long-term debt outstanding	839,000	815,340	720,575
Deferred inflows of resources	6,405	7,358	5,639
Total liabilities and deferred inflows of resources	1,006,927	985,960	870,803
Net position			
Net investment in capital assets	688,374	630,793	621,993
Restricted	13,163	12,372	11,228
Unrestricted	191,877	220,480	202,086
Total net position	$ 893,414	$ 863,645	$ 835,307

Normal Impacts on Statement of Net Position

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

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

Impacts and Analysis

Current and Other Assets

Fiscal Year 2014 Compared to Fiscal Year 2013

Current and other assets decreased $31.7 million or 8.6 percent. The decrease was primarily attributable to the use of general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) to fund a portion of capital expenditures in fiscal year 2014. This was reflected by the $40.1 million decrease in general fund cash. The decrease in general fund cash was offset by a $4.3 million increase in operating contingency reserves, $1.1 million increase in inventories, a $0.9 million increase in gas in storage, and an increase in accounts receivable of $0.5 million.

Fiscal Year 2013 Compared to Fiscal Year 2012

Current and other assets increased $35.9 million or 10.7 percent. General fund cash (including cash and cash equivalents, short-term investments, and long-term investments) increased $55.9 million as KUB used bond proceeds to fund a large portion of capital expenditures in fiscal year 2013 rather than cash generated from operations. Accounts receivable was $8.7 million or 12.6 percent higher than last year, partially due to strong natural gas and electric sales during the winter.

KUB over recovered $4.9 million in wholesale power costs in fiscal year 2013, compared to an under recovery of $17.7 million in fiscal year 2012. Any under or over recovery of wholesale power costs is flowed through to KUB's electric customers during the following fiscal year through adjustments to electric rates through the Purchased Power Adjustment.

KUB under recovered $0.8 million in wholesale gas costs from its customers through its gas rates in fiscal year 2013, as compared to a $2.8 million under recovery in fiscal year 2012. Any under or over recovery of the wholesale gas costs is flowed through to KUB's gas customers the following fiscal year. The net effect was a $2 million reduction in assets. Gas in storage decreased $4.5 million due to a 30.3 percent decrease in storage volumes compared to last June, reflecting a greater usage of natural gas in storage to meet the increased customer demand in fiscal year 2013.

KUB contributed $6.2 million to operating contingency reserves from the general fund in fiscal year 2013.

Capital Assets

Fiscal Year 2014 Compared to Fiscal Year 2013

Capital assets (net) increased $83.2 million or 5.7 percent. Major plant expenditures (reflected in both plant additions and work in progress) during fiscal year 2014 included $34 million for PACE 10 projects for the wastewater collection system, $31.8 million for electric distribution system improvements, $9.8 million for gas main replacement, $9.2 million for water plant and system improvements, $8.7 million for pole replacements for the electric system and $7.7 million for water main replacement.

Fiscal Year 2013 Compared to Fiscal Year 2012

Capital assets (net) increased $98.2 million or 7.2 percent. Major plant expenditures (reflected in both plant additions and work in progress) during fiscal year 2013 included $38.4 million for PACE 10 projects for the wastewater collection system, $16 million for Composite Correction Plan projects for the wastewater system, $23.6 million for electric distribution system improvements, $12.8 million for gas main replacement and construction of new gas mains, $11.5 million for water main replacement, $10.1 million for water plant and system improvements, and $8.9 million for pole replacements for the electric system.

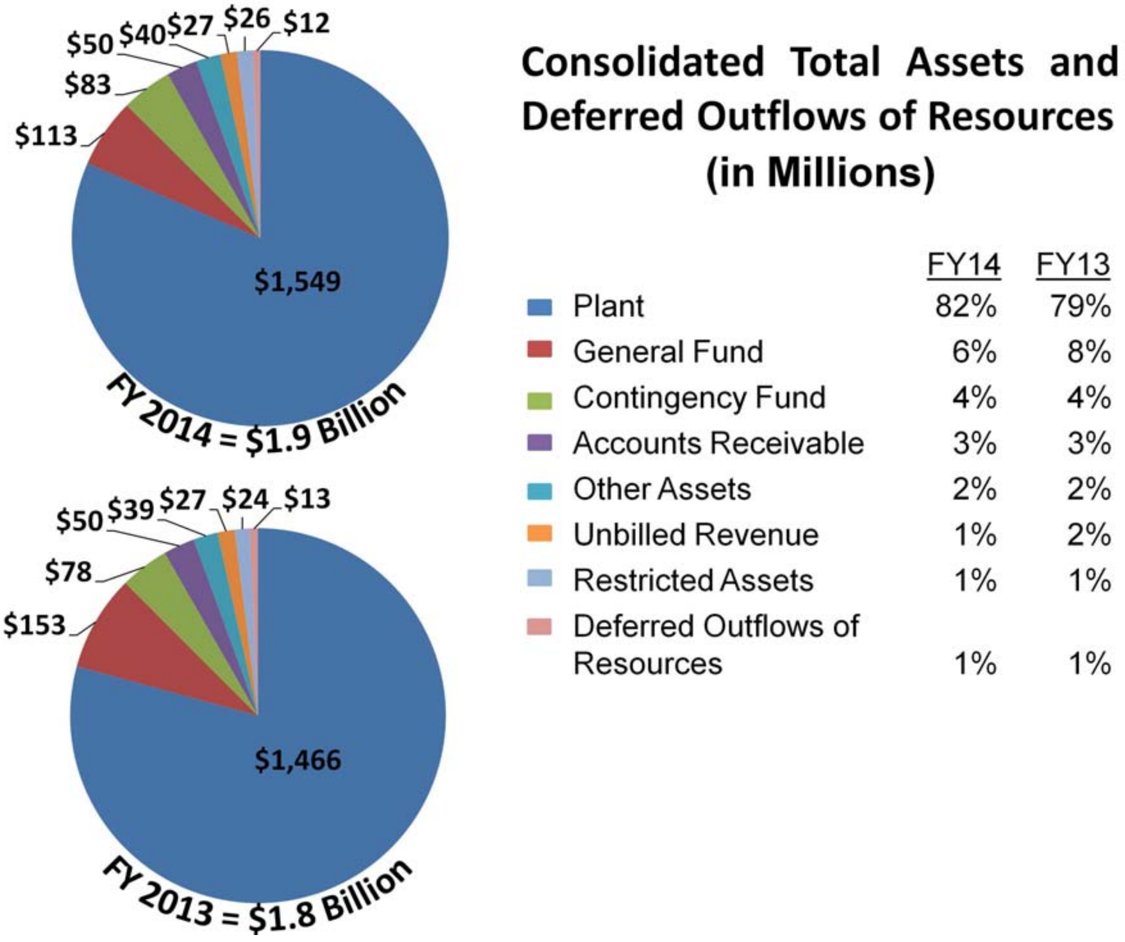
Deferred Outflows of Resources

Fiscal Year 2014 Compared to Fiscal Year 2013

Deferred outflows of resources decreased $0.8 million compared to the prior year, reflecting amortization of deferred losses on bonds refunded in prior periods.

Fiscal Year 2013 Compared to Fiscal Year 2012

Deferred outflows of resources increased $9.4 million compared to the prior year, reflecting unamortized bond refunding costs from the refunding of long term debt in March 2013.



Current and Other Liabilities

Fiscal Year 2014 Compared to Fiscal Year 2013

Current and other liabilities decreased $1.7 million or 1.1 percent. KUB over recovered $1.3 million in wholesale gas costs from its customers in fiscal year 2014, as compared to a $0.8 million under recovery in fiscal year 2013. Over recovery of purchased power expenses decreased $0.5 million in fiscal year 2014. The over recovery of purchased power and gas costs will be refunded to KUB's electric and gas customers through future adjustments to electric and gas rates via the Purchased Power Adjustment and Purchased Gas Adjustment, respectively. In addition, the liability for the current portion of debt related to bonds increased $1.8 million compared to the prior year. Accounts payable decreased $6.4 million, primarily due to less contractor costs from Century II projects for June 2014 compared to the same month last year.

Fiscal Year 2013 Compared to Fiscal Year 2012

Current and other liabilities increased $18.7 million or 12.9 percent, partially due to a $4.9 million over recovery of purchased power expenses from KUB's electric customers in fiscal year 2013. This over recovery of purchased power costs will be refunded to KUB's electric customers through future adjustments to electric rates via the Purchased Power Adjustment. Accounts payable rose $8.4 million due to higher contractor costs from Century II projects for June 2013 compared to the same month last year. In addition, the liability for the current portion of debt related to bonds rose $2.3 million compared to the prior year.

Long-term Debt

Fiscal Year 2014 Compared to Fiscal Year 2013

Long-term debt increased $23.7 million or 2.9 percent. During the fiscal year, $24.6 million of bond debt was repaid. In October 2014, KUB sold $50 million in revenue bonds to fund capital improvements for the gas and water systems.

Fiscal Year 2013 Compared to Fiscal Year 2012

Long-term debt increased $94.8 million or 13.2 percent. During the fiscal year, $21.6 million of bond debt was repaid. In December 2012, KUB sold $110 million in revenue bonds to fund capital improvements for the electric, gas, and wastewater systems. In March 2013, KUB sold $143.9 million of refunding bonds for the purpose of refinancing existing debt at lower interest rates.

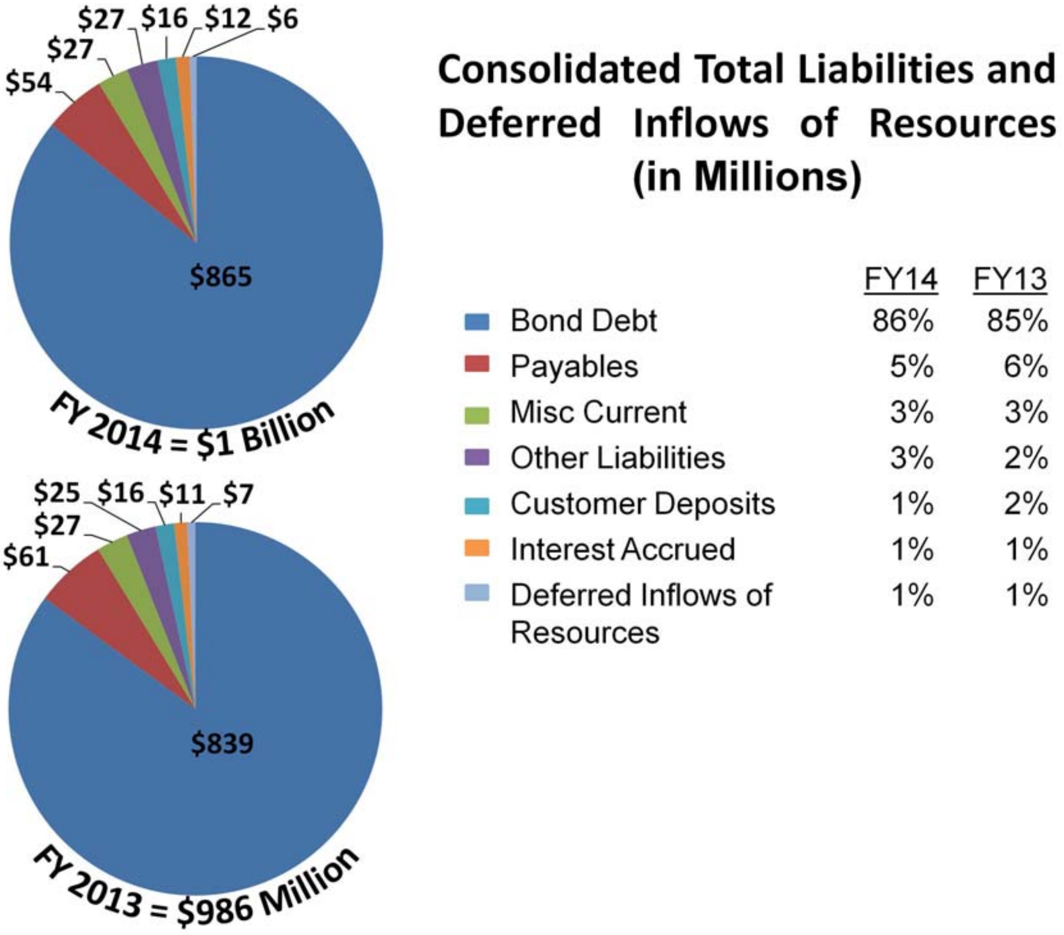
Deferred Inflows of Resources

Fiscal Year 2014 Compared to Fiscal Year 2013

The net unamortized cost of debt decreased $1 million, reflecting amortization of bond premiums and discounts.

Fiscal Year 2013 Compared to Fiscal Year 2012

The net unamortized cost of debt increased $1.7 million reflecting premiums received in the refunding of long term debt in March 2013.



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

	FY14	FY13
■ Bond Debt	86%	85%
■ Payables	5%	6%
■ Misc Current	3%	3%
■ Other Liabilities	3%	2%
■ Customer Deposits	1%	2%
■ Interest Accrued	1%	1%
■ Deferred Inflows of Resources	1%	1%

Net Position

Fiscal Year 2014 Compared to Fiscal Year 2013

Net position increased by $29.8 million in fiscal year 2014. Net investment in capital assets increased $57.6 million or 9.1 percent. Restricted net position increased $0.8 million compared to the prior year. Unrestricted net position decreased $28.6 million or 13 percent compared to the previous fiscal year, reflecting the spending of general fund cash on capital assets.

Fiscal Year 2013 Compared to Fiscal Year 2012

Net position increased by $28.3 million in fiscal year 2013. Net investment in capital assets increased $8.8 million or 1.4 percent. Restricted net position increased $1.1 million compared to the prior year. Unrestricted net position increased $18.4 million or 9.1 percent, reflecting the increase in general fund cash compared to the previous fiscal year end.

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 year and the year preceding the prior year.

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

(in thousands of dollars)	**2014**	**2013**	**2012**
Operating revenues	$ 751,710	$ 743,249	$ 693,531
Less: Purchased energy expense	484,074	489,322	456,038
Margin from sales	267,636	253,927	237,493
Operating expenses			
Treatment	14,038	13,280	12,624
Distribution and collection	60,100	57,052	53,940
Customer service	12,607	11,991	11,100
Administrative and general	31,747	30,402	31,066
Depreciation and amortization	55,885	52,364	47,613
Taxes and tax equivalents	27,097	26,032	24,552
Total operating expenses	201,474	191,121	180,895
Operating income	66,162	62,806	56,598
Interest income	852	1,032	1,504
Interest expense	(37,033)	(35,266)	(34,077)
Other income/(expense)	(948)	(612)	(767)
Change in net position before capital contributions	29,033	27,960	23,258
Capital contributions	736	378	3,081
Change in net position	$ 29,769	$ 28,338	$ 26,339

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

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

- Operating revenue is largely determined by volume of sales for the fiscal year. Any change (increase/decrease) in retail rates would also be a cause of change in operating revenue.

- Purchased energy expense is determined by volume of power purchases from TVA and volume of natural gas purchases for the fiscal year. Also, any change (increase/decrease) in wholesale power and/or gas rates would result in a change in purchased energy expense.

- Operating expenses (distribution, customer service, administrative and general) are normally impacted by changes in areas including, but not limited to, labor cost (staffing, wage rates), active employee and retiree medical expenses, and system maintenance.

- Depreciation expense is impacted by plant additions and retirements during the fiscal year.

- Taxes and equivalents are impacted by plant additions/retirements, changes in property tax rates, and gross margin levels.

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

Impacts and Analysis

Margin from Sales

Fiscal Year 2014 Compared to Fiscal Year 2013

KUB's consolidated net position increased $29.8 million, compared to a $28.3 million increase last fiscal year.

Operating revenue was $8.5 million or 1.1 percent higher than the previous fiscal year. Electric Division operating revenue decreased $6.8 million, the net effect of the flow through of over recovered purchased power costs from the prior fiscal year, a 1.4 percent increase in billed sales volumes and additional revenue from electric rate increases effective October 2012 and 2013. Gas Division revenue increased $13.5 million or 13.1 percent for the fiscal year, the result of a 4.2 percent rise in natural gas billed sales volumes. Water Division revenue increased $1.3 million or 3.5 percent, the net result of additional revenue from water rate increases and a 2.3 percent decline in water sales volumes. Wastewater Division revenue was $0.5 million higher than the previous year, the net effect of a full year of revenue from a rate increase effective October 2012 and a 1.9 percent decline in wastewater billed sales volumes.

Wholesale energy expense decreased $5.2 million or 1.1 percent. Purchased power expense decreased $12.1 million compared to last year, the net result of higher sales volumes, and lower wholesale power rates from TVA. Purchased gas costs were $6.9 million higher, due to the impact of higher customer demand from cold winter weather.

Margin from sales (operating revenue less purchased energy expense) increased $13.7 million compared to the previous year. The increase reflects a higher level of energy sales volumes, a full year of margin from the electric, water, and wastewater rate increases, as well as a partial year's revenue from the gas rate increase.

Fiscal Year 2013 Compared to Fiscal Year 2012

KUB's consolidated net position increased $28.3 million, compared to a $26.3 million increase last fiscal year.

Operating revenue was $49.7 million or 7.2 percent higher than the previous fiscal year. Electric Division operating revenue increased $27.4 million, primarily due to a 1.1 percent increase in sales volumes and additional revenue from electric rate increases. Gas Division revenue increased $17.7 million or 20.1 percent for the fiscal year, the result of a 13.7 percent rise in natural gas sales volumes. Water Division revenue increased $0.5 million or 1.4 percent, the result of additional revenue from water rate increases. Wastewater Division revenue was $4.1 million higher than the previous year, reflecting a partial year of revenue from a twelve percent rate increase effective October 2012.

Wholesale energy expense increased $33.3 million or 7.3 percent. Purchased power expense increased $21.3 million compared to last year, the result of a higher level of wholesale power purchases. Purchased gas costs were $12 million higher, due to the impact of higher customer demand.

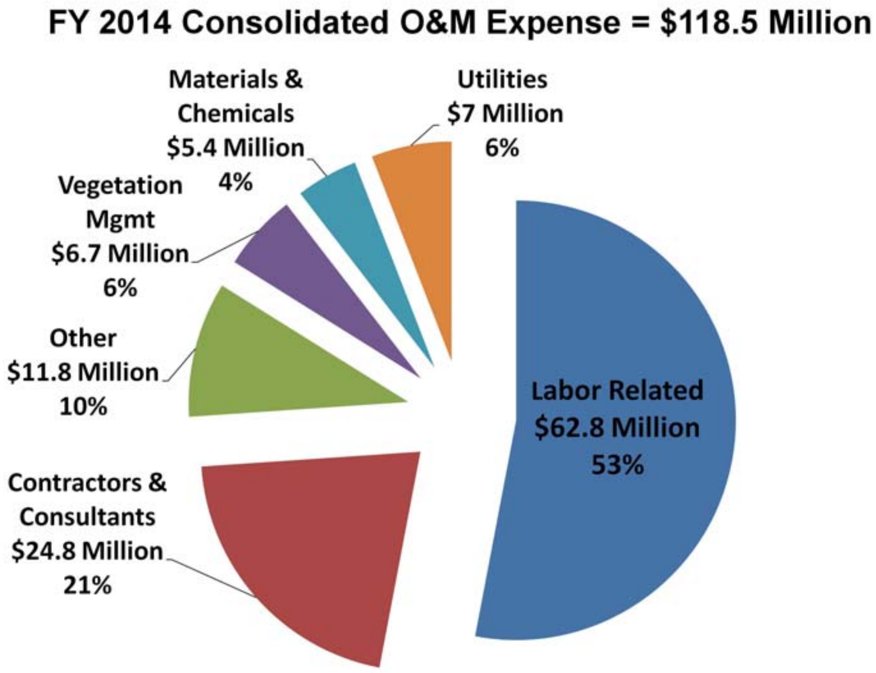
Margin from sales (operating revenue less purchased energy expense) increased $16.4 million compared to the previous year, reflecting a higher level of energy sales volumes, a full year of margin from the electric and water rate increases, and a partial year's revenue from the wastewater rate increase.

Operating Expenses

Fiscal Year 2014 Compared to Fiscal Year 2013

Operating expenses (excluding wholesale purchased energy expense) increased $10.4 million or 5.4 percent compared to fiscal year 2013. Operating expenses are categorized as treatment (O&M), distribution (O&M), customer service (O&M), administrative and general (O&M), depreciation or taxes and tax equivalents:

- Treatment expenses were $0.8 million or 5.7 percent higher than the prior year, reflecting an increase in labor related expenses for the water and wastewater system.
- Distribution and collection expenses increased $3 million or 5.3 percent, primarily the result of higher outside contractor expenses for electric substation breaker replacements and transformer testing, as well as higher labor related expenses.
- Customer service expenses rose $0.6 million or 5.1 percent, partially due to a $0.4 million increase in meter reading expenses related to a new meter reading contractor this fiscal year.
- Administrative and general expenses increased $1.3 million or 4.4 percent, partially reflecting labor related expenses.



- Depreciation and amortization expense increased $3.5 million or 6.7 percent. KUB added $146.1 million in assets during fiscal year 2013. A full year of depreciation expense was recorded on these capital investments during fiscal year 2014 and a partial year of depreciation expense was incurred on $174 million in assets placed in service during fiscal year 2014.

- Taxes and tax equivalents increased $1.1 million or 4.1 percent. Tax equivalent payments to taxing jurisdictions in which KUB's utility systems are located are based on a combination of net plant values and margin from sales. This increase was primarily due to the rise in KUB's plant values in fiscal year 2013.

Fiscal Year 2013 Compared to Fiscal Year 2012

Operating expenses (excluding wholesale purchased energy expense) increased $10.2 million or 5.7 percent compared to fiscal year 2012. Operating expenses are categorized as treatment (O&M), distribution (O&M), customer service (O&M), administrative and general (O&M), depreciation or taxes and tax equivalents:

- Treatment expenses were $0.7 million or 5.2 percent higher than the prior year, reflecting an increase in electric power usage by water and wastewater treatment plants.

- Distribution and collection expenses increased $3.1 million or 5.8 percent, the result of higher outside contractor and consultant expenses related to electric substation maintenance, transformer testing and risk assessment of the gas distribution system.

- Customer service expenses rose $0.9 million or 8 percent, partially due to a $0.4 million increase in meter reading expenses compared with the prior year.

- Administrative and general expenses decreased $0.7 million or 2.1 percent, reflecting a $0.4 million decline in labor-related expenses compared with the prior year.

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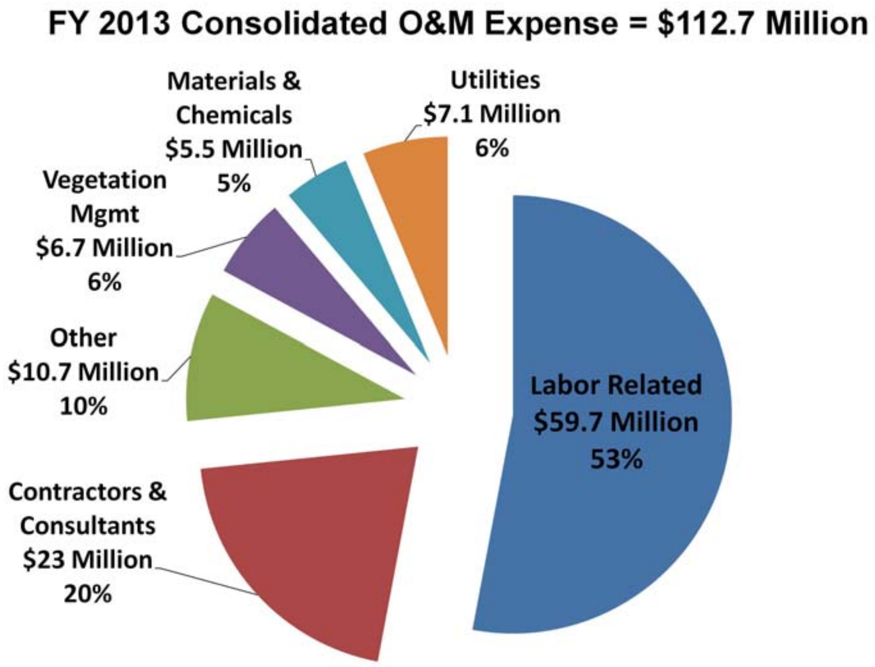

- Depreciation and amortization expense increased $4.8 million or 10 percent. KUB added $104.9 million in assets during fiscal year 2012. A full year of depreciation expense was recorded on these capital investments during fiscal year 2013 and a partial year of depreciation expense was incurred on $146.1 million in assets placed in service during fiscal year 2013.

- Taxes and tax equivalents increased $1.5 million or 6 percent. Tax equivalent payments to taxing jurisdictions in which KUB's utility systems are located are based on a combination of net plant values and margin from sales. This increase was primarily due to the rise in KUB's plant values in fiscal year 2012.

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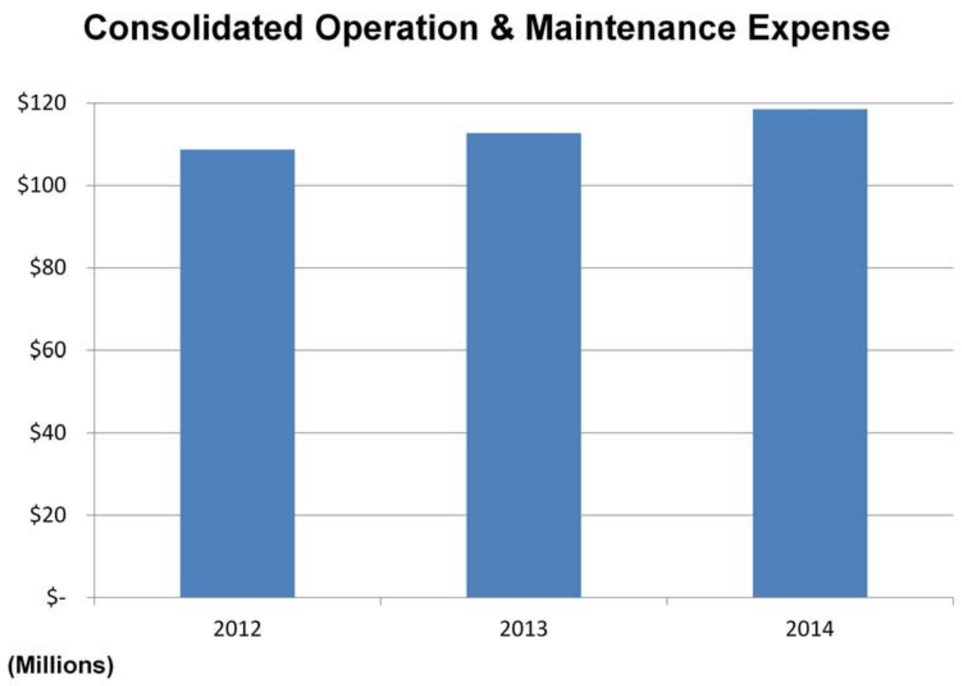

Other Income and Expense

Fiscal Year 2014 Compared to Fiscal Year 2013

Contributions in aid of construction increased $1.1 million compared to the prior fiscal year. This was primarily due to a $3.9 million contribution from the University of Tennessee, representing a portion of the University's contribution for the South Loop project, a new gas transmission main. The South Loop project will provide additional capacity to meet the University's increased natural gas demand in the future.

Interest income decreased $0.2 million or 17.4 percent due to less interest earned on investments, the result of lower interest rates.

Interest expense increased $1.8 million or 5 percent, reflecting interest expense on $50 million in bonds sold in September 2013 and a full year of interest on bonds sold in December 2012.

Other income (net) decreased $0.3 million. The market value of contingency fund investments decreased $0.2 million compared to the prior fiscal year.

Capital contributions by developers were $0.4 million higher than last fiscal year. Capital contributions for electric, water, and wastewater systems increased as a result of additional assets received from developers and other governmental entities.

Fiscal Year 2013 Compared to Fiscal Year 2012

Interest income decreased $0.5 million or 31.4 percent due to less interest earned on investments, the result of lower interest rates.

Interest expense increased $1.2 million or 3.5 percent, reflecting interest expense on $110 million in bonds sold in December 2012 and $25 million in bonds sold in December 2011.

Other income (net) increased $0.2 million. The market value of contingency fund investments increased $0.1 million.

Capital contributions were $2.7 million lower than last fiscal year. Capital contributions for the electric, water, and wastewater systems declined.

Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

(in thousands of dollars)	**2014**	**2013**	**2012**
Production plant	$ 76	$ 90	$ 103
Pumping & treatment plant	177,256	154,157	145,983
Distribution & collection plant:			
Mains	670,953	612,433	563,475
Services and meters	85,654	83,278	81,478
Electric station equipment	32,797	30,227	25,181
Poles, towers and fixtures	84,332	72,274	63,621
Overhead conductors	73,663	67,449	69,161
Line transformers	55,600	52,503	48,486
Others	191,564	182,765	172,735
Total distribution & collection plant	1,194,563	1,100,929	1,024,137
General plant	52,149	50,398	49,208
Total plant	1,424,044	1,305,574	1,219,431
Work in progress	124,830	160,098	148,048
Total net plant	$ 1,548,874	$ 1,465,672	$ 1,367,479

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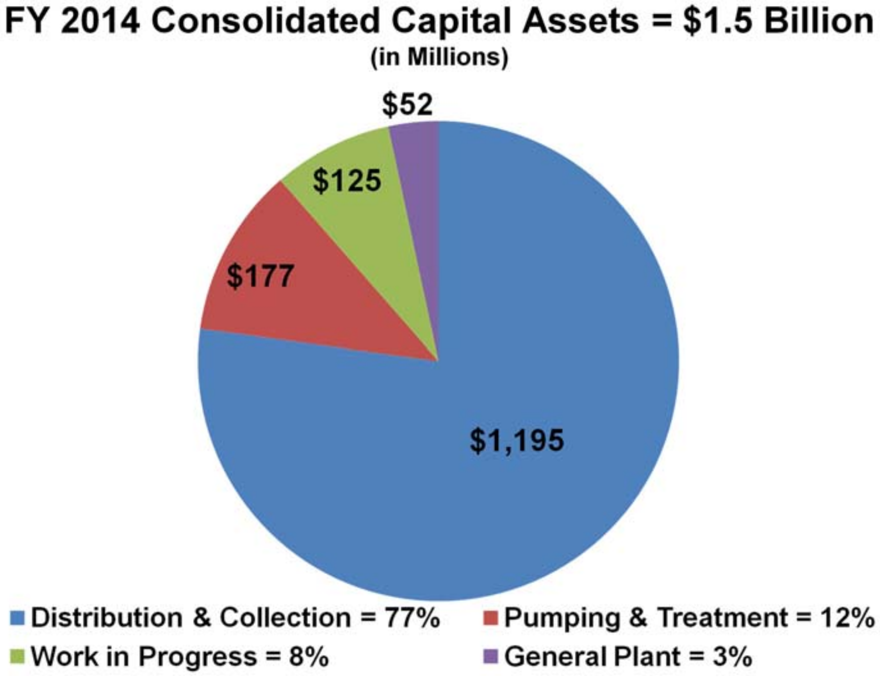
Fiscal Year 2014 Compared to Fiscal Year 2013

As of June 30, 2014, KUB had $1.5 billion invested in capital assets, as reflected in the schedule of Capital Assets, which represents a net increase (including additions, retirements, and depreciation) of $83.2 million or 5.7 percent over the end of the last fiscal year.

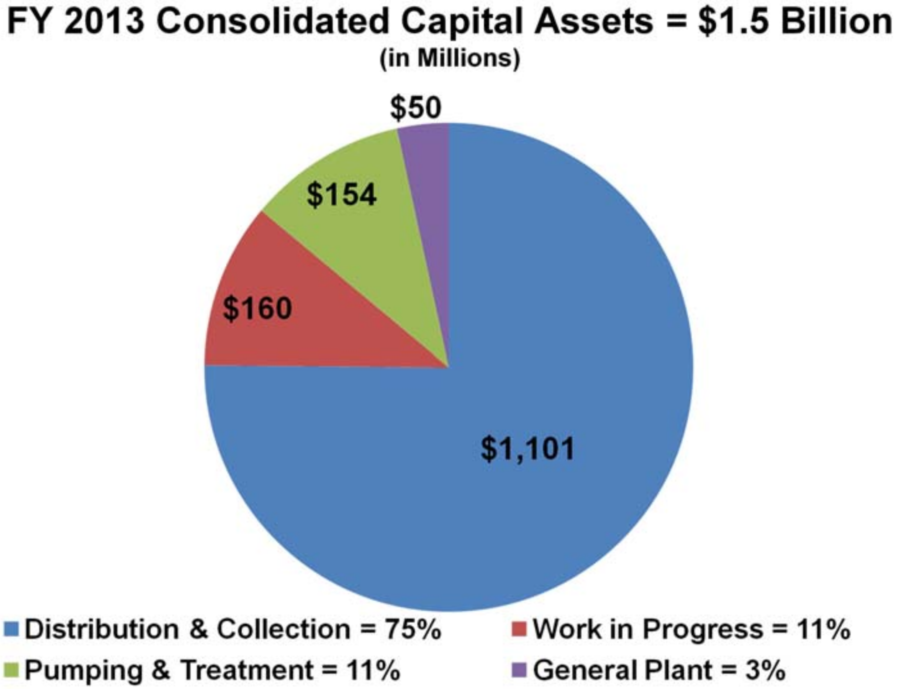

FY 2014 Consolidated Capital Assets = $1.5 Billion
(in Millions)

Major capital asset additions during the year were as follows:

- $34 million related to PACE 10 projects.
    - $26 million for sewer mini-basin rehab and replacement
    - $3.7 million for pump station design and construction
    - $2.2 million for sewer trunk line replacement and rehabilitation
- $31.8 million for various electric distribution system improvements.
- $9.8 million for gas main replacement.
- $9.2 million for water plant and system improvements.
- $8.7 million for pole replacements for the electric system.
- $7.7 million for main replacement for the water system.

Fiscal Year 2013 Compared to Fiscal Year 2012

As of June 30, 2013, KUB had $1.5 billion invested in capital assets, as reflected in the schedule of Capital Assets, which represents a net increase (including additions, retirements, and depreciation) of $98.2 million or 7.2 percent over the end of the last fiscal year.



Major capital asset additions during the year were as follows:

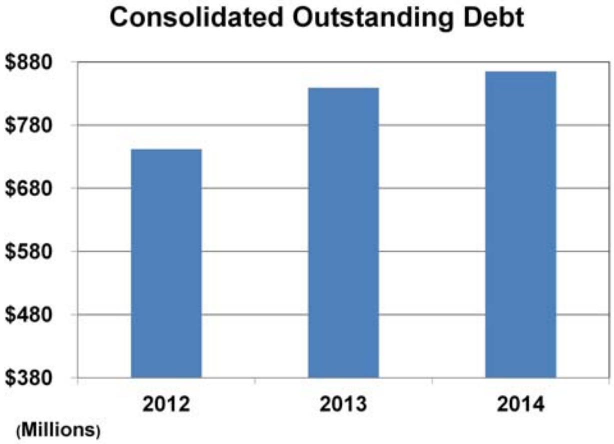
- $38.4 million related to PACE 10 projects.
    - $15.1 million for sewer mini-basin rehab and replacement
    - $11.8 million for sewer trunk line replacement and rehabilitation
    - $5.6 million for pump station design and construction
    - $5.5 million for collection system improvements
- $16 million for Composite Correction Plan projects.
    - $3.1 million for upgrades to the Kuwahee Wastewater Treatment Plant
    - $12.9 million for upgrades at the Fourth Creek Wastewater Treatment Plant
- $23.6 million for various electric distribution system improvements.
- $12.8 million for gas main replacement and construction of new mains for the gas system.
- $11.5 million for pipe replacement for the water system.
- $10.1 million for water plant and system improvements.
- $8.9 million for pole replacements for the electric system.

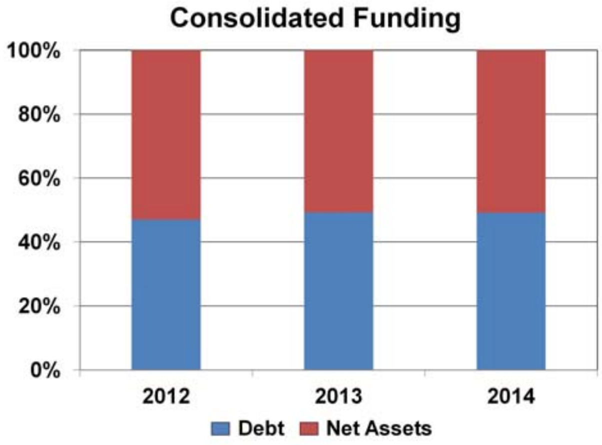
Debt Administration

KUB's outstanding debt has increased during the past three years from $742.2 million to its current level of $864.7 million. The majority of the growth is attributed to new debt in the Wastewater Division to fund capital projects to meet the capital requirements of the Consent Decree. Debt as a percentage of capitalization represented 49.2 percent in 2014, 49.3 percent in 2013 and 47 percent at the end of fiscal year 2012.

Outstanding Debt
As of June 30

(in thousands of dollars)	**2014**	**2013**	**2012**
Revenue bonds	$ 864,740	$ 839,305	$ 742,210
Total outstanding debt	$ 864,740	$ 839,305	$ 742,210


Consolidated Outstanding Debt


Consolidated Funding

KUB will pay $309.2 million in principal payments over the next ten years, representing 35.8 percent of outstanding bonds.

Fiscal Year 2014 Compared to Fiscal Year 2013

As of June 30, 2014, KUB had $864.7 million in outstanding debt (including the current portion of revenue bonds) compared to $839.3 million last year, an increase of $25.4 million. KUB's weighted average cost of debt as of June 30, 2014 was 4.13 percent.

During fiscal year 2014, $24.6 million in bonds were repaid.

During the fiscal year, $50 million in long-term bonds were issued to finance capital improvements for the gas and water systems.

KUB's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2014, Standard & Poor's rated the revenue bonds of the Electric, Water, and Wastewater Divisions AA+ and the revenue bonds of the Gas Division AA. Moody's Investors Service rated the bonds of all four divisions Aa2.

Fiscal Year 2013 Compared to Fiscal Year 2012

As of June 30, 2013, KUB had $839.3 million in outstanding debt (including the current portion of revenue bonds) compared to $742.2 million last year, an increase of $97.1 million. KUB's weighted average cost of debt as of June 30, 2014 was 4.11 percent.

During fiscal year 2013, $21.6 million in bonds were repaid.

During the fiscal year, $110 million in long-term bonds were issued to finance capital improvements for the electric, gas, and wastewater systems.

KUB issued $143.9 million in refunding bonds for the purpose of refunding outstanding bonds for all four divisions at lower interest rates. The bonds refunded were issued in 2005 and 2006. KUB will realize a total debt service savings of $24.6 million over the life of the bonds ($16.9 million on a net present value basis).

As of June 30, 2013, Standard & Poor's rated the revenue bonds of the Electric, Water, and Wastewater Divisions AA+ and the revenue bonds of the Gas Division AA. Moody's Investors Service rated the bonds of all four divisions Aa2.

Impacts on Future Financial Position

KUB anticipates net customer growth of 2,375 customers during fiscal year 2015.

KUB sold $78 million in revenue bonds in August 2014 for the purpose of funding capital improvements for the electric, water and wastewater systems.

The Water Division's revenue bonds were upgraded with the bond sale in August 2014 to the rating of AAA, the highest rating provided by Standard & Poor's. The Aa2 bond rating from Moody's Investors Service was reaffirmed.

In June 2014, the KUB Board adopted three years of rate increases for all four systems to help fund the ongoing Century II infrastructure programs for each system.

The electric rate increases will be effective July 2014, July 2015, and July 2016, respectively. Each rate increase will provide approximately $5 million in additional electric system revenue.

The natural gas rate increases will be effective October 2014, October 2015, and October 2016, respectively. Each rate increase will result in an additional $1.8 million in gas system revenue.

The water rate increases will be effective July 2014, July 2015, and July 2016, respectively. The July 2014 increase will provide $3.6 million in additional water system revenue, while the July 2015 and July 2016 rate increases will result in annual water system revenue of $2 million.

The wastewater rate increases will be effective October 2014, October 2015, and October 2016, respectively. Annually, the wastewater rate increases will provide additional revenue of $4.7 million, on average.

The TVA Board approved a 1.5 percent October 2014 wholesale base rate increase which will be flowed through to KUB's electric retail rates via its Purchased Power Adjustment. The flow through of this wholesale rate increase will raise the typical residential electric customer's monthly bill $1.70.

KUB debt portfolio includes $135.4 million of Build America Bond (BABs) in which the U.S. Treasury provides a rebate to KUB for a portion of the interest. The interest rebates were subject to federal sequestration during the fiscal year and were reduced by 7.2 percent. Any future actions by Congress may also affect the anticipated rebates for future fiscal years.

KUB will continue work on the installation of a new gas transmission main extending from South Knoxville to the University of Tennessee, providing increased capacity to meet future natural gas requirements for the university. The $23 million project is scheduled to be completed in November 2015.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, is effective for periods beginning after June 15, 2013. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68,* are effective for periods beginning after June 15, 2014. 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 2014.

Financial Contact

KUB's financial statements are designed to present users (citizens, customers, investors, and creditors) with a general overview of KUB's financial position and results of operations for the fiscal years ending June 30, 2014 and 2013. 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, 2014 and 2013

		2014		2013
Assets and Deferred Outflows of Resources				
Current assets:				
Cash and cash equivalents	$	106,078,842	$	125,723,586
Short-term investments		7,000,000		27,500,000
Short-term contingency fund investments		38,076,885		31,322,858
Other current assets		1,478,181		1,464,300
Accrued interest receivable		29,754		52,927
Accounts receivable, less allowance of uncollectible accounts of $715,050 in 2014 and $948,358 in 2013		77,679,318		77,154,986
Inventories		9,090,412		8,038,772
Prepaid expenses		1,931,869		2,256,827
Gas storage		10,281,088		9,333,190
Total current assets		251,646,349		282,847,446
Restricted assets:				
Bond funds		24,662,255		23,580,016
Other funds		43,872		53,820
Unused bond proceeds		1,055,410		206
Total restricted assets		25,761,537		23,634,042
Plant in service		2,130,908,796		1,987,349,747
Less accumulated depreciation		(706,864,663)		(681,775,954)
		1,424,044,133		1,305,573,793
Retirement in progress		1,247,876		1,731,738
Construction in progress		123,581,867		158,365,607
Net plant in service		1,548,873,876		1,465,671,138
Other assets:				
Long-term contingency fund investments		44,464,588		46,980,060
TVA conservation program receivable		11,093,821		10,189,286
Under recovered purchased gas cost		-		841,779
Other		6,248,799		6,439,241
Total other assets		61,807,208		64,450,366
Total assets		1,888,088,970		1,836,602,992
Deferred outflows of resources:				
Unamortized bond refunding costs		12,251,803		13,002,043
Total deferred outflows of resources		12,251,803		13,002,043
Total assets and deferred outflows of resources	$	1,900,340,773	$	1,849,605,035

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

Knoxville Utilities Board
Consolidated Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Liabilities, Deferred Inflows, and Capitalization		
Current liabilities:		
Current portion of revenue bonds	$ 25,740,000	$ 23,965,000
Sales tax collections payable	1,199,124	1,181,170
Accounts payable	53,144,305	59,560,896
Accrued expenses	27,247,849	26,917,368
Customer deposits plus accrued interest	15,732,652	15,451,660
Accrued interest on revenue bonds	11,543,105	11,261,245
Total current liabilities	134,607,035	138,337,339
Other liabilities:		
TVA conservation program	10,885,245	10,005,739
Accrued compensated absences	8,475,812	8,267,550
Customer advances for construction	1,607,364	1,217,528
Over recovered purchased power cost	4,412,769	4,927,581
Over recovered purchased gas cost	1,278,144	-
Other	256,124	506,818
Total other liabilities	26,915,458	24,925,216
Long-term debt:		
Revenue bonds	839,000,000	815,340,000
Total long-term debt	839,000,000	815,340,000
Total liabilities	1,000,522,493	978,602,555
Deferred inflows of resources:		
Unamortized costs	6,404,477	7,357,600
Total deferred inflows of resources	6,404,477	7,357,600
Total liabilities and deferred inflows of resources	1,006,926,970	985,960,155
Net position		
Net investment in capital assets	688,373,838	630,793,054
Restricted for:		
Debt service	13,119,150	12,318,771
Other	43,872	53,820
Unrestricted	191,876,943	220,479,235
Total net position	893,413,803	863,644,880
Total liabilities, deferred inflows, and net position	$ 1,900,340,773	$ 1,849,605,035

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, 2014 and 2013

	2014	2013
Operating revenues		
Electric	$ 521,382,442	$ 528,220,515
Gas	116,803,437	103,280,814
Water	38,934,984	37,618,140
Wastewater	74,589,237	74,129,548
Total operating revenues	751,710,100	743,249,017
Operating expenses		
Purchased power	414,928,209	427,099,886
Purchased gas	69,146,120	62,222,336
Treatment	14,038,067	13,280,091
Distribution and collection	60,099,715	57,051,845
Customer service	12,607,020	11,990,979
Administrative and general	31,746,959	30,402,021
Provision for depreciation and amortization	55,885,311	52,363,765
Taxes and tax equivalents	27,097,311	26,031,585
Total operating expenses	685,548,712	680,442,508
Operating income	66,161,388	62,806,509
Non-operating revenues (expenses)		
Contributions in aid of construction	7,489,259	6,411,589
Interest and dividend income	850,769	1,031,771
Interest expense	(37,032,613)	(35,265,771)
Write-down of plant for costs recovered through contributions	(7,489,259)	(6,411,589)
Other	(946,380)	(612,200)
Total non-operating revenues (expenses)	(37,128,224)	(34,846,200)
Change in net position before capital contributions	29,033,164	27,960,309
Capital contributions	735,759	378,196
Change in net position	29,768,923	28,338,505
Net position, beginning of year	863,644,880	835,306,375
Net position, end of year	$ 893,413,803	$ 863,644,880

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

Knoxville Utilities Board
Consolidated Statements of Cash Flows
June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash receipts from customers	$ 748,864,302	$ 732,089,984
Cash receipts from other operations	10,319,308	13,193,284
Cash payments to suppliers of goods or services	(569,365,252)	(532,005,075)
Cash payments to employees for services	(50,171,061)	(47,326,006)
Payment in lieu of taxes	(23,417,319)	(22,555,022)
Cash receipts from collections of TVA conservation loan program participants	2,803,444	2,825,755
Cash payments for TVA Conservation loan program	(2,811,356)	(2,757,835)
Net cash provided by operating activities	116,222,066	143,465,085
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	49,578,316	111,031,459
Principal paid on revenue bonds and notes payable	(24,565,000)	(21,635,000)
(Increase) decrease in unused bond proceeds	(1,055,204)	13,803,520
Interest paid on revenue bonds and notes payable	(35,346,487)	(34,155,202)
Acquisition and construction of plant	(148,917,816)	(158,749,321)
Changes in bond funds, restricted	(1,082,240)	(2,225,380)
Customer advances for construction	389,836	(66,099)
Proceeds received on disposal of plant	759,631	58,144
Cash received from developers and individuals for capital purposes	7,489,259	6,411,588
Net cash used in capital and related financing activities	(152,749,705)	(85,526,291)
Cash flows from investing activities:		
Purchase of investment securities	(8,308,246)	(3,621,062)
Maturities of investment securities	24,569,690	716,112
Interest received	873,941	1,093,924
Other property and investments	(252,490)	(262,294)
Net cash provided by (used in) investing activities	16,882,895	(2,073,320)
Net (decrease) increase in cash and cash equivalents	(19,644,744)	55,865,474
Cash and cash equivalents, beginning of year	125,723,586	69,858,112
Cash and cash equivalents, end of year	$ 106,078,842	$ 125,723,586
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 66,161,388	$ 62,806,509
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expenses	57,726,856	54,177,358
Changes in operating assets and liabilities:		
Accounts receivable	(524,331)	(8,663,354)
Inventories	(1,051,641)	(396,540)
Prepaid expenses	(952,607)	2,944,614
TVA conservation program receivable	(904,534)	(637,077)
Other assets	(888,086)	(1,703,536)
Sales tax collections payable	17,955	35,582
Accounts payable and accrued expenses	(5,877,846)	8,638,999
TVA conservation program payable	879,506	670,330
Unrecovered purchased power cost	(514,812)	22,582,300
Underrecovered gas costs	2,119,923	1,983,384
Customer deposits plus accrued interest	280,991	731,264
Other liabilities	(250,696)	295,252
Net cash provided by operating activities	$ 116,222,066	$ 143,465,085
Noncash capital activities:		
Acquisition of plant assets through developer contributions	$ 735,759	$ 378,196

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

1. Description of Business:

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners governs KUB. The Board has all powers to construct, acquire, expand, or 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

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.* Statement No. 34 established standards for external financial reporting for all state and local governmental entities.

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) are segregated into net investment in capital assets; restricted for capital activity and debt service; and unrestricted components.

Recently Adopted New Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62 (Statement No. 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for KUB's fiscal year beginning July 1, 2012. The objective of this Statement is to incorporate into the GASB's authoritative literature certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants' (AICPA) accounting and financial reporting guidance issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

Statement No. 62 supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election to apply FASB statements, related interpretations, Accounting Principles Board opinions and accounting research bulletins issued post-November 30, 1989 that do not conflict with Governmental Accounting Standards. However, FASB pronouncements issued post-November 30, 1989 that do not conflict with or contradict Governmental Accounting Standards can continue to apply as other accounting literature.

In June 2011, the GASB issued Statement No. 63 (Statement No. 63), (*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position,* effective for KUB's fiscal year beginning July 1, 2012. Statement No. 63 amends the net asset reporting requirements in Statement No. 34 and other pronouncements. Under these new standards, financial statements include deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities, and will report *net position* instead of net assets. Statement No. 63 requires the classification of net position into three components – net investment in capital assets; net position-restricted; and net position-unrestricted.

These classifications are defined as follows:

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

- Net position-restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

- Net position-unrestricted – This component of net position consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Implementation of Statement No. 63 had no effect on KUB’s net position or changes in net position.

In March 2012, the GASB issued Statement No. 65 (Statement No. 65), *Items Previously Reported as Assets and Liabilities*, effective for KUB’s fiscal year beginning July 1, 2013; however, KUB early adopted Statement No. 65 effective for the fiscal year beginning July 1, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities. Implementation of Statement No. 65 had no effect on KUB’s net position or changes in net position.

Principles of Consolidation

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

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

Plant

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

The provision for depreciation of plants in service is based on the estimated useful lives of the assets, which range from three to sixty-seven years, and is computed using the straight-line method. Pursuant to FERC/NARUC, the caption "Provision for depreciation" in the consolidated statements of revenues, expenses and changes in net position does not include depreciation for transportation equipment of $1,841,544 in fiscal year 2014 and $1,813,593 in fiscal year 2013. Interest costs are expensed as incurred.

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 $1,572,059 in fiscal year 2014 and $1,962,060 in fiscal year 2013.

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.

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

Pension Plan

KUB’s employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 10). KUB’s policy is to fund pension cost accrued. As required by GASB Statement No. 27, KUB measures and discloses the annual pension cost on the accrual basis of accounting. At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

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, provision for doubtful accounts, depreciable lives of plant assets, unbilled revenue volumes, pension trust valuations, OPEB trust valuations, insurance liability reserves, and potential losses from contingencies and litigation. Actual results could differ from those estimates.

Restricted and Designated Assets

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

Cash Equivalents

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

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are items previously reported as assets 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 previously reported as liabilities related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. In accordance with Statement No. 62, KUB records debt issuance costs, including discounts and premiums as a deferred outflow or inflow. Likewise, 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.

Compensated Absences

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

Subsequent Events

KUB has evaluated events and transactions through October 24, 2014, the date these financial statements were issued, for items that should potentially be recognized or disclosed.

Reclassifications

Certain reclassifications have been made to the fiscal year 2013 balances to conform to fiscal year 2014 presentation.

Purchased Power Adjustment

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

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

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

Under the PPA mechanism, the Division tracks the actual (under)/over recovered amount in the (Under)/Over recovered Purchased Power Costs accounts. These accounts are rolled into the PPA rate adjustments thereby assuring that any (under)/over recovered amounts are promptly passed on to the Division's customers. The amount of over recovered cost was $4,412,769 at June 30, 2014 and 4,927,581 at June 30, 2013.

Purchased Gas Adjustment

In November 1990, the Division implemented a deferred Purchased Gas (Cost) Adjustment (PGA) mechanism, which allows the Division 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 KUB's Board of Commissioners. The rate-setting authority vested in the KUB 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 assure 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 assure that no excess or deficient cost recovery from KUB's customers occurs.

Under the PGA mechanism, the Division tracks the actual (under)/over recovered amount in the (Under)/Over recovered Purchased Gas Costs accounts. These accounts are rolled into the PGA rate adjustment on June 30 of each year thereby assuring that any (under)/over recovered amounts are passed on to the Division's customers. The amount of (under)/over recovered cost was $1,278,144 at June 30, 2014 and ($841,779) at June 30, 2013.

Recently Issued Accounting Pronouncements

In June 2012, the GASB issued two related Statements that affect accounting and financial reporting of pensions by state and local governments. GASB Statement No. 67 (Statement No. 67), *Financial Reporting for Pension Plans*, is intended to improve financial reporting for state and local government pension plans. GASB Statement No. 68 (Statement No. 68), *Accounting and Financial Reporting for Pensions,* establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. Statements No. 67 and 68 supersede existing guidance on financial reporting for defined pension plans found in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The objective of this statement is to clarify accounting and financial reporting for pensions. This statement requires governments to recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date of the beginning net pension liability calculated under Statement No. 68.

Statement No. 67 is effective for periods beginning after June 15, 2013 and Statements No. 68 and 71 are effective for periods beginning after June 15, 2014. 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's investment policy provides the framework for the administration and investment of cash deposits. The investment policy follows 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. KUB's Agency Bond investments are rated Aaa by Moody's Investors Service.

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

Classification of deposits and investments per statement of net position:

	2014	**2013**
Current assets		
Cash and cash equivalents	$ 106,078,842	$ 125,723,586
Short-term investments	7,000,000	27,500,000
Short-term contingency fund investments	38,076,885	31,322,858
Other assets		
Long-term contingency fund investments	44,206,946	46,753,948
Restricted assets		
Unused bond proceeds	1,055,410	206
Bond fund	24,662,255	23,580,016
Other funds	43,872	53,820
	$ 221,124,210	$ 254,934,434

The above amounts do not include accrued interest of $257,642 in fiscal year 2014 and $226,112 in fiscal year 2013. Interest income is recorded on an accrual basis.

Investments and maturities of KUB's deposits and investments:

	Deposit and Investment Maturities (in Years)		
	Fair Value	**Less Than 1**	**1-5**
Supersweep NOW and Other Deposits	$ 126,647,593	$ 126,647,593	$ -
State Treasurer's Investment Pool	1,066,682	1,066,682	-
Agency Bonds	60,132,560	15,936,885	44,195,675
Certificates of Deposits	53,802,255	53,802,255	-
	$ 241,649,090	$ 197,453,415	$ 44,195,675

4. Accounts Receivable

Accounts receivable consists of the following:

	2014	**2013**
Wholesale and retail customers		
Billed services	$ 47,052,722	$ 47,675,837
Unbilled services	27,270,345	26,686,419
Other	4,071,301	3,741,088
Allowance for uncollectible accounts	(715,050)	(948,358)
	$ 77,679,318	$ 77,154,986

5. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

	2014	**2013**
Trade accounts	$ 53,144,305	$ 59,560,896
Salaries and wages	1,278,290	1,093,893
Advances on pole rental	1,156,634	1,142,702
Self-insurance liabilities	1,572,570	1,733,984
Other current liabilities	23,240,355	22,946,789
	$ 80,392,154	$ 86,478,264

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6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2013	Additions	Payments	Balance June 30, 2014	Amounts Due Within One Year
Electric					
W-2005 - 3.0 - 4.5%	$ 34,860,000	$ -	$ 1,720,000	$ 33,140,000	$ 1,790,000
X-2006 - 4.0 - 5.0%	5,200,000	-	1,650,000	3,550,000	1,725,000
Y-2009 - 2.5 - 5.0%	37,350,000	-	1,450,000	35,900,000	1,525,000
Z-2010 - 1.45 - 6.35%	27,725,000	-	1,255,000	26,470,000	1,265,000
AA-2012 - 3.0 - 5.0%	36,715,000	-	920,000	35,795,000	955,000
BB-2012 - 3.0 - 4.0%	35,000,000	-	500,000	34,500,000	625,000
CC-2013 - 3.0 - 4.0%	9,660,000	-	75,000	9,585,000	50,000
Total debt	$ 186,510,000	$ -	$ 7,570,000	$ 178,940,000	$ 7,935,000
Gas					
L-2005 - 3.0 - 4.75%	$ 12,025,000	$ -	$ 645,000	$ 11,380,000	$ 665,000
N-2007 - 4.0 - 5.0%	12,000,000	-	-	12,000,000	-
O-2010 - 2.0 - 3.0%	10,050,000	-	3,225,000	6,825,000	3,350,000
P-2010 - 3.3 - 6.2%	12,000,000	-	-	12,000,000	-
Q-2012 - 2.0 - 4.0%	24,695,000	-	665,000	24,030,000	685,000
R-2012 - 2.0 - 4.0%	10,000,000	-	200,000	9,800,000	200,000
S-2013 - 2.0 - 4.0%	11,580,000	-	50,000	11,530,000	50,000
T-2013 - 2.0 - 4.6%	-	25,000,000	200,000	24,800,000	200,000
Total debt	$ 92,350,000	$ 25,000,000	$ 4,985,000	$ 112,365,000	$ 5,150,000
Water					
R-2005 - 3.5 - 5.0%	$ 490,000	$ -	$ 235,000	$ 255,000	$ 255,000
S-2005 - 3.5 - 5.0%	7,575,000	-	415,000	7,160,000	425,000
T-2007 - 4.0 - 5.5%	25,000,000	-	650,000	24,350,000	675,000
U-2009 - 3.0 - 4.5%	25,000,000	-	750,000	24,250,000	800,000
W-2011 - 2.0 - 4.0%	24,450,000	-	550,000	23,900,000	550,000
X-2012 - 3.0 - 5.0%	10,050,000	-	440,000	9,610,000	460,000
Y-2013 - 3.0 - 4.0%	9,285,000	-	25,000	9,260,000	25,000
Z-2013 - 2.0 - 5.0%	-	25,000,000	400,000	24,600,000	450,000
Total debt	$ 101,850,000	$ 25,000,000	$ 3,465,000	$ 123,385,000	$ 3,640,000
Wastewater					
2005 A - 4.0 - 5.0%	$ 36,550,000	$ -	$ -	$ 36,550,000	-
2005 B - 3.0 - 5.0%	18,680,000	-	1,285,000	17,395,000	1,350,000
2007 - 4.0 - 5.0%	75,000,000	-	-	75,000,000	-
2008 - 4.0 - 6.0%	35,100,000	-	4,125,000	30,975,000	4,300,000
2010 - 6.3 - 6.5%	30,000,000	-	-	30,000,000	-
2010C - 1.18 - 6.1%	67,925,000	-	1,075,000	66,850,000	1,100,000
2012A - 2.0 - 4.0%	17,000,000	-	785,000	16,215,000	800,000
2012B - 1.25 - 5.0%	65,000,000	-	850,000	64,150,000	875,000
2013A - 2.0 - 4.0%	113,340,000	-	425,000	112,915,000	590,000
Total debt	$ 458,595,000	$ -	$ 8,545,000	$ 450,050,000	$ 9,015,000
Consolidated					
Total Bonds	839,305,000	50,000,000	24,565,000	864,740,000	25,740,000
Total debt	$ 839,305,000	$ 50,000,000	$ 24,565,000	$ 864,740,000	$ 25,740,000

Other liabilities consist of the following:

	Balance June 30, 2013	**Increase**	**Decrease**	**Balance June 30, 2014**	**Amounts Due Within One Year**
TVA conservation program	$ 10,005,739	$ 3,734,967	$ (2,855,461)	$ 10,885,245	$ 1,500,000
Accrued compensated absences	8,267,550	14,261,664	(14,053,402)	8,475,812	3,000,000
Customer advances for construction	1,217,528	886,510	(496,674)	1,607,364	17,000
Other	506,818	475,259	(725,953)	256,124	35,000
	$ 19,997,635	$ 19,358,400	$ (18,131,490)	$ 21,224,545	$ 4,552,000

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

Fiscal Year	**Principal**	**Interest**	**Total**
2015	$ 25,740,000	$ 35,589,223	$ 61,329,223
2016	26,795,000	34,614,256	61,409,256
2017	27,775,000	33,604,801	61,379,801
2018	28,905,000	32,505,207	61,410,207
2019	30,035,000	31,367,085	61,402,085
2020-2024	169,975,000	136,696,546	306,671,546
2025-2029	175,430,000	100,674,422	276,104,422
2030-2034	140,435,000	67,966,648	208,401,648
2035-2039	118,825,000	43,212,613	162,037,613
2040-2044	100,475,000	17,952,775	118,427,775
2045-2047	20,350,000	1,260,000	21,610,000
Total	$ 864,740,000	$ 535,443,576	$ 1,400,183,576

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, 2014 these requirements had been satisfied.

During fiscal year 2006, KUB’s Electric Division issued Series W 2005 bonds in part to retire certain existing debt and fund electric system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series U 2001 bonds, as such amounts mature. KUB’s Electric Division also issued Series X 2006 bonds in part to retire certain existing debt and to fund electric system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the Series S 1998 revenue bonds. During fiscal year 2009, KUB’s Electric Division issued Series Y 2009 bonds to fund electric system capital improvements. During fiscal year 2011, KUB’s Electric Division issued series Z 2010 bonds to fund electric system capital improvements. The bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change. During fiscal year 2012, KUB’s Electric Division issued Series AA 2012 bonds to retire a portion of outstanding Series V 2004 bonds. During fiscal year 2013, KUB’s Electric Division issued

Series BB 2012 bonds to fund electric system capital improvements. KUB's Electric Division also issued Series CC 2013 bonds to retire a portion of outstanding Series X 2006 bonds. In prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $68 million at June 30, 2014, and the trust account assets are not included in the financial statements.

During fiscal year 2006, KUB's Gas Division issued Series L 2005 bonds in part to retire certain existing debt and fund gas system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series J 2001 bonds, as such amounts mature. During fiscal year 2008, KUB's Gas Division issued Series N 2007 to fund gas system capital improvements. During fiscal year 2010, KUB's Gas Division issued Series O 2010 bonds to retire Series I 2001 bonds. During fiscal year 2011, KUB's Gas Division issued Series P 2010 bonds to fund gas system capital improvements. The bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change. During fiscal year 2012, KUB's Gas Division issued Series Q 2012 bonds to retire Series K 2004 bonds. During fiscal year 2013, KUB's Gas Division issued Series R 2012 bonds to fund gas system capital improvements. KUB's Gas Division also issued Series S 2013 bonds to retire Series M 2006 outstanding bonds. During fiscal year 2014, KUB's Gas Division issued Series T 2013 to fund gas system capital improvements. In prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $43.5 million at June 30, 2014, and the trust account assets are not included in the financial statements.

During fiscal year 2006, KUB's Water Division issued Series R 2005 bonds for the purpose of funding water system capital improvements. KUB's Water Division also issued Series S 2005 bonds to retire certain existing debt and fund water system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series P 2001 bonds, as such amounts mature. During fiscal year 2008, KUB's Water Division issued Series T 2007 bonds to fund water system capital improvements. During fiscal year 2010, KUB's Water Division issued Series U 2009 bonds to fund water system capital improvements. During fiscal year 2012, KUB's Water Division issued Series W 2011 bonds to fund water system capital improvements. KUB's Water Division also issued Series X 2012 bonds to retire Series Q 2004 bonds. During fiscal year 2013, KUB's Water Division issued Series Y 2013 bonds to retire a portion of outstanding Series R 2005 bonds. During fiscal year 2014, KUB's Water Division issued Series Z 2013 bonds to fund water system capital improvements. In prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $16.6 million at June 30, 2014, and the trust account assets are not included in the financial statements.

During fiscal year 2006, KUB's Wastewater Division issued Series 2005A bonds for the purpose of funding wastewater system capital improvements and to pay off a previously issued $30 million revenue anticipation note (line of credit), which was used to fund capital improvements to the wastewater system. KUB's Wastewater Division also issued Series 2005B bonds in part to retire certain existing debt and fund wastewater system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series 1998 bonds and Series 2001A bonds, as such amounts mature. During fiscal year 2008, KUB's Wastewater Division issued Series 2007 bonds in part to pay off the outstanding balance on a previously issued revenue anticipation note (line of credit), and to fund wastewater system capital improvements. During fiscal year 2009, KUB's Wastewater Division issued Series 2008 bonds to fund wastewater system capital improvements. During fiscal year 2010, KUB's Wastewater

Division issued Series 2010 bonds to fund capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change. KUB's Wastewater Division also issued Series 2010B bonds to retire Series 2001 bonds. During fiscal year 2011, KUB's Wastewater Division issued Series 2010C bonds to fund capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change. During fiscal year 2012, KUB's Wastewater Division issued Series 2012A bonds to retire Series 2004A bonds. During fiscal year 2013, KUB's Wastewater Division issued Series 2012B bonds to fund wastewater system capital improvements. KUB's Wastewater Division also issued Series 2013A bonds to retire a portion of outstanding Series 2005A bonds. In prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $120.8 million at June 30, 2014, and the trust account assets are not included in the financial statements.

7. Lease Commitments

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

2015	$	56,954
2016		20,544
2017		2,142
Total operating minimum lease payments	$	79,640

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8. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning 6/30/2013	Increase	Decrease	Ending 06/30/2014
Production Plant (Intakes)	$ 742,503	$ -	$ -	$ 742,503
Pumping and Treatment Plant	240,400,730	29,498,352	(1,483,039)	268,416,043
Distribution and Collection Plant				
Mains and metering	767,483,370	74,884,846	(14,882,511)	827,485,705
Services and meters	145,143,930	6,505,287	(1,442,417)	150,206,800
Electric station equipment	114,555,002	6,885,926	(476,777)	120,964,151
Poles, towers and fixtures	114,380,474	14,300,504	(4,352,351)	124,328,627
Overhead conductors	112,732,790	9,216,310	(1,781,000)	120,168,100
Line transformers	86,755,917	5,304,894	(1,957,010)	90,103,801
Other accounts	267,823,038	16,146,654	(1,649,477)	282,320,215
Total Distribution & Collection Plant	$ 1,608,874,521	$ 133,244,421	$ (26,541,543)	$ 1,715,577,399
General Plant	137,331,993	11,294,651	(2,453,793)	146,172,851
Total Plant Assets	$ 1,987,349,747	$ 174,037,424	$ (30,478,375)	$ 2,130,908,796
Less Accumulated Depreciation	(681,775,954)	(55,192,036)	30,103,327	(706,864,663)
Net Plant Assets	$ 1,305,573,793	$ 118,845,388	$ (375,048)	$ 1,424,044,133
Work In Progress	160,097,345	135,673,684	(170,941,286)	124,829,743
Total Net Plant	$ 1,465,671,138	$ 254,519,072	$ (171,316,334)	$ 1,548,873,876

9. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. At June 30, 2014, the amount of these liabilities was $1,572,570 resulting from the following changes:

	2014	2013
Balance, beginning of year	$ 1,733,984	$ 1,827,920
Current year claims and changes in estimates	12,105,053	12,256,762
Claims payments	(12,266,467)	(12,350,698)
Balance, end of year	$ 1,572,570	$ 1,733,984

10. Pension Plan

Description of Plan

The Plan is a single-employer contributory, defined benefit pension plan established by Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville § 1107(J). The Plan is designed to provide retirement, disability and death benefits. The Plan is a governmental plan as defined by the Employee Retirement Income Security Act of 1974, is not subject to any of the provisions of the Act, and was revised January 1, 2014 to include all prior approved amendments.

At December 31, 2013, the Plan had approximately 639 retirees and beneficiaries currently receiving benefits and 49 terminated employees entitled to benefits but not yet receiving them. Of the approximately 778 current employees in the Plan, 743 were fully vested at December 31, 2013. 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 froze the Plan such that persons employed or re-employed by KUB on or after January 1, 2011, shall not be 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 Plan.

The Plan provides three different benefit arrangements for KUB participants, retirees, and beneficiaries, as follows:

Career Equity Program (CEP)
CEP is for eligible employees hired on or after January 1, 1999, and for eligible former City System Plan A members who elected CEP coverage as of July 1, 1999. CEP is a closed plan.

All eligible employees became participants on the date of his/her KUB employment. Participants are covered by Social Security. Participation in CEP does not require or permit employee contributions.

Plan A
Plan A benefits are for former City System Plan A active employees, vested terminated employees, retirees, and beneficiaries. Plan A is a closed plan.

All employees participating in the City System Plan A as of June 30, 1999 were eligible to participate in KUB's Plan A or the CEP program. Participants of Plan A are covered by Social Security. Plan A is a closed plan and is not available to KUB employees hired after July 1, 1999. Participation in Plan A requires employee contributions of 3 percent of the first $4,800 of annual earnings and 5 percent of annual earnings in excess of $4,800. Plan A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or older.

Plan B
Plan B benefits are for former City System Plan B active employees, vested terminated employees, retirees, and beneficiaries. Plan B is a closed plan.

All employees participating in the City System Plan B as of June 30, 1999 are eligible to participate in KUB's Plan B. Plan B is now a closed plan and no participants can be added. Participants of Plan B are not covered by Social Security. Participation in Plan B requires employee contributions of 4 percent of annual earnings. Plan B provides for retirement benefits after 25 years of service and the attainment of age 50.

Funding Policy

For the Plan year ended December 31, 2013, a contribution of $6,314,399 will be made in the Plan sponsor's fiscal year ending June 30, 2015. The contribution was determined as part of the January 1, 2013 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. For the Plan year ended December 31, 2013, the Plan's actuarial funded ratio was 89.3 percent.

At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund, is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

Significant actuarial assumptions used in the valuation include (a) rate of return of investments of 8 percent, (b) the RP2000 Mortality Table, (c) annual projected salary increases based on participants' ages ranging from age 25 to age 65 with salary increases from 2.58 percent to 7.92 percent, and (d) cost of living adjustment of 2.8 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period.

As of the actuarial report for the Plan year ended December 31, 2013, contributions of $6,314,399 and $5,502,677 for 2013 and 2012, respectively, will be made during the Plan sponsor's fiscal years ending June 30, 2015 and 2014, respectively.

Subsequent to June 30, 2014, the actuarial valuation for the Plan year ending December 31, 2014 was completed. The actuarial valuation resulted in an actuarially determined contribution of $5,669,380 for the fiscal year ending June 30, 2016, based on the Plan's current funding policy. For the Plan year ending December 31, 2014, the Plan's actuarial funded ratio was 94.6 percent. See Required Supplementary Information for Pension Schedule of Funding Progress.

11. Defined Contribution Plan

KUB has a defined contribution 401(k) employee retirement savings plan covering eligible KUB employees. Employees hired prior to January 1, 2011 may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. Employees hired on or after January 1, 2011 have an enhanced 401(k) Plan due to the closure of the Defined Benefit Pension Plan. They may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. They also receive a nonelective KUB contribution of from 3 percent to 6 percent, depending on years of service, whether they contribute or not.

Since July 1, 2000, 401(k) matching contributions for employees eligible to participate in the KUB Pension Plan have been funded by the Pension Plan. These funds are held by the Pension trustee until eligible for distribution. IRS rules permit the funding of 401(k) matching contributions from excess pension assets for employees covered under the Pension Plan. Given the current funding level of the Pension Plan, effective July 1, 2011, KUB began to reimburse the Pension Plan for the current matching contributions. The match and nonelective contributions for employees hired on or after January 1, 2011 are paid directly by KUB.

12. Other Post-Employment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) established new standards for the measurement, recognition, and reporting of other post-employment benefits (OPEB). OPEB includes post-employment benefits other than pension, which, for KUB, is presently limited to post-employment health care. GASB Statement No. 45 (Statement No. 45) requires the recognition of the accrued OPEB liability for the respective year, plus the disclosure of the total unfunded liability. Statement No. 45 was effective for KUB for the fiscal year beginning July 1, 2007.

KUB currently provides post-employment health care benefits to 604 former employees and 619 covered dependents. The cost of coverage is shared with retirees and beneficiaries. KUB recognizes its share of the cost of post-employment health care benefits as an expense as claims are paid.

In anticipation of Statement No. 45, KUB amended its Group Health Plan in 1999, eliminating post-employment health care benefits for all employees hired on or after July 1, 1999. As of June 30, 2014, 399 active employees were eligible for individual and dependent coverage at separation. To qualify, the employee must meet the Rule of 80 (age plus years of service) with a minimum of 20 years of service, and be enrolled in medical coverage on their last day.

In May 2006, the state of Tennessee adopted Tennessee Code Annotated, Title 8, Chapter 50, Part 12 authorizing governmental entities to establish Trusts for the purpose of pre-funding their respective OPEB liabilities.

Although Statement No. 45 does not require pre-funding of the liability, KUB has determined that it is in the long-term economic interest of KUB and its ratepayers to establish a Trust to pre-fund KUB's OPEB liability.

In October 2007, the KUB Board authorized the establishment of an OPEB Trust. 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.

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.

The general administration and responsibility for the proper operation of the Trust is governed by a Board of Trustees, appointed by KUB's President & CEO. 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.

Total contributions to the OPEB Trust for the fiscal year ended June 30, 2014 were $4,057,091. The contribution to the Trust exceeded the annual actuarially determined contribution, as determined by the Postretirement Benefit Plan's actuarial valuation for the year ended December 31, 2012, which was $3,327,412. As of June 30, 2014, the employer's OPEB obligation has been exceeded by $177,322.

The actuarially determined contribution for the fiscal year ending June 30, 2015, as determined by the Plan's actuarial valuation for the year ended December 31, 2013 is $3,497,372.

The actuarial valuation for the Plan for the year ending December 31, 2014 has been completed. The valuation determined that the Plan's actuarial accrued liability was $46,889,808. The actuarial value of the Plan's assets was $43,409,955. As a result, the Plan's unfunded actuarial accrued liability was $3,479,853. The Plan's actuarial funded ratio was 93 percent. The valuation also determined that the employer's actuarially determined contribution is $953,221 for the fiscal year ending June 30, 2016. See Required Supplementary Information for OPEB Schedule of Funding Progress.

13. 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, 2014 and 2013 are summarized as follows:

	2014	2013
City of Knoxville		
Amounts billed by KUB for utilities and related services	$ 11,887,645	$ 12,126,434
Payments by KUB in lieu of property tax	14,646,323	14,172,900
Payments by KUB for services provided	2,255,362	776,724

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

	2014	2013
Accounts receivable	$ 632,000	$ 935,773

14. Natural Gas Supply Contract Commitments

For fiscal year 2014, the Gas Division hedged 50 percent of its total gas purchases via gas supply contracts. As of June 30, 2014, the Gas Division had hedged the price on approximately 11 percent of its anticipated gas purchases for fiscal year 2015.

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

Firm obligations related to purchased gas – demand

	2015	2016	2017	2018	2019
Transportation					
Tennessee Gas Pipeline	$ 7,228,236	$ 2,409,412	$ -	$ -	$ -
East Tennessee Natural Gas	10,066,388	3,355,463	-	-	-
Storage					
Tennessee Gas Pipeline	2,076,288	692,096	-	-	-
East Tennessee Natural Gas	757,460	252,487	-	-	-
Saltville Natural Gas	1,854,180	1,854,180	1,531,650	564,060	423,045
Demand Total	$ 21,982,552	$ 8,563,638	$ 1,531,650	$ 564,060	$ 423,045

Firm obligations related to purchased gas – commodity

	2015	**2016**	**2017**	**2018**	**2019**
Baseload					
Conoco	$ 2,267,815	$ -	$ -	$ -	$ -
Equitable	3,552,262	-	-	-	-
Shell Energy	1,960,660				
CNX	3,519,055	3,519,055	-	-	-
Commodity Total	$ 11,299,792	$ 3,519,055	$ -	$ -	$ -

The total commodity values presented here are based upon firm supply obligations with each individual natural gas supplier. The firm obligations value for Conoco and Shell Energy are based upon firm supply obligations at locked prices with those suppliers. The firm obligations value for the CNX and Equitable contracts are based upon firm supply obligations and the applicable four month NYMEX strip prices on June 30, 2014.

15. Other Commitments and Contingencies

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

In February 2005, a Consent Decree was entered into federal court regarding the operation of KUB’s wastewater system. Under the terms of the Consent Decree, the remediation of identified sanitary sewer overflows (“SSOs”) on KUB’s wastewater system must be completed by June 30, 2016. Through its PACE 10 program, KUB is addressing the terms of the Consent Decree. PACE 10 is an accelerated ten-year program to help improve Knoxville’s waterways, the quality of life, and the economic well being of the community. The Consent Decree also required KUB to perform an evaluation of the wet-weather performance and capacity of its wastewater treatment plants.

In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB’s Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provides for a biologically enhanced high-rate clarification (the “BEHRC”) secondary treatment system to be installed at the Fourth Creek treatment plant by June 30, 2018, and at the Kuwahee treatment plant by June 30, 2021. The total cost of such improvements is estimated to be approximately $120 million.

KUB’s funding plan for the Consent Decree includes long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2014, the Wastewater Division had issued $425 million in bonds to fund system capital improvements since the inception of the Consent Decree. The KUB Board of Commissioners approved two 50 percent rate increases, which went into effect in April 2005 and January 2007, respectively. The Board also approved an 8 percent rate increase, which was effective in September 2008, and two 12 percent rate increases, which were effective in April 2011 and October 2012, respectively. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

KUB completed its tenth full year of wastewater operations under the requirements of the federal Consent Decree. All collection system projects required under the federal Consent Decree were completed as of June 30, 2014.

16. 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

	2014			
	Electric	**Gas**	**Water**	**Wastewater**
Assets and Deferred Outflows of Resources				
Current assets	$ 109,653,604	$ 70,780,746	$ 33,381,469	$ 37,830,530
Restricted assets	11,604,449	4,244,640	2,888,739	7,023,709
Net capital assets	445,495,022	221,371,550	239,705,687	642,301,617
Other assets	28,818,241	8,549,839	6,589,557	17,849,571
Total assets	$ 595,571,316	$ 304,946,775	$ 282,565,452	$ 705,005,427
Deferred outflows of resources	1,415,368	511,898	$ 260,151	$ 10,064,386
Total assets and deferred outflows of resources	$ 596,986,684	$ 305,458,673	$ 282,825,603	$ 715,069,813
Liabilities and Deferred Inflows of Resources				
Current liabilities	$ 88,779,761	$ 18,827,048	$ 9,060,170	$ 17,940,056
Other liabilities	19,997,416	3,354,987	1,524,137	2,038,918
Long-term debt	171,005,000	107,215,000	119,745,000	441,035,000
Total liabilities	$ 279,782,177	$ 129,397,035	$ 130,329,307	$ 461,013,974
Deferred inflows of resources	4,220,243	1,744,056	$ 383,669	$ 56,509
Total liabilities and deferred inflows of resources	$ 284,002,420	$ 131,141,091	$ 130,712,976	$ 461,070,483
Net position				
Invested in capital assets, net of related debt	$ 262,994,767	$ 107,234,408	$ 116,197,169	$ 201,947,494
Restricted	7,955,720	1,725,103	1,219,136	2,263,063
Unrestricted	42,033,777	65,358,071	34,696,322	49,788,773
Total net position	$ 312,984,264	$ 174,317,582	$ 152,112,627	$ 253,999,330

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Condensed Statement of Revenues, Expenses and Changes in Net Position

	2014			
	Electric	**Gas**	**Water**	**Wastewater**
Operating revenues	$ 527,832,791	$ 117,145,734	$ 39,373,714	$ 75,041,645
Operating expenses	485,298,618	92,390,649	25,913,424	33,744,494
Provision for depreciation & amortization	23,190,530	9,674,685	6,933,752	16,086,344
Total operating expenses	508,489,148	102,065,334	32,847,176	49,830,838
Operating income	19,343,643	15,080,400	6,526,538	25,210,807
Non-operating expense	(7,662,103)	(4,452,600)	(5,205,074)	(19,808,447)
Change in net position before capital contributions	11,681,540	10,627,800	1,321,464	5,402,360
Capital contributions	306,250	-	157,859	271,650
Change in net position	11,987,790	10,627,800	1,479,323	5,674,010
Net position				
Beginning of year	300,996,474	163,689,782	150,633,304	248,325,320
End of year	$ 312,984,264	$ 174,317,582	$ 152,112,627	$ 253,999,330

Condensed Statement of Cash Flows

	2014			
	Electric	**Gas**	**Water**	**Wastewater**
Net cash provided by operating activities	$ 42,266,527	$ 26,236,760	$ 10,882,313	$ 36,836,466
Net cash used in capital and related financing activities	(78,746,408)	(1,141,280)	(4,463,650)	(68,398,367)
Net cash provided by (used in) investing activities	7,366,073	(1,184,190)	(3,363,442)	14,064,454
Net increase (decrease) in cash and cash equivalents	(29,113,808)	23,911,290	3,055,221	(17,497,447)
Cash and cash equivalents, beginning of year	60,586,059	20,102,921	12,123,240	32,911,366
Cash and cash equivalents, end of year	$ 31,472,251	$ 44,014,211	$ 15,178,461	$ 15,413,919

Knoxville Utilities Board
Required Supplementary Information - Schedule of Funding Progress
June 30, 2014
(Unaudited)

Pension Plan

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
January 1, 2010	$ 203,704,898	$ 190,679,453	$ (13,025,445)	106.8%	$ 48,228,428	(27.01%)
January 1, 2011	195,692,781	187,257,434	(8,435,347)	104.5%	47,405,874	(17.79%)
January 1, 2012	183,980,665	195,536,152	11,555,487	94.1%	48,836,721	23.66%
January 1, 2013	175,936,548	197,049,614	21,113,066	89.3%	47,553,598	44.40%
January 1, 2014	188,770,336	199,515,466	10,745,130	94.6%	47,107,350	22.81%

Other Post-Employment Benefits (OPEB)

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
January 1, 2008	$ -	$ 108,329,141	$ 108,329,141	0%	$ 31,234,509	346.8%
January 1, 2009	14,593,487	100,726,738	86,133,251	14%	31,846,091	270.5%
January 1, 2010	21,275,643	58,475,364	37,199,721	36%	30,069,028	123.7%
January 1, 2011	40,749,815	64,289,254	23,539,439	63%	28,878,791	81.5%
January 1, 2012	37,907,357	61,603,466	23,696,109	62%	28,269,123	83.8%
January 1, 2013	38,571,803	63,341,531	24,769,728	61%	27,566,340	89.9%
January 1, 2014	43,409,955	46,889,808	3,479,853	93%	26,724,154	13.0%

Knoxville Utilities Board
Supplemental Information –
Schedule of Expenditures of Federal Awards by Grant
June 30, 2014

Schedule 1

KUB was awarded a grant from the Department of Energy in October 2009, under DOE's Smart Grid Investment Grant Program. The grant, which totals $3.58 million, will be used to help fund a smart grid pilot project in the University of Tennessee and surrounding areas. This grant was fully expended as of June 30, 2014. KUB was also awarded two grants from Tennessee Emergency Management Agency (as a flow through from FEMA) for reimbursement for costs related to storms in 2011. The schedule below shows the activities for the current fiscal year.

Program Name	Federal/State Agency	CFDA Number	Contract Number	Beginning Receivable	Cash Receipts	Expenditures	Adjustments	Ending Receivable
ARRA-Electricity Delivery and Energy Reliability, Research, Development and Analysis	Department of Energy	81.122	DE-OE0000405	$ -	$ 271,271	$ 271,271	$ -	$ -
		Total Program 81.122		$ -	$ 271,271	$ 271,271	$ -	$ -
U.S. Department of Homeland Security	Tennessee Emergency Management	97.036	34101-0000009205	$ 613,213	$ 83,212	$ -	$ -	$ 530,001
U.S. Department of Homeland Security	Tennessee Emergency Management	97.036	34101-0000009832	$ 983,465	$ -	$ -	$ -	$ 983,465
		Total Program 97.036		$ 1,596,678	$ 83,212	$ -	$ -	$ 1,513,466
		Total Federal Awards		$ 1,596,678	$ 354,483	$ 271,271	$ -	$ 1,513,466

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Knoxville Utilities Board and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Crime

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

Directors' and Officers' Liability Insurance

Covers KUB personnel appropriately authorized to make decisions on behalf of KUB (including but not limited to Commissioners, President and CEO, Senior Vice Presidents, Vice Presidents, and Directors) for wrongful acts. Limits of coverage - $20,000,000; $1,000,000 corporate deductible, $0 individual deductible.

Employment Practices Liability

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

Fiduciary

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

Pollution Legal Liability

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

Property Insurance

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

Travel Accident

Covers losses related to employees' business travel. Limits of coverage - $1,500,000 aggregate.

Excess Insurance for General Liability

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

Excess Insurance for Workers' Compensation

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

Employee Health Plan Stop Loss Coverage

KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses in excess of $400,000 per individual participant.

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Independent Auditors' 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*

To the Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Knoxville Utilities Board ("KUB", (an independent agency reported as a component unit for financial purposes only) of Knoxville, Tennessee, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements, and have issued our report thereon dated October 24, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered KUB's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
October 24, 2014

Knoxville Utilities Board
Electric Division
Financial Statements and Supplemental Information
June 30, 2014 and 2013

Knoxville Utilities Board Electric Division
Index
June 30, 2014 and 2013

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Knoxville Utilities Board, Electric Division, (the "Division"), an independent agency reported as a component unit for financial reporting purposes only, of Knoxville, Tennessee, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Division, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Schedule of Funding Progress on pages 3-22 and 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Division's basic financial statements. The supplemental schedules on pages 42-71 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The supplemental schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
October 24, 2014

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners governs KUB. The Board has all powers to construct, acquire, expand, or operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. The Electric Division (Division) provides services to certain customers in Knox County and in seven surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the Federal Energy Regulatory Commission and the Governmental Accounting Standards Board, as applicable. The financial statements present only the Electric Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2014 and 2013, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Division's Management Discussion and Analysis ("MD&A") focuses on the fiscal year ending June 30, 2014 activities, resulting changes and current known facts, and should be read in conjunction with the Division's financial statements.

Electric Division Highlights

System Highlights

KUB serves 199,382 electric customers over a 688 square mile service area and maintains 5,300 miles of service lines and 60 electric substations to provide 5.7 million megawatt hours to its customers annually.

KUB's electric system experienced five record peaks in demand during this fiscal year. Record breaking cold temperatures lead to a new electric system peak on January 24, 2014 of 1,313 megawatt hours. The previous peak before this fiscal year was 1,246 megawatt hours, which occurred in January 2009.

KUB added 1,026 customers to its electric system in fiscal year 2014, which is up from the addition of 650 customers in fiscal year 2013.

The Division generated $4.8 million of additional margin during the fiscal year as a result of the 2012 and 2013 rate increases, previously adopted by the KUB Board of Commissioners to help fund the electric system's Century II infrastructure program.

The typical residential customer's monthly electric bill was $99.52 as of June 30, 2014, representing a decrease of $2.76 or 2.7 percent compared to June 30, 2013. The decrease in the monthly bill during fiscal year 2014 was the net result of the flow through of previously over recovered wholesale power costs, KUB's one percent rate increase, and the flow through of TVA wholesale rate adjustments.

Two historic storm events, with a combined cost of $8.4 million, impacted the electric system during fiscal year 2011. To date, KUB's electric system has received $4.2 million in reimbursements from the Federal Emergency Management Agency (FEMA), including $0.1 million in reimbursements during fiscal year 2014. KUB anticipates an additional $1.4 million in reimbursements from FEMA in fiscal year 2015.

KUB was awarded a grant from the Department of Energy in October 2009 under DOE's Smart Grid Investment Grant Program. The grant, which totals $3.58 million, was used to help fund a smart grid pilot project in the University of Tennessee and surrounding areas. The pilot project includes the installation of over 6,000 digital electronic smart meters and an advanced metering infrastructure (AMI) communications backbone, which will provide coverage for KUB's entire service territory. The communications infrastructure will enable KUB to remotely read the meters, and also provide remote service connection/disconnection capabilities. The term of the pilot is approximately four years. During fiscal year 2014, KUB developed a customer e-portal to provide detailed utility consumption information. The deployment strategy of the customer e-portal to customers is underway. Successful completion of the integration of polyphase meter data into KUB's customer billing system for commercial and industrial customers was also achieved during fiscal year 2014. The grant funded $0.3 million of the communications infrastructure installed this fiscal year. KUB is in the process with DOE to close out this phase of the project, as all requirements of this grant have been completed during fiscal year 2014.

Century II Infrastructure Program

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

KUB's Century II programs were resumed in 2011, after a break due to the economic recession. At that time, the KUB Board of Commissioners endorsed a ten year funding plan for the electric system through a formal resolution. The Board adopted three years of electric rate increases to help fund the plan. All three of the rate increases, adopted in 2011, have gone into effect.

In May 2014, KUB management provided an updated assessment of the overall condition of each utility and the progress made during the resumption of the Century II program. At that time the Board endorsed a long range ten year funding plan for the continuation of Century II programs for the electric system, including a combination of rate increases and debt issues to fully fund the programs for the next ten years.

In June 2014, the Board approved a series of three annual rate increases for the electric system. Each electric rate increase will generate an additional $5 million in electric system revenue.

KUB exceeded its target replacement goals for its key electric system assets, while staying within the Division's total capital budget during fiscal year 2014. The electric system replaced 2,674 poles, exceeding the target level of 2,600 and 14.7 miles of underground electric cable, exceeding the target level of 14 miles.

Financial Highlights

Fiscal Year 2014 Compared to Fiscal Year 2013

The Division's net position increased $12 million or 4 percent, compared to a $11.2 million increase last fiscal year.

Operating revenue decreased $7.1 million or 1.3 percent over the prior fiscal year. The decline in operating revenue was the net result of additional revenue from KUB electric rate increases, increased sales volumes, the flow through of TVA rate adjustments and the flow through of prior year over recovered purchase power costs to electric customers. KUB flows changes to wholesale power rates directly through to its retail electric rates via its Purchased Power Adjustment.

The Division expended 81 percent of electric system sales revenue to TVA for wholesale power purchases for the fiscal year ended June 30, 2014. Purchased power expense decreased $12.5 million compared to last year, the net result of higher sales volumes and lower wholesale power rates from TVA.

Margin on electric sales (operating revenue less purchased power expense) increased $5.4 million or 5.3 percent.

Operating expenses (excluding purchased power expense) increased $4.1 million or 4.8 percent. Operating and maintenance ("O&M") expenditures increased $2.6 million or 5.2 percent. Depreciation expense increased $0.8 million or 3.6 percent. Taxes and tax equivalents were $0.7 million higher than the prior fiscal year.

Lower interest rates on investments resulted in a $0.1 million decrease in interest income. Interest expense increased $0.5 million or 6.3 percent, primarily due to the additional interest expense in the first and second quarter from revenue bonds issued December 2012.

Capital contributions increased $0.1 million, reflecting additional street lighting assets provided to KUB.

Total plant assets (net) increased $39.5 million or 9.7 percent over the end of the last fiscal year reflecting distribution system improvements and pole replacements as part of KUB's Century II electric program.

Long-term debt represented 36.4 percent of the Division's capital structure as of June 30, 2014, compared to 38.3 percent last year. Capital structure equals long-term debt (including the current portion of any revenue bonds and notes, as applicable, due to be retired the next fiscal year) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Current year debt coverage for the fiscal year was 3.66. Maximum debt service coverage was 3.63.

Fiscal Year 2013 Compared to Fiscal Year 2012

The Division's net position increased $11.2 million or 3.9 percent, compared to a $9.1 million increase last fiscal year.

Operating revenue increased $28.8 million or 5.7 percent over the prior fiscal year. The growth in operating revenue was the result of additional revenue from KUB electric rate increases, increased sales volumes, and the flow through of TVA rate adjustments. KUB flows changes to wholesale power rates directly through to its retail electric rates via its Purchased Power Adjustment.

The Division expended 81 percent of electric system sales revenue to TVA for wholesale power purchases for the fiscal year ended June 30, 2013. Purchased power expense decreased $22.6 million compared to last year, the net result of higher purchases and slightly lower TVA wholesale power rates.

Margin on electric sales (operating revenue less purchased power expense) increased $6.3 million or 6.5 percent.

Operating expenses (excluding purchased power expense) increased $3.8 million or 4.7 percent. Operating and maintenance ("O&M") expenditures increased $1.1 million or 2.4 percent. Depreciation expense increased $1.7 million or 8.3 percent. Taxes and tax equivalents were $0.9 million higher than the prior fiscal year.

Lower interest rates on investments resulted in a $0.1 million decrease in interest income. Interest expense increased $0.3 million or 4.2 percent, reflecting a partial year of interest expense on revenue bonds sold in December 2012.

Capital contributions fell $0.1 million, reflecting fewer street lighting assets provided to KUB this fiscal year.

Total plant assets (net) increased $29.7 million or 7.9 percent over the end of the last fiscal year reflecting distribution system improvements and pole replacements as part of KUB's Century II electric program.

Long-term debt represented 38.3 percent of the Division's capital structure as of June 30, 2013, compared to 35.4 percent last year. Capital structure equals long-term debt (including the current portion of any revenue bonds and notes, as applicable, due to be retired the next fiscal year) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Current year debt coverage for the fiscal year was 3.95. Maximum debt service coverage was 3.45.

Division Cash Budget Appropriations

KUB's Board of Commissioners adopted an Electric Division budget of $563.4 million for fiscal year 2014. In April 2014, additional appropriations were approved by the Board in the amount of $10 to cover higher than anticipated wholesale energy costs. Actual disbursements exceeded the original budget by $0.9 million, with Purchased Energy exceeding the original budget by $4.9 million and O&M and Capital expenses lagging the budget by a total of $3.6 million. The general fund balance was $3.3 million higher than originally budgeted as a result of higher than anticipated revenues from operations, driven primarily by the colder than normal winter. The chart below depicts KUB's original budget compared to actual results.

Electric Division Cash Report
As of June 30, 2014

(in thousands of dollars)	**FY 2014 Budget****	**FY 2014 Actual FYTD**	**Dollar Variance***	**Percent Variance**
Beginning Balance General Fund	$ 69,586	$ 69,586		
Operating Receipts	523,678	528,070	4,392	0.8%
Disbursements				
Purchased Energy Expense	413,369	418,277	(4,908)	1.2%
Operation & Maintenance Expense	53,419	52,092	1,327	2.5%
Capital Expenditures	67,176	64,869	2,307	3.4%
Debt Service & Taxes	29,477	29,138	339	1.2%
Total Disbursements	563,441	564,376	(935)	0.2%
Net Flow throughs and Transfers	(1,693)	(1,808)	(115)	-6.8%
Ending General Fund Balance with Appropriations	$ 28,130	$ 31,472	$ 3,342	11.9%

* *Impact to Cash; (-) indicates a decrease or negative impact to cash*

** *Excludes additional appropriations of $10 million*

Knoxville Utilities Board Electric Division - Financial Statements

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

Statement of Net Position

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

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

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

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

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

Statement of Revenues, Expenses and Changes in Net Position

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

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

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

Statement of Cash Flows

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

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

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

Condensed Financial Statements

Statement of Net Position

The following table reflects the condensed Statement of Net Position for the Electric Division compared to the prior year and the year preceding the prior year.

Statements of Net Position
As of June 30

(in thousands of dollars)	2014	2013	2012
Current and other assets	$ 150,076	$ 183,172	$ 165,590
Capital assets, net	445,495	406,026	376,338
Deferred outflows of resources	1,415	1,605	1,852
Total assets and deferred outflows of resources	596,986	590,803	543,780
Current and other liabilities	108,777	106,386	98,274
Long-term debt outstanding	171,005	178,940	151,950
Deferred inflows of resources	4,220	4,481	3,766
Total liabilities and deferred inflows of resources	284,002	289,807	253,990
Net position			
Net investment in capital assets	262,995	216,052	214,981
Restricted	7,956	7,595	6,924
Unrestricted	42,033	77,349	67,885
Total net position	$ 312,984	$ 300,996	$ 289,790

Normal Impacts on Statement of Net Position

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

- Change in net position (from Statement of Revenues, Expenses and Changes in Net Position): impacts (increase/decrease) current and other assets and/or capital assets and unrestricted net position.

- Issuing debt for capital: increases deferred inflows/outflows of resources and long-term debt.

- Spending debt proceeds on new capital: reduces current assets and increases capital assets.

- Spending of non-debt related current assets on new capital: (a) reduces current assets and increases capital assets and (b) reduces unrestricted net position and increases net investment in capital assets.

- Principal payment on debt: (a) reduces current and other assets and reduces long-term debt and (b) reduces unrestricted net position and increases net investment in capital assets.

- Reduction of capital assets through depreciation: reduces capital assets and net investment in capital assets.

Impacts and Analysis

Current and Other Assets

Fiscal Year 2014 Compared to Fiscal Year 2013

Current and other assets decreased $33.1 million or 18.1 percent. The decrease is predominately attributable to the reduction in general fund cash of $38.1 million primarily for funding capital projects. The decrease is offset by a $1.9 million increase in operating contingency reserves, $0.9 million increase in inventories, $0.6 million increase in other current assets and a $0.4 million increase in accounts receivable.

Fiscal Year 2013 Compared to Fiscal Year 2012

Current and other assets increased $17.6 million or 10.6 percent. The increase in assets is attributed to cash proceeds from the $35 million December 2012 bond issue and increased revenue from one percent October 2011 and 2012 rate increases. Accounts receivable was $3.9 million higher than June 30 of the previous year contributing to the overall increase in assets. Operating contingency reserves increased $1 million. Other assets decreased by $17.7 million as KUB flowed through previously under recovered wholesale power costs to its electric customers through the Purchased Power Adjustment.

Capital Assets

Fiscal Year 2014 Compared to Fiscal Year 2013

Capital assets, net of depreciation, increased $39.5 million or 9.7 percent. Major capital expenditures included $31.8 million for distribution system improvements, $8.7 million for pole replacements, $5.5 million for system growth-related expenditures and $2.7 million for fleet and heavy equipment.

Fiscal Year 2013 Compared to Fiscal Year 2012

Capital assets, net of depreciation, increased $29.7 million or 7.9 percent. Major capital expenditures included $23.6 million for distribution system improvements, $8.9 million for pole replacements, $4.6 million for system growth-related expenditures, and $2.2 million for fleet and heavy equipment.

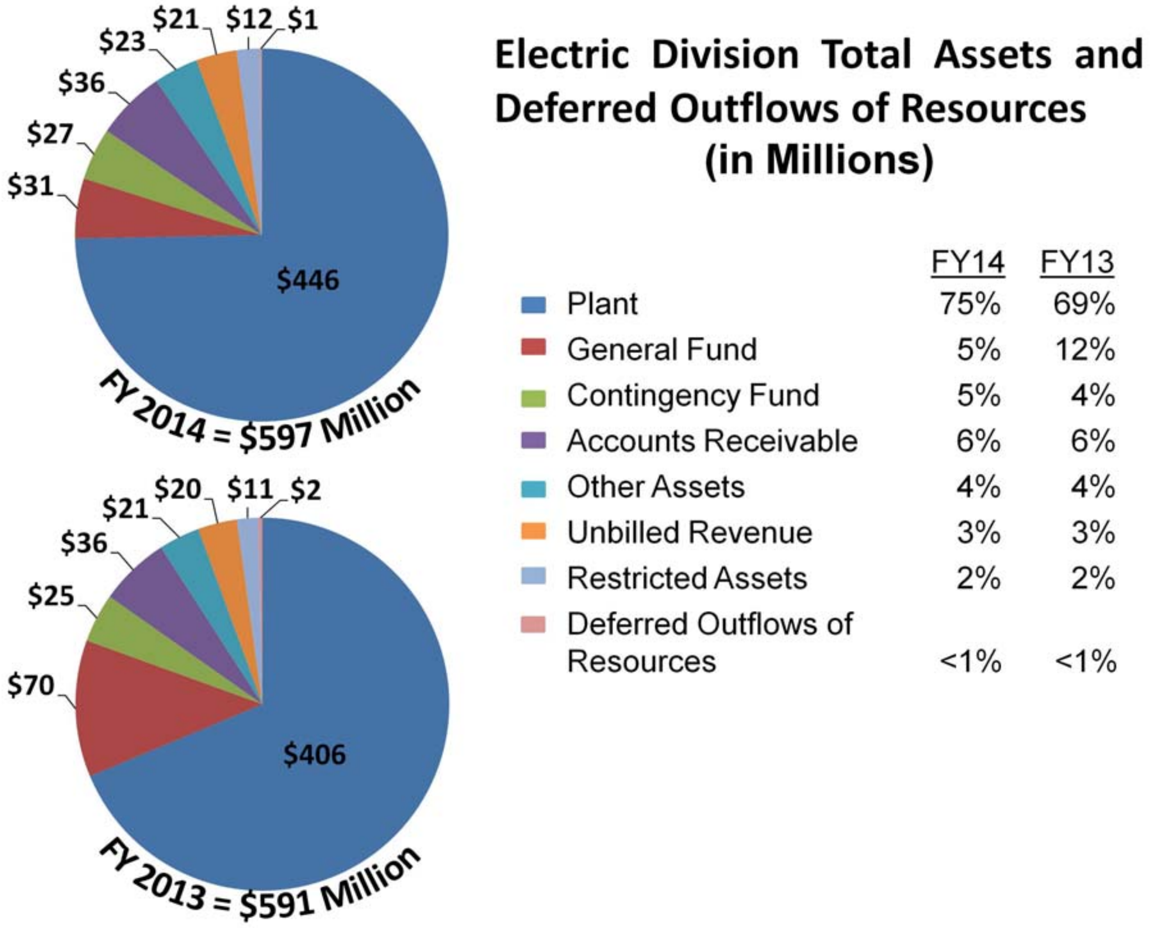
Deferred Outflows of Resources

Fiscal Year 2014 Compared to Fiscal Year 2013

Deferred outflows of resources decreased $0.2 million or 11.8 percent compared to the prior fiscal year, reflecting amortization of deferred losses on bonds refunded in prior periods.

Fiscal Year 2013 Compared to Fiscal Year 2012

Deferred outflows of resources decreased $0.2 million compared to the prior year, reflecting issuance costs received in the refunding of long term debt in March 2013.



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

	FY14	FY13
Plant	75%	69%
General Fund	5%	12%
Contingency Fund	5%	4%
Accounts Receivable	6%	6%
Other Assets	4%	4%
Unbilled Revenue	3%	3%
Restricted Assets	2%	2%
Deferred Outflows of Resources	<1%	<1%

Current and Other Liabilities

Fiscal Year 2014 Compared to Fiscal Year 2013

Current and other liabilities increased $2.4 million or 2.2 percent, due in part to increased accounts payables of $1.4 million from higher contractor costs for June 2014 compared to June 2013. TVA conservation loans increased $0.9 million. Over recovery of purchased power cost was $0.5 million less in fiscal year 2014. The $4.4 million over recovery in fiscal year 2014 will be flowed back to KUB's electric customers next fiscal year through adjustments to electric rates via the Purchased Power Adjustment.

Fiscal Year 2013 Compared to Fiscal Year 2012

Current and other liabilities increased $8.1 million or 8.3 percent, due in part to a $4.9 million over recovery of purchased power expenses in fiscal year 2013. The $4.9 million over recovery will be flowed back to KUB's electric customers next fiscal year through adjustments to electric rates via the Purchased Power Adjustment. Accounts payable rose $0.8 million, due to higher contractor costs for June 2013 compared to June 2012. TVA conservation loans increased $0.7 million.

Long-Term Debt

Fiscal Year 2014 Compared to Fiscal Year 2013

Long-term debt decreased $7.9 million or 4.4 percent from the scheduled repayment of debt.

Fiscal Year 2013 Compared to Fiscal Year 2012

Long-term debt increased $27 million or 17.8 percent, the net result of a $35 million December 2012 bond issue, the scheduled repayment of debt, and a $0.4 million reduction in principal as a result of the March 2013 debt refunding.

Deferred Inflows of Resources

Fiscal Year 2014 Compared to Fiscal Year 2013

The net unamortized cost of debt decreased $0.3 million or 5.8 percent compared to the prior fiscal year.

Fiscal Year 2013 Compared to Fiscal Year 2012

The net unamortized cost of debt increased $0.7 million reflecting premiums received in the refunding of long term debt in March 2013.

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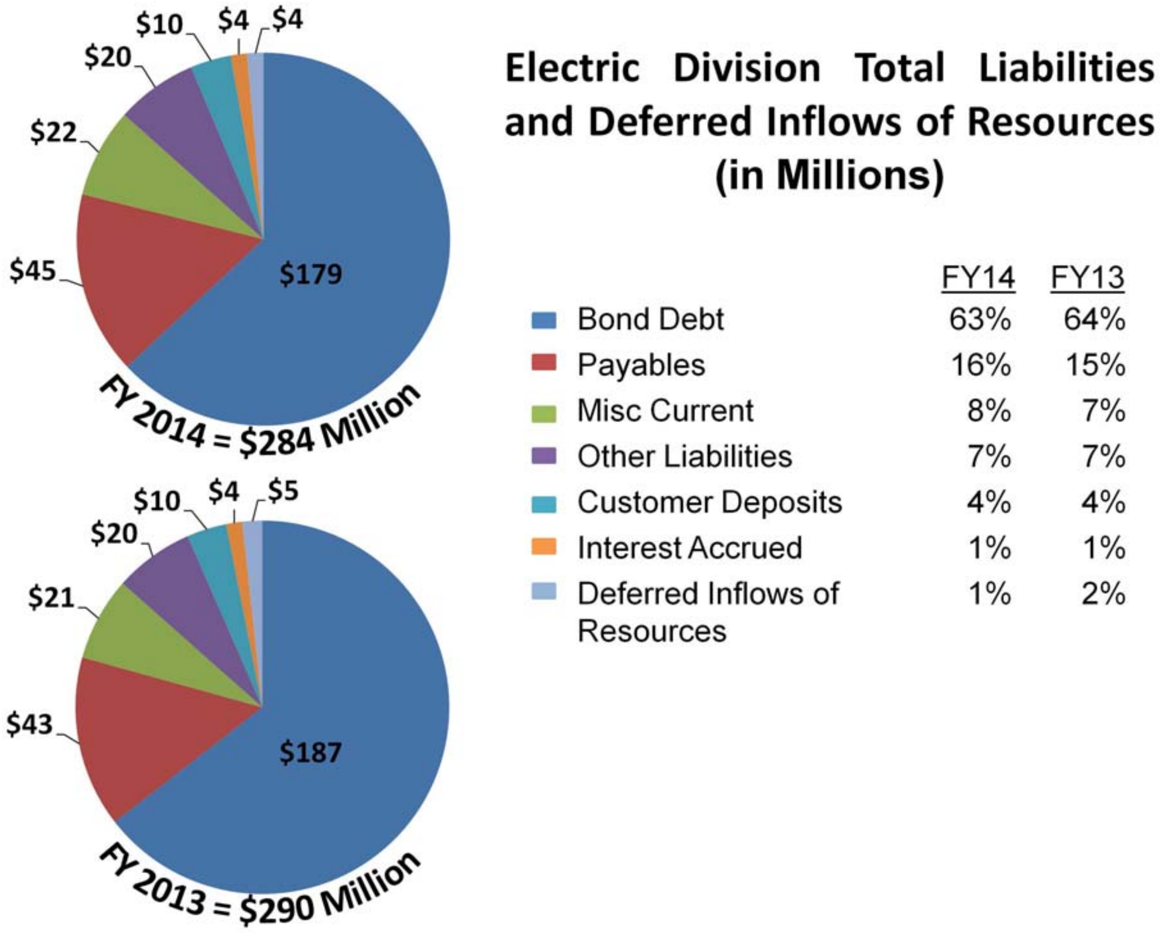


Electric Division Total Liabilities and Deferred Inflows of Resources (in Millions)

	FY14	FY13
■ Bond Debt	63%	64%
■ Payables	16%	15%
■ Misc Current	8%	7%
■ Other Liabilities	7%	7%
■ Customer Deposits	4%	4%
■ Interest Accrued	1%	1%
■ Deferred Inflows of Resources	1%	2%

Net Position

Fiscal Year 2014 Compared to Fiscal Year 2013

Net investment in capital assets increased by $46.9 million or 21.7 percent. The increase was primarily the result of $39.5 million of net electric plant additions. Unrestricted net position decreased $35.3 million, due to the $33.1 million decrease in current and other assets. Restricted net position increased $0.4 million, due to the net increase of the electric bond fund and the associated interest payable.

Fiscal Year 2013 Compared to Fiscal Year 2012

Net investment in capital assets increased by $1.1 million or 0.5 percent. The increase was the net result of $29.7 million of net electric plant additions and the addition of new electric system debt and debt issuance costs totaling $28.6 million. Unrestricted net position increased $9.5 million, due to the $17.6 million increase in current and other assets. Restricted net position increased $0.7 million, due to the net increase of the electric bond fund and the associated interest payable.

Statement of Revenues, Expenses and Changes in Net Position

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

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

(in thousands of dollars)	2014	2013	2012
Operating revenues	$ 527,833	$ 534,888	$ 506,054
Less: Purchased power expense	419,558	432,024	409,443
Margin from sales	108,275	102,864	96,611
Operating expenses			
Distribution	32,905	30,914	29,123
Customer service	5,858	5,588	5,305
Administrative and general	13,351	13,021	13,954
Depreciation and amortization	23,190	22,377	20,656
Taxes and tax equivalents	13,627	12,940	12,003
Total operating expenses	88,931	84,840	81,041
Operating income	19,344	18,024	15,570
Interest income	290	371	502
Interest expense	(7,739)	(7,281)	(6,990)
Other income/(expense)	(213)	(85)	(251)
Change in net position before capital contributions	11,682	11,029	8,831
Capital contributions	306	177	302
Change in net position	$ 11,988	$ 11,206	$ 9,133

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

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

- Operating revenue is largely determined by the volume of electric power sales for the fiscal year. Any change (increase/decrease) in retail electric rates would also be a cause of change in operating revenue.

- Purchased power expense is determined by volume of power purchases from TVA for the fiscal year. Also, any change (increase/decrease) in TVA wholesale power rates would result in a change in purchased power expense.

- Operating expenses (distribution, customer service, administrative and general) are normally impacted by changes in areas including, but not limited to, labor costs (staffing, wage rates), active employee and retiree medical costs, and overhead line maintenance (tree trimming, pole inspection, etc.).

- Depreciation expense is impacted by plant additions and retirements during the fiscal year.

- Taxes and tax equivalents are impacted by plant additions/retirements, changes in property tax rates, and gross margin levels.

- Interest income is impacted by the level of interest rates and investments.

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

- Other income/(expenses) is impacted by miscellaneous non-operating revenues and expenses.

- Capital contributions are impacted by a donation of facilities/infrastructure to KUB by developers and governmental agencies. The contributions are recognized as revenue and recorded as plant in service based on the fair market value of the asset(s).

Impacts and Analysis

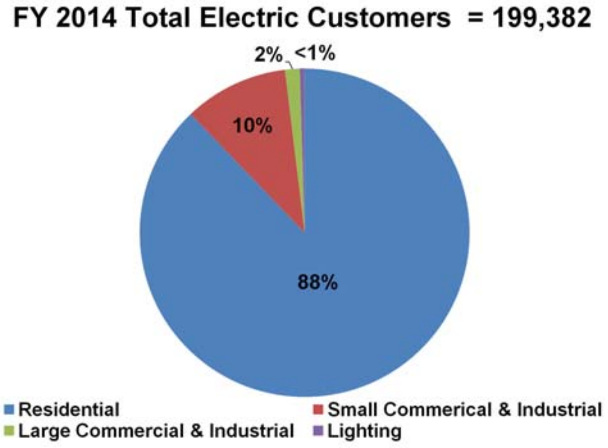
Margin from Sales

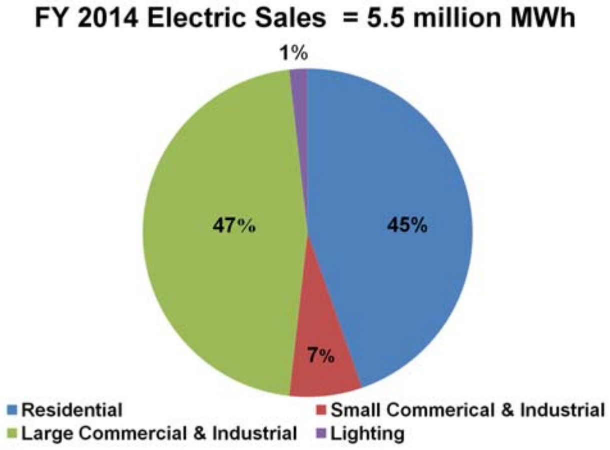
Fiscal Year 2014 Compared to Fiscal Year 2013

The Division's net position increased $12 million, which was $0.8 million more than last year's $11.2 million increase. The higher earnings were due to the net effect of a $5.4 million increase in margin on sales, a $4.1 million rise in operating expenses, a $0.5 million increase in interest expense, and a $0.1 million rise in capital contributions.

Margin on electric sales grew $5.4 million, which was the combined result of an increase in sales volumes and additional revenue from the one percent October 2012 and 2013 rate increases.

Operating revenue decreased $7.1 million or 1.3 percent, reflecting the flow through of over recovered purchased power from the prior fiscal year, a 1.4 percent in billed sales volumes and additional revenue from electric rate increases effective October 2012 and 2013. Purchased power expense decreased $12.5 million over last year the net result of higher sales volumes and wholesale purchase power rates from TVA. Power sales of 5.5 million MWh were 1.4 percent higher than the prior year.





Residential customers represented 88 percent of total electric system customers and accounted for 45 percent of electric sales volumes for the year. Large commercial and industrial customers accounted for the largest portion of total sales volumes for the year, which was consistent with the prior year due to a steady customer base. KUB's ten largest electric customers accounted for 15.8 percent of KUB's billed volumes. Those ten customers represent five industrial and five commercial customers, including two governmental customers. Sales to Gerdau Ameristeel, KUB's largest industrial customer, were 305.2 MWh or 5.5 percent of total electric system sales.

Electric sales volumes were 1.1 percent lower during the first six months of fiscal year 2014 compared to the previous fiscal year. However, sales over the course of the winter heating season were significantly higher, reflecting colder temperatures than the prior fiscal year.

KUB has added 2,875 electric system customers over the past three years, representing annual growth of less than 1 percent.

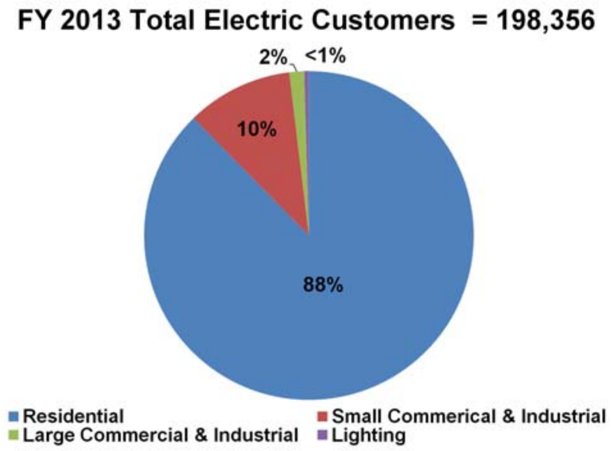
Electric sales volumes have increased 2.6 percent since fiscal year 2012. Large commercial and industrial sales have decreased 1.5 percent over the same period of time.

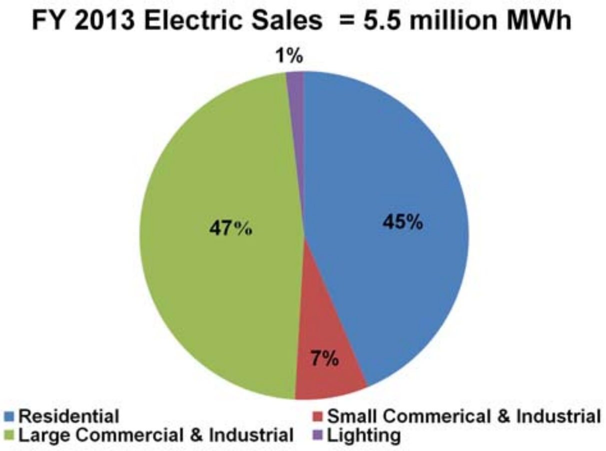
Fiscal Year 2013 Compared to Fiscal Year 2012

The Division’s net position increased $11.2 million, which was $2.1 million more than last year’s $9.1 million increase. The higher earnings were due to the net effect of a $6.3 million increase in margin on sales, a $3.8 million rise in operating expenses, a $0.3 million increase in interest expense, and a $0.1 million decline in capital contributions.

Margin on electric sales grew $6.3 million, which was the combined result of an increase in sales volumes and additional revenue from the one percent October 2011 and 2012 rate increases.

Operating revenue increased $28.8 million or 5.7 percent. Purchased power expense increased $22.6 million over last year, the net result of higher purchases and slightly lower TVA wholesale power rates. Power sales of 5.5 million MWh were 1.1 percent higher than the prior year.





Residential customers represented 88 percent of total electric system customers and accounted for 45 percent of electric sales volumes for the year. Large commercial and industrial customers accounted for the largest portion of total sales volumes for the year, which was consistent with the prior year due to a steady customer base. KUB’s ten largest electric customers accounted for 15.6 percent of KUB’s billed volumes. Those ten customers represent five industrial and five commercial customers including two governmental customers. Sales to Gerdau Ameristeel, KUB’s largest industrial customer, were 291.3 MWh or 5.3 percent of total electric system sales.

Electric sales were slightly lower during the first six months of fiscal year 2013 compared to the previous fiscal year. However, sales over the course of the winter heating season were significantly higher than the prior year, reflecting colder temperatures. Sales in the last two months of the fiscal year were lower than the previous year due to milder summer temperatures.

Operating Expenses

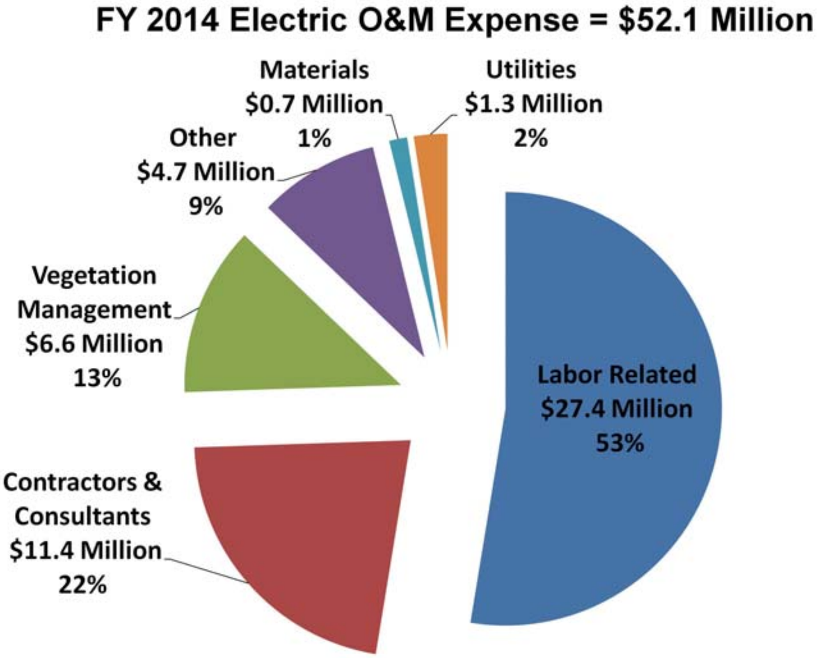
Fiscal Year 2014 Compared to Fiscal Year 2013

Operating expenses (excluding purchased power expense) increased $4.1 million, or 4.8 percent compared to fiscal year 2013. Operating expenses are categorized as distribution (O&M), customer service (O&M), administrative and general (O&M), depreciation or taxes and tax equivalents:

- Distribution expenses increased $2 million or 6.4 percent, primarily from an increase in substation breaker replacements and outside contractor expenses.

- Customer service expenses were up $0.3 million compared with the prior year, primarily due to the Division's share of increased meter reading expenses.

- Administrative and general expenses increased $0.3 million or 2.5 percent, primarily due to an increase in the Division's portion of shared costs.



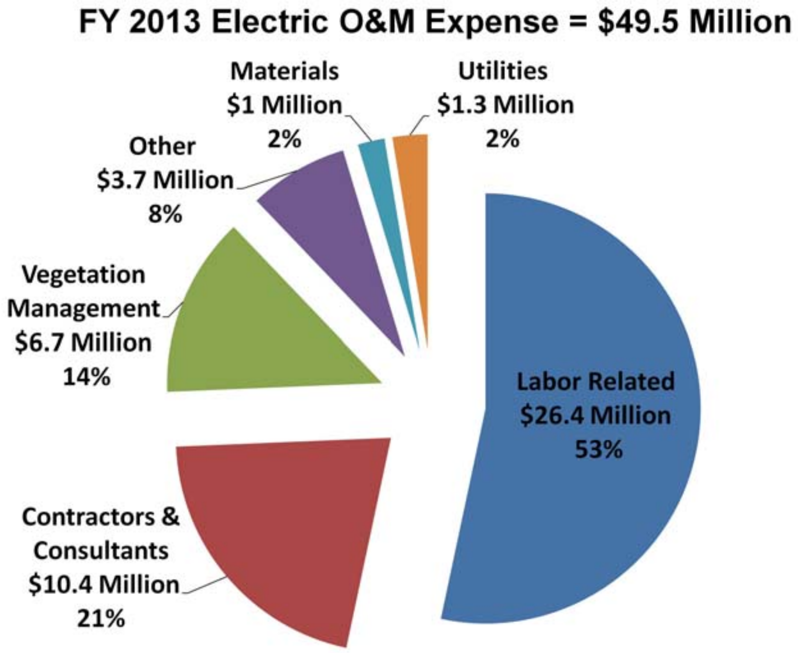
- Depreciation expense for fiscal year 2014 increased $0.8 million or 3.6 percent. This increase was primarily attributable to station equipment, poles and overhead conductors.

- Taxes and tax equivalents were $0.7 million higher than the prior fiscal year due to an increase in tax equivalent payments to the City of Knoxville, Knox County, and other taxing jurisdictions as a result of capital asset and margin growth.

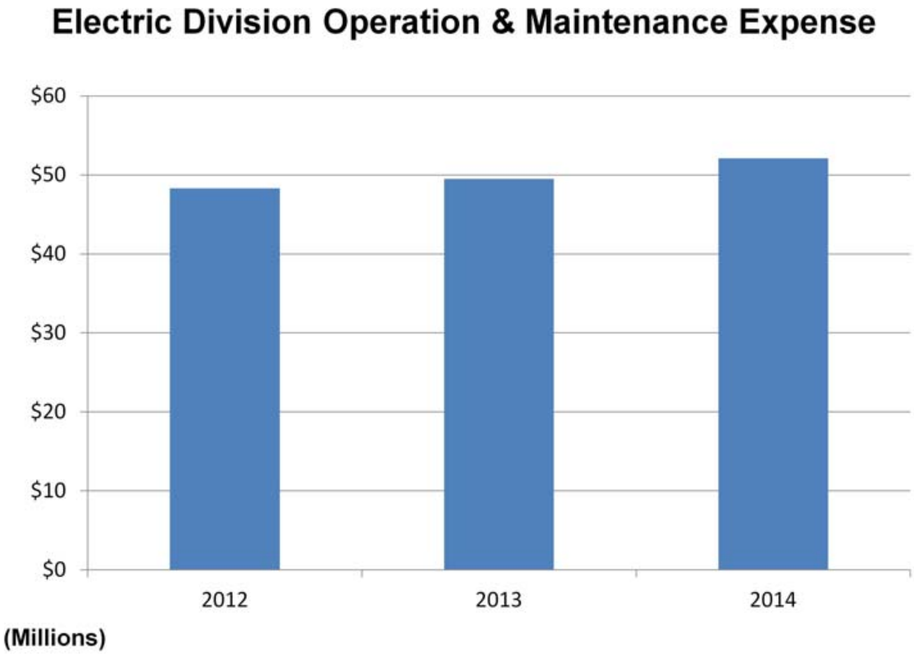
Fiscal Year 2013 Compared to Fiscal Year 2012

Operating expenses (excluding purchased power expense) increased $3.8 million, or 4.7 percent compared to fiscal year 2012. Operating expenses are categorized as distribution (O&M), customer service (O&M), administrative and general (O&M), depreciation or taxes and tax equivalents:

- Distribution expenses increased $1.8 million or 6.1 percent, due in large part to an increase in outside contractor expenses.
- Customer service expenses were up $0.3 million compared with the prior year, primarily due to the Division's share of increased meter reading expenses.
- Administrative and general expenses decreased $0.9 million or 6.7 percent, primarily due to a $0.7 million decrease in the Division's portion of shared costs.



- Depreciation expense for fiscal year 2013 increased $1.7 million or 8.3 percent. This increase was the result of a full year of depreciation on $27 million of assets added in the fiscal year 2012 and a partial year of depreciation on $46.4 million of assets placed in service in fiscal year 2013. The Division also retired $10.4 million in assets over the course of the fiscal year.
- Taxes and tax equivalents were $0.9 million higher than the prior fiscal year due to an increase in tax equivalent payments to the City of Knoxville, Knox County, and other taxing jurisdictions as a result of capital asset and margin growth.



Other Income and Expense

Fiscal Year 2014 Compared to Fiscal Year 2013

Interest income decreased $0.1 million. This decrease was primarily due to lower long-term interest rates on operating contingency fund investments.

Interest expense increased $0.5 million or 6.3 percent, primarily due to the additional interest from revenue bonds issued December 2012.

Other income (net) decreased $0.1 million.

The Division recorded $0.3 million in capital contributions from donated street lighting assets during the fiscal year.

Fiscal Year 2013 Compared to Fiscal Year 2012

Interest income decreased $0.1 million. This decrease was primarily due to lower long-term interest rates on operating contingency fund investments.

Interest expense increased $0.3 million or 4.2 percent, the net result of interest cost on $35 million of bonds issued during the fiscal year and savings on the refunding of $10.1 million of outstanding bonds in March 2013.

Other income (net) increased $0.2 million.

The Division recorded $0.2 million in capital contributions from donated street lighting assets during the fiscal year.

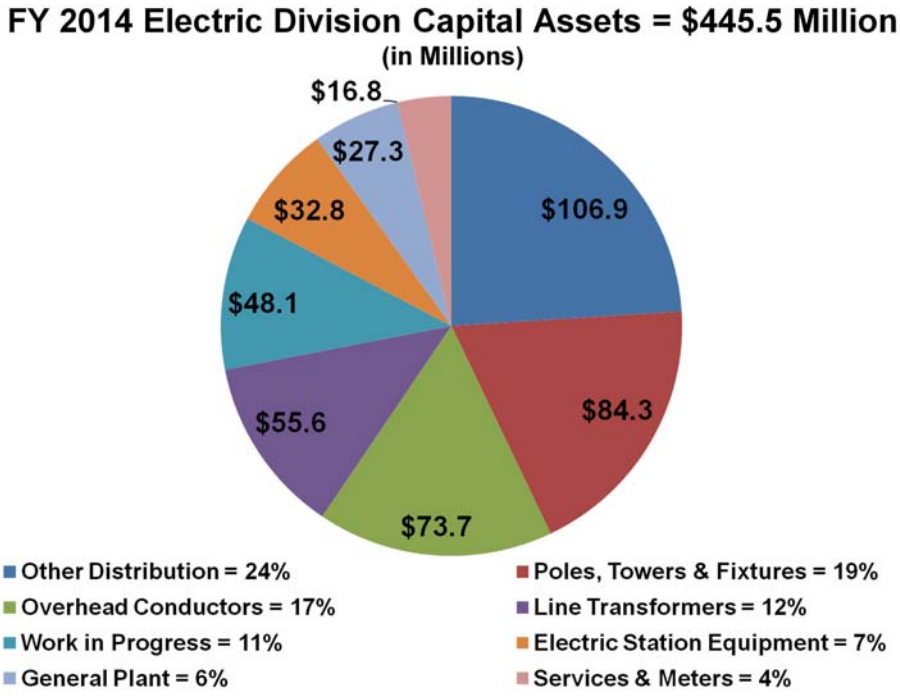
Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

(in thousands of dollars)	**2014**	**2013**	**2012**
Distribution plant:			
Services and meters	$ 16,851	$ 16,968	$ 16,949
Electric station equipment	32,797	30,227	25,181
Poles, towers and fixtures	84,332	72,274	63,621
Overhead conductors	73,663	67,448	69,161
Line transformers	55,600	52,503	48,486
Others	106,894	100,458	94,414
Total distribution plant	370,137	339,878	317,812
General plant	27,288	25,959	25,131
Total plant	397,425	365,837	342,943
Work in progress	48,070	40,189	33,395
Total net plant	$ 445,495	$ 406,026	$ 376,338

Fiscal Year 2014 Compared to Fiscal Year 2013

As of June 30, 2014, the Division had $445.5 million invested in a variety of capital assets, as reflected in the schedule above, which represents a net increase (including additions, retirements, and depreciation) of $39.5 million or 9.7 percent over the end of the last fiscal year.

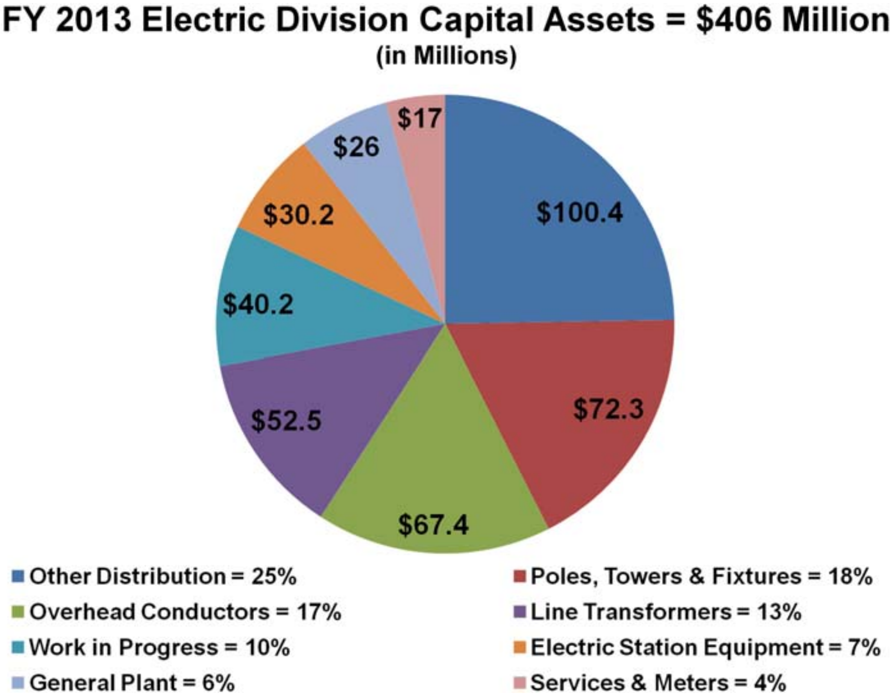


Major capital asset expenditures during the year were as follows:

- $31.8 million for various electric distribution system improvements.
- $8.7 million for pole replacements.
- $5.5 million for installation of new electric services and the upgrade or replacement of existing services.
- $2.7 million for fleet and heavy equipment.

Fiscal Year 2013 Compared to Fiscal Year 2012

As of June 30, 2013, the Division had $406 million invested in a variety of capital assets, as reflected in the schedule above which represents a net increase (including additions, retirements, and depreciation) of $29.7 million or 7.9 percent over the end of the last fiscal year.



Major capital asset expenditures during the year were as follows:

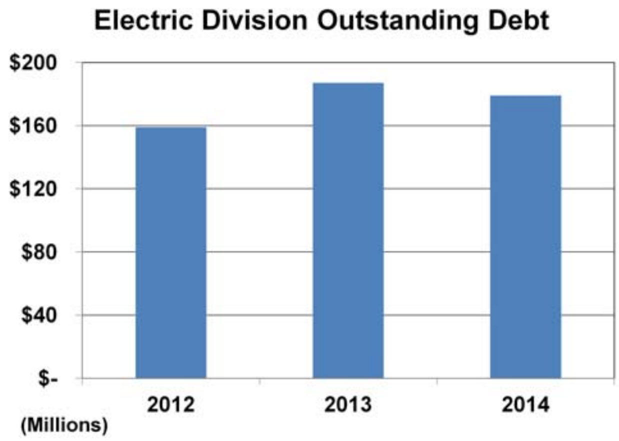
- $23.6 million for various electric distribution system improvements.
- $8.9 million for pole replacements.
- $4.6 million for installation of new electric services and the upgrade or replacement of existing services.
- $2.2 million for fleet and heavy equipment.

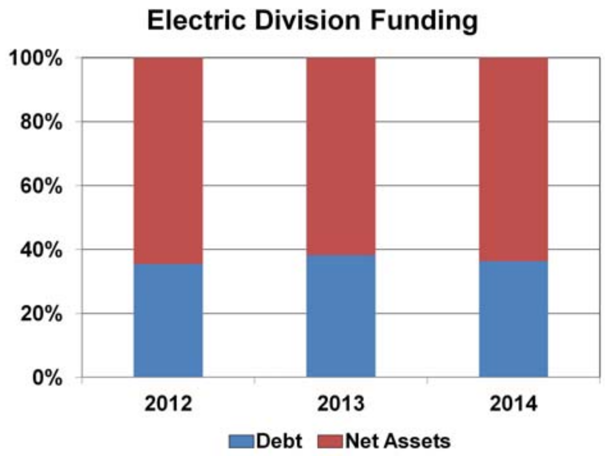
Debt Administration

The Division's outstanding debt peaked in fiscal year 2013 at $186.5 million. Scheduled repayments of debt decreased the amount outstanding as of June 30, 2014 to $178.9 million. Debt as a percentage of capitalization represented 36.4 percent in 2014, 38.3 percent in 2013 and 35.4 percent at the end of fiscal year 2012.

Outstanding Debt
As of June 30

(in thousands of dollars)	**2014**	**2013**	**2012**
Revenue bonds	$ 178,940	$ 186,510	$ 158,870
Total outstanding debt	$ 178,940	$ 186,510	$ 158,870





The Division will pay $96.1 million in principal payments over the next ten years, representing 53.7 percent of the outstanding bonds. KUB's Debt Management Policy requires that a minimum of 30 percent of electric debt principal be repaid over the next ten years.

Fiscal Year 2014 Compared to Fiscal Year 2013

As of June 30, 2014, the Division had $178.9 million in outstanding debt (including the current portion of revenue bonds), compared to $186.5 million last year, a decrease of $7.6 million or 4.1 percent. The Division's weighted average cost of debt at June 30, 2014 was 4.08 percent.

This decrease in debt was attributable to the scheduled repayment of bond debt during the fiscal year.

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2014, the Division's revenue bonds were rated AA+ by Standard & Poor's and Aa2 by Moody's Investors Service.

Fiscal Year 2013 Compared to Fiscal Year 2012

As of June 30, 2013, the Division had $186.5 million in outstanding debt (including the current portion of revenue bonds), compared to $158.9 million last year, an increase of $27.6 million or 17.4 percent. The Division's weighted average cost of debt at June 30, 2013 was 4.06 percent.

This increase in debt was attributable to the net result of scheduled repayment of bond debt during the fiscal year, the issuance of $35 million in electric bonds to fund Century II capital improvements, and the refunding of outstanding bonds.

In March 2013, KUB sold $9.7 million in revenue refunding bonds for the purpose of refunding electric bonds issued in 2006 at lower interest rates. The Division will realize a total debt service savings of $1.2 million over the life of the bonds ($0.7 million on a net present value basis).

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2013, the Division's revenue bonds were rated AA+ by Standard & Poor's and Aa2 by Moody's Investors Service.

Impacts on Future Financial Position

KUB anticipates adding 1,050 additional electric system customers in fiscal year 2015.

In June 2014, the KUB Board adopted three years of rate increases for the electric systems to help fund the ongoing Century II infrastructure programs for each system. The electric rate increases will be effective July 2014, July 2015, and July 2016, respectively. Each rate increase will provide approximately $5 million in additional electric system revenue.

KUB sold $40 million in electric system revenue bonds in August 2014 for the purpose of funding electric system capital improvements in fiscal year 2015. The true interest cost of the bonds, which were sold through a competitive bidding process was 3.514 percent.

KUB debt portfolio includes $26.5 million of Electric Division 2010 Build America Bonds (BABs) in which the U.S. Treasury provides a rebate to KUB for a portion of the interest. The interest rebates were subject to federal sequestration during the fiscal year and were reduced by 7.2 percent. Any future actions by Congress may also affect the anticipated rebates for future fiscal years.

The TVA Board approved a 1.5 percent October 2014 wholesale base rate increase which will be flowed through to KUB's electric retail sales via its Purchase Power Adjustment. The flow through of this wholesale rate increase will raise the typical residential electric customer's monthly bill $1.70.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, is effective for periods beginning after June 15, 2013. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68,* are effective for periods beginning after June 15, 2014. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on the Division's financial position or results of operations during fiscal year 2014.

Financial Contact

The Division's financial statements are designed to present users (citizens, customers, investors, and creditors) with a general overview of the Division's financial position and results of operations for the fiscal years ending June 30, 2014 and 2013. If you have questions about the statements or need additional financial information, contact KUB's Chief Financial Officer at 445 South Gay Street, Knoxville, Tennessee 37902.

Knoxville Utilities Board Electric Division
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	$ 31,472,251	$ 60,586,059
Short-term investments	-	9,000,000
Short-term contingency fund investments	12,287,377	9,105,900
Other current assets	581,348	9,878
Accrued interest receivable	10,907	23,071
Accounts receivable, less allowance of uncollectible accounts of $542,991 in 2014 and $706,454 in 2013	56,667,360	56,265,887
Inventories	7,522,325	6,605,123
Prepaid expenses	1,112,036	1,107,435
Total current assets	109,653,604	142,703,353
Restricted assets:		
Electric bond fund	11,583,829	11,326,535
Other funds	20,620	25,295
Total restricted assets	11,604,449	11,351,830
Electric plant in service	750,921,975	708,307,167
Less accumulated depreciation	(353,496,822)	(342,470,640)
	397,425,153	365,836,527
Retirement in progress	801,031	1,264,225
Construction in progress	47,268,838	38,925,048
Net plant in service	445,495,022	406,025,800
Other assets:		
Long-term contingency fund investments	14,753,028	16,037,087
TVA conservation program receivable	11,093,821	10,189,286
Other	2,971,392	2,890,228
Total other assets	28,818,241	29,116,601
Total assets	595,571,316	589,197,584
Deferred outflows of resources:		
Unamortized bond refunding costs	1,415,368	1,605,482
Total deferred outflows of resources	1,415,368	1,605,482
Total assets and deferred outflows of resources	$ 596,986,684	$ 590,803,066

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

Knoxville Utilities Board Electric Division
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Liabilities, Deferred Inflows, and Capitalization		
Current liabilities:		
Current portion of revenue bonds	$ 7,935,000	$ 7,570,000
Sales tax collections payable	878,073	882,823
Accounts payable	44,031,673	42,610,817
Accrued expenses	21,760,276	21,440,709
Customer deposits plus accrued interest	10,526,010	10,414,112
Accrued interest on revenue bonds	3,648,729	3,756,435
Total current liabilities	88,779,761	86,674,896
Other liabilities:		
TVA conservation program	10,885,245	10,005,739
Accrued compensated absences	3,819,218	3,879,950
Customer advances for construction	755,380	588,441
Over recovered purchased power cost	4,412,769	4,927,581
Other	124,804	309,274
Total other liabilities	19,997,416	19,710,985
Long-term debt:		
Electric revenue bonds	171,005,000	178,940,000
Total long-term debt	171,005,000	178,940,000
Total liabilities	279,782,177	285,325,881
Deferred inflows of resources:		
Unamortized costs	4,220,243	4,480,711
Total deferred inflows of resources	4,220,243	4,480,711
Total liabilities and deferred inflows of resources	284,002,420	289,806,592
Net position		
Net investment in capital assets	262,994,767	216,052,130
Restricted for:		
Debt service	7,935,100	7,570,100
Other	20,620	25,295
Unrestricted	42,033,777	77,348,949
Total net position	312,984,264	300,996,474
Total liabilities, deferred inflows, and net position	$ 596,986,684	$ 590,803,066

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

Knoxville Utilities Board Electric Division
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues	$ 527,832,791	$ 534,888,206
Operating expenses		
Purchased power	419,557,996	432,023,455
Distribution	32,904,889	30,914,192
Customer service	5,858,398	5,587,902
Administrative and general	13,350,746	13,021,407
Provision for depreciation and amortization	23,190,530	22,376,706
Taxes and tax equivalents	13,626,589	12,940,143
Total operating expenses	508,489,148	516,863,805
Operating income	19,343,643	18,024,401
Non-operating revenues (expenses)		
Contributions in aid of construction	1,726,458	3,953,118
Interest and dividend income	289,857	370,800
Interest expense	(7,739,346)	(7,281,191)
Write-down of plant for costs recovered through contributions	(1,726,458)	(3,953,118)
Other	(212,614)	(85,206)
Total non-operating revenues (expenses)	(7,662,103)	(6,995,597)
Change in net position before capital contributions	11,681,540	11,028,804
Capital contributions	306,250	177,364
Change in net position	11,987,790	11,206,168
Net position, beginning of year	300,996,474	289,790,306
Net position, end of year	$ 312,984,264	$ 300,996,474

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

Knoxville Utilities Board Electric Division
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash receipts from customers	$ 520,465,490	$ 524,253,890
Cash receipts from other operations	6,753,607	8,560,444
Cash payments to suppliers of goods or services	(450,856,828)	(440,706,161)
Cash payments to employees for services	(22,182,793)	(21,692,297)
Payment in lieu of taxes	(11,905,037)	(11,301,342)
Cash receipts from collections of TVA conservation loan program participants	2,803,444	2,825,755
Cash payments for TVA conservation loan program	(2,811,356)	(2,757,835)
Net cash provided by operating activities	42,266,527	59,182,454
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	-	35,565,144
Principal paid on revenue bonds and notes payable	(7,570,000)	(6,920,000)
Interest paid on revenue bonds and notes payable	(7,405,114)	(6,488,457)
Acquisition and construction of electric plant	(66,014,116)	(57,024,217)
Changes in electric bond fund, restricted	(257,294)	(1,442,734)
Customer advances for construction	166,939	15,571
Proceeds received on disposal of plant	606,719	23,551
Cash received from developers and individuals for capital purposes	1,726,458	3,953,118
Net cash used in capital and related financing activities	(78,746,408)	(32,318,024)
Cash flows from investing activities:		
Changes in deposit and investment accounts:		
Purchase of investment securities	(2,056,857)	5,870,736
Maturities of investment securities	9,159,439	213,389
Interest received	302,020	411,611
Other property and investments	(38,529)	(29,743)
Net cash provided by investing activities	7,366,073	6,465,993
Net (decrease) increase in cash and cash equivalents	(29,113,808)	33,330,423
Cash and cash equivalents, beginning of year	60,586,059	27,255,636
Cash and cash equivalents, end of year	31,472,251	$ 60,586,059
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 19,343,643	$ 18,024,401
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expenses	24,273,528	23,437,295
Changes in operating assets and liabilities:		
Accounts receivable	(401,473)	(3,890,367)
Inventories	(917,202)	(322,532)
Prepaid expenses	(4,602)	(492,382)
TVA conservation program receivable	(904,534)	(637,077)
Other assets	(1,089,896)	(1,245,124)
Sales tax collections payable	(4,750)	33,586
Accounts payable and accrued expenses	1,679,690	353,465
Unrecovered purchased power cost	(514,812)	22,582,300
TVA conservation program payable	879,506	670,330
Customer deposits plus accrued interest	111,899	371,295
Other liabilities	(184,470)	297,263
Net cash provided by operating activities	$ 42,266,527	$ 59,182,454
Noncash capital activities:		
Acquisition of plant assets through developer contributions	$ 306,250	$ 177,364

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

1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners governs KUB. The Board has all powers to construct, acquire, expand, or operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions including setting rates. The Electric Division (Division) provides services to certain customers in Knox County and in seven surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Electric Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2014 and 2013, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

2. Summary of Significant Accounting Policies

Basis of Accounting

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.* Statement No. 34 established standards for external financial reporting for all state and local governmental entities.

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

Recently Adopted New Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62 (Statement No. 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for KUB's fiscal year beginning July 1, 2012. The objective of this Statement is to incorporate into the GASB's authoritative literature certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants' (AICPA) accounting and financial reporting guidance issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

Statement No. 62 supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election to apply FASB statements, related interpretations, Accounting Principles Board opinions and accounting research bulletins issued post-November 30, 1989 that do not conflict with Governmental Accounting Standards. However, FASB pronouncements issued post-November 30, 1989 that do not conflict with or contradict Governmental Accounting Standards can continue to apply as other accounting literature.

In June 2011, the GASB issued Statement No. 63 (Statement No. 63), (*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position,* effective for KUB's fiscal year beginning July 1, 2012. Statement No. 63 amends the net asset reporting requirements in Statement No. 34 and other pronouncements. Under these new standards, financial statements include deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities, and will report *net position* instead of net assets. Statement No. 63 requires the classification of net position into three components – net investment in capital assets; net position-restricted; and net position-unrestricted.

These classifications are defined as follows:

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

- Net position-restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

- Net position-unrestricted – This component of net position consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Implementation of Statement No. 63 had no effect on KUB's net position or changes in net position.

In March 2012, the GASB issued Statement No. 65 (Statement No. 65), *Items Previously Reported as Assets and Liabilities*, effective for KUB's fiscal year beginning July 1, 2013; however, KUB early adopted Statement No. 65 effective for the fiscal year beginning July 1, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities. Implementation of Statement No. 65 had no effect on KUB's net position or changes in net position.

Electric Plant

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

The provision for depreciation of electric plant in service is based on the estimated useful lives of the assets, which range from three to forty years, and is computed using the straight-line method. Pursuant to FERC, the caption "Provision for depreciation" in the statements of revenues, expenses and changes in net position does not include depreciation for transportation equipment of $1,082,998 in fiscal year 2014 and $1,060,589 in fiscal year 2013. Interest costs are expensed as incurred.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of the KUB Electric Division. Operating revenue is recorded when the service is rendered, on a cycle basis, and includes an estimate of unbilled revenue. Revenues are reported net of bad debt expense of $ 1,166,257 in fiscal year 2014 and $1,555,482 in fiscal year 2013.

Non-operating Revenue

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

Expense

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

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

Pension Plan

The Division’s employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 10). The Division’s policy is to fund pension cost accrued. As required by GASB Statement No. 27, KUB measures and discloses the annual pension cost on the accrual basis of accounting. At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

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, provision for doubtful accounts, depreciable lives of plant assets, unbilled revenue volumes, pension trust valuations, OPEB trust valuations, insurance liability reserves, and potential losses from contingencies and litigation. Actual results could differ from those estimates.

Restricted and Designated Assets

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

Cash Equivalents

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

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are items previously reported as assets 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 previously reported as liabilities related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. In accordance with Statement No. 62, KUB records debt issuance costs, including discounts and premiums as a deferred outflow or inflow. Likewise, 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.

Compensated Absences

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

Subsequent Events

KUB has evaluated events and transactions through October 24, 2014, the date these financial statements were issued, for items that should potentially be recognized or disclosed.

Reclassifications

Certain reclassifications have been made to fiscal year 2013 balances to conform to fiscal year 2014 presentation.

Purchased Power Adjustment

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

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

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

Under the PPA mechanism, the Division tracks the actual (under)/over recovered amount in the (Under)/Over recovered Purchased Power Costs accounts. These accounts are rolled into the PPA rate adjustments thereby assuring that any (under)/over recovered amounts are promptly passed on to the Division's customers. The amount of over recovered cost was $4,412,769 at June 30, 2014 and 4,927,581 at June 30, 2013.

Recently Issued Accounting Pronouncements

In June 2012, the GASB issued two related Statements that affect accounting and financial reporting of pensions by state and local governments. GASB Statement No. 67 (Statement No. 67), *Financial Reporting for Pension Plans*, is intended to improve financial reporting for state and local government pension plans. GASB Statement No. 68 (Statement No. 68), *Accounting and Financial Reporting for Pensions,* establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. Statements No. 67 and 68 supersede existing guidance on financial reporting for defined pension plans found in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The objective of this statement is to clarify accounting and financial reporting for pensions. This statement requires governments to recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date of the beginning net pension liability calculated under Statement No. 68.

Statement No. 67 is effective for periods beginning after June 15, 2013 and Statements No. 68 and 71 are effective for periods beginning after June 15, 2014. 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's investment policy provides the framework for the administration and investment of cash deposits. The investment policy follows 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. KUB's Agency Bond investments are rated Aaa by Moody's Investors Service.

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

Classification of deposits and investment of net position:

	2014	**2013**
Current assets		
Cash and cash equivalents	$ 31,472,251	$ 60,586,059
Short-term investments	-	9,000,000
Short-term contingency fund investments	12,287,377	9,105,900
Other assets		
Long-term contingency fund investments	14,667,816	15,965,018
Restricted assets		
Electric bond fund	11,583,829	11,326,535
Other funds	20,620	25,295
	$ 70,031,893	$ 106,008,807

The above amounts do not include accrued interest of $85,212 in fiscal year 2014 and $72,069 in fiscal year 2013. Interest income is recorded on an accrual basis.

Investments and maturities of KUB's deposits and investments:

	Deposit and Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	$ 37,546,211	$ 37,546,211	$ -
State Treasurer's Investment Pool	694	694	-
Agency Bonds	19,340,523	4,673,402	14,667,121
Certificates of Deposits	19,197,805	19,197,805	-
	$ 76,085,233	$ 61,418,112	$ 14,667,121

4. Accounts Receivable

Accounts receivable consists of the following:

	2014	2013
Wholesale and retail customers		
Billed services	$ 33,353,764	$ 33,748,677
Unbilled services	21,080,325	20,691,034
Other	2,776,262	2,532,630
Allowance for uncollectible accounts	(542,991)	(706,454)
	$ 56,667,360	$ 56,265,887

5. Accounts Payable and Accruals

Accounts payable and accruals were composed of the following:

	2014	2013
Trade accounts	$ 44,031,673	$ 42,610,817
Salaries and wages	664,201	598,379
Advances on pole rental	1,156,634	1,142,702
Self-insurance liabilities	738,983	816,900
Other current liabilities	19,200,458	18,882,728
	$ 65,791,949	$ 64,051,526

6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2013	Additions	Payments	Balance June 30, 2014	Amounts Due Within One Year
W-2005 - 3.0 - 4.5%	$ 34,860,000	$ -	$ 1,720,000	$ 33,140,000	$ 1,790,000
X-2006 - 4.0 - 5.0%	5,200,000	-	1,650,000	3,550,000	1,725,000
Y-2009 - 2.5 - 5.0%	37,350,000	-	1,450,000	35,900,000	1,525,000
Z-2010 - 1.45 - 6.35%	27,725,000	-	1,255,000	26,470,000	1,265,000
AA-2012 - 3.0 - 5.0%	36,715,000	-	920,000	35,795,000	955,000
BB-2012 - 3.0 - 4.0%	35,000,000	-	500,000	34,500,000	625,000
CC-2013 - 3.0 - 4.0%	9,660,000	-	75,000	9,585,000	50,000
Total debt	$ 186,510,000	$ -	$ 7,570,000	$ 178,940,000	$ 7,935,000

Other liabilities consist of the following:

	Balance June 30, 2013	Increase	Decrease	Balance June 30, 2014	Amounts Due Within One Year
TVA conservation program	$ 10,005,739	$ 3,734,967	$ (2,855,461)	$ 10,885,245	$ 1,500,000
Accrued compensated absences	3,879,950	6,618,561	$ (6,679,293)	3,819,218	1,500,000
Customer advances for construction	588,441	536,881	(369,942)	755,380	8,000
Other	309,274	63,880	(248,350)	124,804	20,000
	$ 14,783,404	$ 10,954,289	$ (10,153,046)	$ 15,584,647	$ 3,028,000

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

Fiscal Year	Total Principal	Total Interest	Grand Total
2015	$ 7,935,000	$ 7,145,450	$ 15,080,450
2016	8,270,000	6,832,230	15,102,230
2017	8,585,000	6,503,212	15,088,212
2018	8,940,000	6,157,884	15,097,884
2019	9,305,000	5,779,848	15,084,848
2020-2024	53,085,000	22,165,634	75,250,634
2025-2029	50,485,000	10,915,036	61,400,036
2030-2034	16,885,000	3,256,630	20,141,630
2035-2039	7,850,000	1,747,500	9,597,500
2040-2043	7,600,000	468,750	8,068,750
Total	$ 178,940,000	$ 70,972,174	$ 249,912,174

The Division has pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet the revenue bonds principal and interest payments when due. Such bond requirements are being met through monthly deposits to the Electric Bond Fund as required by the bond covenants. As of June 30, 2014, these requirements had been satisfied.

During fiscal year 2006, KUB's Electric Division issued Series W 2005 bonds in part to retire certain existing debt and to fund electric system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series U 2001 bonds, as such amounts mature. KUB's Electric Division also issued Series X 2006 bonds in part to retire certain existing debt and to fund electric system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay the remaining maturities of principal and interest on the Series S 1998 bonds.

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

During fiscal year 2011, KUB's Electric Division issued Series Z 2010 bonds to fund electric system capital improvements. The bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change.

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

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

In prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $68 million at June 30, 2014, and the trust account assets are not included in the financial statements.

7. Lease Commitments

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

2015	$	27,338
2016		9,861
2017		1,028
Total operating minimum lease payments	$	38,227

8. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning 6/30/2013	Increase	Decrease	Ending 06/30/2014
Distribution Plant				
Services and Meters	$ 40,494,806	$ 898,255	$ (157,890)	$ 41,235,171
Electric Station Equipment	114,555,002	6,885,926	(476,777)	120,964,151
Poles, Towers and Fixtures	114,380,474	14,300,504	(4,352,351)	124,328,627
Overhead Conductors	112,732,790	9,216,310	(1,781,000)	120,168,100
Line Transformers	86,755,917	5,304,894	(1,957,010)	90,103,801
Other Accounts	168,436,833	11,769,390	(1,470,908)	178,735,315
Total Distribution Plant	$ 637,355,822	$ 48,375,279	$ (10,195,936)	$ 675,535,165
General Plant	70,951,345	6,057,153	(1,621,688)	75,386,810
Total Plant Assets	$ 708,307,167	$ 54,432,432	$ (11,817,624)	$ 750,921,975
Less Accumulated Depreciation	(342,470,640)	(22,707,126)	11,680,944	(353,496,822)
Net Plant Assets	$ 365,836,527	$ 31,725,306	$ (136,680)	$ 397,425,153
Work In Progress	40,189,273	60,112,686	(52,232,090)	48,069,869
Total Net Plant	$ 406,025,800	$ 91,837,992	$ (52,368,770)	$ 445,495,022

9. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. At June 30, 2014, the amount of these liabilities was $738,983 resulting from the following changes:

	2014	2013
Balance, beginning of year	$ 816,900	$ 880,493
Current year claims and changes in estimates	5,685,495	5,742,173
Claims payments	(5,763,412)	(5,805,766)
Balance, end of year	$ 738,983	$ 816,900

10. Pension Plan

Description of Plan

The Plan is a single-employer contributory, defined benefit pension plan established by Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville § 1107(J). The Plan is designed to provide retirement, disability and death benefits.

The Plan is a governmental plan as defined by the Employee Retirement Income Security Act of 1974, is not subject to any of the provisions of the Act, and was revised January 1, 2014 to include all prior approved amendments.

At December 31, 2013, the Plan had approximately 639 retirees and beneficiaries currently receiving benefits and 49 terminated employees entitled to benefits but not yet receiving them. Of the approximately 778 current employees in the Plan, 743 were fully vested at December 31, 2013. 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 froze the Plan such that persons employed or re-employed by KUB on or after January 1, 2011, shall not be 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 Plan.

The Plan provides three different benefit arrangements for KUB participants, retirees, and beneficiaries, as follows:

Career Equity Program (CEP)
CEP is for eligible employees hired on or after January 1, 1999, and for eligible former City Division Plan A members who elected CEP coverage as of July 1, 1999. CEP is a closed plan.

All eligible employees became participants on the date of his/her KUB employment. Participants are covered by Social Security. Participation in CEP does not require or permit employee contributions.

Plan A
Plan A benefits are for former City Division Plan A active employees, vested terminated employees, retirees, and beneficiaries. Plan A is a closed plan.

All employees participating in the City Division Plan A as of June 30, 1999 were eligible to participate in KUB's Plan A or the CEP program. Participants of Plan A are covered by Social Security. Plan A is a closed plan and is not available to KUB employees hired after July 1, 1999. Participation in Plan A requires employee contributions of 3 percent of the first $4,800 of annual earnings and 5 percent of annual earnings in excess of $4,800. Plan A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or older.

Plan B
Plan B benefits are for former City Division Plan B active employees, vested terminated employees, retirees, and beneficiaries. Plan B is a closed plan.

All employees participating in the City Division Plan B as of June 30, 1999, are eligible to participate in KUB's Plan B. Plan B is now a closed plan and no participants can be added. Participants of Plan B are not covered by Social Security. Participation in Plan B requires employee contributions of 4 percent of annual earnings. Plan B provides for retirement benefits after 25 years of service and the attainment of age 50.

Funding Policy

For the Plan year ended December 31, 2013, a contribution of $6,314,399 will be made in the Plan sponsor's fiscal year ending June 30, 2015. The Electric Division's portion of this contribution is $3,030,911. The contribution was determined as part of the January 1, 2013 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. For the Plan year ended December 31, 2013, the Plan's actuarial funded ratio was 89.3 percent.

At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund, is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

Significant actuarial assumptions used in the valuation include (a) rate of return of investments of 8 percent, (b) the RP2000 Mortality Table, (c) annual projected salary increases based on participants' ages ranging from age 25 to age 65 with salary increases from 2.58 percent to 7.92 percent, and (d) cost of living adjustment of 2.8 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period.

As of the actuarial report for the Plan year ended December 31, 2013, contributions of $6,314,399 and $5,502,677 for 2013 and 2012, respectively, will be made during the Plan sponsor's fiscal years ending June 30, 2015 and 2014, respectively. Of these amounts, $3,030,911 and $2,586,258 are attributable to the Electric Division.

Subsequent to June 30, 2014, the actuarial valuation for the Plan year ending December 31, 2014 was completed. The actuarial valuation resulted in an actuarially determined contribution of $5,669,380 for the fiscal year ending June 30, 2016, based on the Plan's current funding policy. The Electric Division's portion of this contribution is $2,721,302. For the Plan year ending December 31, 2014, the Plan's actuarial funded ratio was 94.6 percent. See Required Supplementary Information for Pension Schedule of Funding Progress.

11. Defined Contribution Plan

KUB has a defined contribution 401(k) employee retirement savings plan covering eligible KUB employees. Employees hired prior to January 1, 2011 may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. Employees hired on or after January 1, 2011 have an enhanced 401(k) Plan due to the closure of the Defined Benefit Pension Plan. They may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. They also receive a nonelective KUB contribution of from 3 percent to 6 percent, depending on years of service, whether they contribute or not.

Since July 1, 2000, 401(k) matching contributions for employees eligible to participate in the KUB Pension Plan have been funded by the Pension Plan. These funds are held by the Pension trustee until eligible for distribution. IRS rules permit the funding of 401(k) matching contributions from excess pension assets for employees covered under the Pension Plan. Given the current funding level of the Pension Plan, effective July 1, 2011, KUB began to reimburse the Pension Plan for the current matching contributions. The match and nonelective contributions for employees hired on or after January 1, 2011 are paid directly by KUB.

12. Other Post-Employment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) established new standards for the measurement, recognition, and reporting of other post-employment benefits (OPEB). OPEB includes post-employment benefits other than pension, which, for KUB, is presently limited to post-employment health care. GASB Statement No. 45 (Statement No. 45) requires the recognition of the accrued OPEB liability for the respective year, plus the disclosure of the total unfunded liability. Statement No. 45 was effective for KUB for the fiscal year beginning July 1, 2007.

KUB currently provides post-employment health care benefits to 604 former employees and 619 covered dependents. The cost of coverage is shared with retirees and beneficiaries. KUB recognizes its share of the cost of post-employment health care benefits as an expense as claims are paid.

In anticipation of Statement No. 45, KUB amended its Group Health Plan in 1999, eliminating post-employment health care benefits for all employees hired on or after July 1, 1999. As of June 30, 2014, 399 active employees were eligible for individual and dependent coverage at separation. To qualify, the employee must meet the Rule of 80 (age plus years of service) with a minimum of 20 years of service, and be enrolled in medical coverage on their last day.

In May 2006, the state of Tennessee adopted Tennessee Code Annotated, Title 8, Chapter 50, Part 12 authorizing governmental entities to establish Trusts for the purpose of pre-funding their respective OPEB liabilities.

Although Statement No. 45 does not require pre-funding of the liability, KUB has determined that it is in the long-term economic interest of KUB and its ratepayers to establish a Trust to pre-fund KUB’s OPEB liability.

In October 2007, the KUB Board authorized the establishment of an OPEB Trust. 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.

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.

The general administration and responsibility for the proper operation of the Trust is governed by a Board of Trustees, appointed by KUB’s President & CEO. 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.

Total contributions to the OPEB Trust for the fiscal year ended June 30, 2014 were $4,057,091 (Division’s share $1,906,833). The contribution to the Trust exceeded the annual actuarially determined contribution, as determined by the Postretirement Benefit Plan’s actuarial valuation for the year ended December 31, 2012, which was $3,327,412 (Division’s share $1,563,884). As of June 30, 2014, the employer’s OPEB obligation has been exceeded by $177,322 (Division’s share $83,341).

The actuarially determined contribution for the fiscal year ending June 30, 2015, as determined by the Plan’s actuarial valuation for the year ended December 31, 2013 is $3,497,372 (Division’s share $1,678,739).

The actuarial valuation for the Plan for the year ending December 31, 2014 has been completed. The valuation determined that the Plan’s actuarial accrued liability was $46,889,808 (Division’s share $22,507,108). The actuarial value of the Plan’s assets was $43,409,955 (Division’s share $20,836,778). As a result, the Plan’s unfunded actuarial accrued liability was $3,479,853 (Division’s share $1,670,329). The Plan’s actuarial funded ratio was 93 percent. The valuation also determined that the employer’s actuarially determined contribution is $953,221 for the fiscal year ending June 30, 2016 (Division's share $457,546). See Required Supplementary Information for OPEB Schedule of Funding Progress.

13. Related Party Transactions

The Division, in the normal course of operations, is involved in transactions with the City of Knoxville and with other divisions of KUB. Such transactions for the years ended June 30, 2014 and 2013 are summarized as follows:

	2014	**2013**
City of Knoxville		
Amounts billed by the Division for utilities and related services	$ 7,258,070	$ 7,345,378
Payments by the Division in lieu of property tax	5,887,808	5,627,417
Payments by the Division for services provided	80,560	89,907
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	5,706,628	5,705,766
Interdivisional rental expense	-	-
Interdivisional rental income	743,721	688,858
Amounts billed to the Division by other divisions for utilities services provided	226,003	199,291

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

	2014	**2013**
Accounts receivable	$ 522,669	$ 566,006

14. Other Commitments and Contingencies

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

Knoxville Utilities Board Electric Division
Required Supplementary Information – Schedule of Funding Progress
June 30, 2014
(Unaudited)

Pension Plan

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
January 1, 2010	$ 203,704,898	$ 190,679,453	$ (13,025,445)	106.8%	$ 48,228,428	(27.01%)
January 1, 2011	195,692,781	187,257,434	(8,435,347)	104.5%	47,405,874	(17.79%)
January 1, 2012	183,980,665	195,536,152	11,555,487	94.1%	48,836,721	23.66%
January 1, 2013	175,936,548	197,049,614	21,113,066	89.3%	47,553,598	44.40%
January 1, 2014	188,770,336	199,515,466	10,745,130	94.6%	47,107,350	22.81%

Other Post-Employment Benefits (OPEB)

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
January 1, 2008	$ -	$ 108,329,141	$ 108,329,141	0%	$ 31,234,509	346.8%
January 1, 2009	14,593,487	100,726,738	86,133,251	14%	31,846,091	270.5%
January 1, 2010	21,275,643	58,475,364	37,199,721	36%	30,069,028	123.7%
January 1, 2011	40,749,815	64,289,254	23,539,439	63%	28,878,791	81.5%
January 1, 2012	37,907,357	61,603,466	23,696,109	62%	28,269,123	83.8%
January 1, 2013	38,571,803	63,341,531	24,769,728	61%	27,566,340	89.9%
January 1, 2014	43,409,955	46,889,808	3,479,853	93%	26,724,154	13.0%

Knoxville Utilities Board Electric Division
Supplemental Information –
Schedule of Expenditures of Federal Awards by Grant
June 30, 2014 Schedule 1

KUB was awarded a grant from the Department of Energy in October 2009, under DOE's Smart Grid Investment Grant Program. The grant, which totals $3.58 million, will be used to help fund a smart grid pilot project in the University of Tennessee and surrounding areas. This grant was fully expended as of June 30, 2014. KUB was also awarded two grants from Tennessee Emergency Management Agency (as a flow through from FEMA) for reimbursement for costs related to storms in 2011. The schedule below shows the activities for the current fiscal year.

Program Name	Federal/State Agency	CFDA Number	Contract Number	Beginning Receivable	Cash Receipts	Expenditures	Adjustments	Ending Receivable
ARRA-Electricity Delivery and Energy Reliability, Research, Development and Analysis	Department of Energy	81.122	DE-OE0000405	$ -	$ 271,271	$ 271,271	$ -	$ -
		Total Program 81.122		$ -	$ 271,271	$ 271,271	$ -	$ -
U.S. Department of Homeland Security	Tennessee Emergency Management	97.036	34101-0000009205	$ 533,760	$ 83,212	$ -	$ -	$ 450,548
U.S. Department of Homeland Security	Tennessee Emergency Management	97.036	34101-0000009832	$ 980,465	$ -	$ -	$ -	$ 980,465
		Total Program 97.036		$ 1,514,225	$ 83,212	$ -	$ -	$ 1,431,013
		Total Federal Awards		$ 1,514,225	$ 354,483	$ 271,271	$ -	$ 1,431,013

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Knoxville Utilities Board and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Insurance in Force
June 30, 2014
(Unaudited) Schedule 2

Insurance coverage is for KUB as a consolidated entity.

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

Directors' and Officers' Liability Insurance
Covers KUB personnel appropriately authorized to make decisions on behalf of KUB (including but not limited to Commissioners, President and CEO, Senior Vice Presidents, Vice Presidents, and Directors) for wrongful acts. Limits of coverage - $20,000,000; $1,000,000 corporate deductible, $0 individual deductible.

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

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

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

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

Travel Accident
Covers losses related to employees' business travel. Limits of coverage - $1,500,000 aggregate.

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

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

Employee Health Plan Stop Loss Coverage
KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses in excess of $400,000 per individual participant.

Knoxville Utilities Board Electric Division

Supplemental Information - Schedule of Debt Maturities by Fiscal Year

June 30, 2014

Schedule 3

Continued on Next Page

	W-2005		X-2006		Y-2009		Z-2010			AA-2012	
FY	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Rebate*	Principal	Interest
14-15	$ 1,790,000	1,381,831	$ 1,725,000	134,375	$ 1,525,000	$ 1,466,187	$ 1,265,000	$ 1,299,244	$ 454,736	$ 955,000	1,490,838
15-16	1,870,000	1,299,481	1,825,000	45,625	1,600,000	1,427,125	1,285,000	1,265,436	442,903	990,000	1,442,213
16-17	1,940,000	1,218,606			1,675,000	1,382,000	1,305,000	1,225,919	429,072	2,540,000	1,353,963
17-18	2,015,000	1,139,506			1,750,000	1,330,625	1,330,000	1,180,440	413,154	2,670,000	1,223,713
18-19	2,095,000	1,057,306			1,850,000	1,267,375	1,355,000	1,128,729	395,055	2,805,000	1,086,838
19-20	2,185,000	970,341			1,950,000	1,191,375	1,390,000	1,070,710	374,749	2,955,000	942,838
20-21	2,275,000	878,354			2,025,000	1,101,750	1,425,000	1,007,355	352,575	3,100,000	791,463
21-22	2,370,000	781,069			2,150,000	997,375	1,470,000	939,300	328,756	3,270,000	632,213
22-23	2,470,000	678,219			2,250,000	887,375	1,515,000	866,145	303,151	3,415,000	482,163
23-24	2,580,000	569,294			2,350,000	784,125	1,560,000	787,710	275,698	3,540,000	360,763
24-25	2,695,000	453,903			2,475,000	687,625	1,615,000	703,545	246,241	3,640,000	253,063
25-26	2,820,000	333,263			2,600,000	582,875	1,670,000	613,180	214,614	1,105,000	180,506
26-27	2,950,000	205,201			2,700,000	470,250	1,725,000	516,395	180,739	1,140,000	144,025
27-28	3,085,000	69,413			2,850,000	348,750	1,785,000	413,266	144,643	1,180,000	106,325
28-29					3,000,000	217,125	1,850,000	303,738	106,308	1,225,000	65,713
29-30					3,150,000	74,813	1,925,000	187,156	65,505	1,265,000	22,138
30-31							2,000,000	63,500	22,225		
31-32											
32-33											
33-34											
34-35											
35-36											
36-37											
37-38											
38-39											
39-40											
40-41											
41-42											
42-43											
Total	$ 33,140,000	$ 11,035,787	$ 3,550,000	$ 180,000	$ 35,900,000	$ 14,216,750	$ 26,470,000	$ 13,571,768	$ 4,750,124	$ 35,795,000	$ 10,578,775

*Series Z-2010 bonds were issued as federally taxable Build America Bonds. KUB is scheduled to receive a 35 percent interest rebate payment from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change.

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2014

Schedule 3

Continued from Previous Page

	BB-2012		CC-2013		Total		Grand Total (P + I)	Grand Total (Less Rebate)
FY	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**		
14-15	$ 625,000	$ 1,056,625	$ 50,000	$ 316,350	$ 7,935,000	$ 7,145,450	$ 15,080,450	$ 14,625,714
15-16	650,000	1,037,500	50,000	314,850	8,270,000	6,832,230	15,102,230	14,659,327
16-17	675,000	1,017,625	450,000	305,099	8,585,000	6,503,212	15,088,212	14,659,140
17-18	700,000	997,000	475,000	286,600	8,940,000	6,157,884	15,097,884	14,684,730
18-19	725,000	972,000	475,000	267,600	9,305,000	5,779,848	15,084,848	14,689,793
19-20	750,000	942,500	500,000	248,100	9,730,000	5,365,864	15,095,864	14,721,115
20-21	800,000	911,500	515,000	227,800	10,140,000	4,918,222	15,058,222	14,705,647
21-22	825,000	879,000	540,000	206,700	10,625,000	4,435,657	15,060,657	14,731,901
22-23	875,000	849,375	560,000	187,497	11,085,000	3,950,774	15,035,774	14,732,623
23-24	900,000	822,750	575,000	170,475	11,505,000	3,495,117	15,000,117	14,724,419
24-25	950,000	795,000	590,000	153,000	11,965,000	3,046,136	15,011,136	14,764,895
25-26	975,000	766,125	640,000	134,550	9,810,000	2,610,499	12,420,499	12,205,885
26-27	1,025,000	736,125	650,000	115,200	10,190,000	2,187,196	12,377,196	12,196,457
27-28	1,075,000	704,625	670,000	95,400	10,645,000	1,737,779	12,382,779	12,238,136
28-29	1,125,000	671,625	675,000	75,225	7,875,000	1,333,426	9,208,426	9,102,118
29-30	1,175,000	637,125	710,000	54,450	8,225,000	975,682	9,200,682	9,135,177
30-31	1,225,000	601,125	725,000	32,925	3,950,000	697,550	4,647,550	4,625,325
31-32	1,275,000	563,625	735,000	11,023	2,010,000	574,648	2,584,648	2,584,648
32-33	1,325,000	524,625			1,325,000	524,625	1,849,625	1,849,625
33-34	1,375,000	484,125			1,375,000	484,125	1,859,125	1,859,125
34-35	1,450,000	441,750			1,450,000	441,750	1,891,750	1,891,750
35-36	1,500,000	397,500			1,500,000	397,500	1,897,500	1,897,500
36-37	1,575,000	351,375			1,575,000	351,375	1,926,375	1,926,375
37-38	1,625,000	303,375			1,625,000	303,375	1,928,375	1,928,375
38-39	1,700,000	253,500			1,700,000	253,500	1,953,500	1,953,500
39-40	1,775,000	201,375			1,775,000	201,375	1,976,375	1,976,375
40-41	1,850,000	147,000			1,850,000	147,000	1,997,000	1,997,000
41-42	1,950,000	90,000			1,950,000	90,000	2,040,000	2,040,000
42-43	2,025,000	30,375			2,025,000	30,375	2,055,375	2,055,375
Total	$ 34,500,000	$ 18,186,250	$ 9,585,000	$ 3,202,844	$ 178,940,000	$ 70,972,174	$ 249,912,174	$ 245,162,050

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2014
(Unaudited)

Schedule 4

Rate Class		**Base Charge**			**Number of Customers**
Residential		Customer Charge:	$14.60 per month, less Hydro Allocation Credit: $1.60 per month.		175,146
		Energy Charge:	Summer Period	9.043 cents per kWh per month.	
			Winter Period	9.002 cents per kWh per month.	
			Transition Period	9.002 cents per kWh per month.	
Commercial/ Industrial	**A. 1.**	If (a) the higher of (i) the customer's currently effective contract demand, if any, or (ii) its highest billing demand during the latest 12-month period is not more than 50 kWh, and (b) customer's monthly energy takings for any month during such period do not exceed 15,000 kWh:			20,430
		Customer Charge:	$18.00 per delivery point per month.		
		Energy Charge:	Summer Period	10.445 cents per kWh.	
			Winter Period	10.404 cents per kWh.	
			Transition Period	10.404 cents per kWh.	
	2.	If (a) the higher of (i) the customer's currently effective contract demand or (ii) its highest billing demand during the latest 12-month period is greater than 50 kW but not more than 1,000 kW, or (b) if the customer's billing demand is less than 50 kW and its energy takings for any month during such period exceed 15,000 kWh:			2,789
		Customer Charge:	$50.00 per delivery point per month.		
		Demand Charge:	First 50 kW of billing demand per month, no demand charge.		
			Excess over 50 kW of billing demand per month, at		
			Summer Period	$12.73 per kW.	
			Winter Period	$11.94 per kW.	
			Transition Period	$11.94 per kW.	
		Energy Charge:	Summer Period	First 15,000 kWh per month at 11.239 cents per kWh Additional kWh per month at 6.331 cents per kWh.	
			Winter Period	First 15,000 kWh per month at 11.198 cents per kWh Additional kWh per month at 6.331 cents per kWh.	
			Transition Period	First 15,000 kWh per month at 11.198 cents per kWh Additional kWh per month at 6.331 cents per kWh.	

Knoxville Utilities Board Electric Division

Supplemental Information - Schedule of Current Rates in Force

June 30, 2014

(Unaudited)

Schedule 4

Rate Class		Number of Customers
	3. If (a) the higher of the customer's currently effective contract demand or (b) its highest billing demand during the latest 12-month period is greater than 1,000 kW:	55

Customer Charge:	$140.00 per delivery point per month.	
Demand Charge:	Summer Period	First 1,000 kW of billing demand per month, at $12.52 per kW. Excess over 1,000 kW of billing demand per month, at $13.94 per kW, plus an additional $13.94 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds the higher of 2,500 kW or its contract demand.
	Winter Period	First 1,000 kW of billing demand per month, at $11.76 per kW. Excess over 1,000 kW of billing demand per month, at $13.18 per kW, plus an additional $13.18 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds the higher of 2,500 kW or its contract demand.
	Transition Period	First 1,000 kW of billing demand per month, at $11.76 per kW. Excess over 1,000 kW of billing demand per month, at $13.18 per kW, plus an additional $13.18 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds the higher of 2,500 kW or its contract demand.
Energy Charge:	Summer Period	6.641 cents per kWh.
	Winter Period	6.641 cents per kWh.
	Transition Period	6.641 cents per kWh.

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2014
(Unaudited)
Schedule 4

Rate Class		Base Charge			Number of Customers
Commercial/ Industrial	**B.**	This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 5,000 kW but not more than 15,000 kW:			1
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$17.46 per kW per month of the customer's onpeak billing demand, plus $4.64 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $17.46 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Winter Period	$10.16 per kW per month of the customer's onpeak billing demand, plus $4.64 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $10.16 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Transition Period	$4.64 per kW per month of the customer's offpeak billing demand, plus $10.16 per kW per month for each kW of the amount, if any, by which the customer's offpeak billing demand exceeds its offpeak contract demand.	

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Energy Charge:	Summer Period	10.329 cents per kWh per month for all metered onpeak kWh, plus 6.756 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 4.834 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.201 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Winter Period	7.170 cents per kWh per month for all metered onpeak kWh, plus 6.756 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 4.834 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.201 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Transition Period	6.756 cents per kWh per month for the first 425 hours use of maximum metered demand, plus 4.834 cents per kWh per month for the next 195 hours use of maximum metered demand, plus 3.201 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours.

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Rate Class		**Base Charge**			**Number of Customers**
Commercial/ Industrial	**C.**	This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 15,000 kW but not more than 25,000 kW:			1
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$16.81 per kW per month of the customer's onpeak billing demand, plus $3.99 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $16.81 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Winter Period	$9.51 per kW per month of the customer's onpeak billing demand, plus $3.99 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $9.51 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Transition Period	$3.99 per kW per month of the customer's offpeak billing demand, plus $9.51 per kW per month for each kW of the amount, if any, by which the customer's offpeak billing demand exceeds its offpeak contract demand.	

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Energy Charge:	Summer Period	9.958 cents per kWh per month for all metered onpeak kWh, plus 6.486 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 4.561 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 2.929 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Winter Period	6.876 cents per kWh per month for all metered onpeak kWh, plus 6.486 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 4.561 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 2.929 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Transition Period	6.486 cents per kWh per month for the first 425 hours use of maximum metered demand, plus 4.561 cents per kWh per month for the next 195 hours use of maximum metered demand, plus 2.929 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours.

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Rate Class		Base Charge			Number of Customers
Commercial/ Industrial	**D.**	This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 25,000 kW:			1
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$17.24 per kW per month of the customer's onpeak billing demand, plus $4.42 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $17.24 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Winter Period	$9.94 per kW per month of the customer's onpeak billing demand, plus $4.42 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $9.94 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Transition Period	$4.42 per kW per month of the customer's offpeak billing demand, plus $9.94 per kW per month for each kW of the amount, if any, by which the customer's offpeak billing demand exceeds its offpeak contract demand.	

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Energy Charge:	Summer Period	9.842 cents per kWh per month for all metered onpeak kWh, plus 6.262 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 4.338 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 2.706 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Winter Period	6.671 cents per kWh per month for all metered onpeak kWh, plus 6.262 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 4.338 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 2.706 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Transition Period	6.262 cents per kWh per month for the first 425 hours use of maximum metered demand, plus 4.338 cents per kWh per month for the next 195 hours use of maximum metered demand, plus 2.706 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours.

Rate Class		Base Charge			Number of Customers
Seasonal Time of Use	**A.**	This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 1,000 kW but not more than 5,000 kW:			-
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$17.46 per kW per month of the customer's onpeak billing demand, plus $4.64 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $17.46 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Winter Period	$10.16 per kW per month of the customer's onpeak billing demand, plus $4.64 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $10.16 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Transition Period	$4.64 per kW per month of the customer's offpeak billing demand, plus $10.16 per kW per month for each kW of the amount, if any, by which the customer's offpeak billing demand exceeds its offpeak contract demand.	

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Energy Charge:	Summer Period	10.329 cents per kWh per month for all metered onpeak kWh, plus 6.756 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 4.834 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.201 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Winter Period	7.170 cents per kWh per month for all metered onpeak kWh, plus 6.756 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 4.834 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.201 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Transition Period	6.756 cents per kWh per month for the first 425 hours use of maximum metered demand, plus 4.834 cents per kWh per month for the next 195 hours use of maximum metered demand, plus 3.201 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours.

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Rate Class		Base Charge			Number of Customers
Seasonal	**B.**	This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 5,000 kW but not more than 15,000 kW:			3
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$22.81 per kW per month of the customer's billing demand, plus $22.81 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
			Winter Period	$16.30 per kW per month of the customer's billing demand, plus $16.30 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
			Transition Period	$11.39 per kW per month of the customer's billing demand, plus $11.39 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
		Energy Charge:	Summer Period	5.476 cents per kWh per month.	
			Winter Period	5.052 cents per kWh per month.	
			Transition Period	4.959 cents per kWh per month.	

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Rate Class		Base Charge			Number of Customers
Seasonal	**C.**	This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 15,000 kW but not more than 25,000 kW:			-
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$22.16 per kW per month of the customer's billing demand, plus $22.16 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
			Winter Period	$15.65 per kW per month of the customer's billing demand, plus $15.65 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
			Transition Period	$10.74 per kW per month of the customer's billing demand, plus $10.74 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
		Energy Charge:	Summer Period	5.488 cents per kWh per month.	
			Winter Period	5.056 cents per kWh per month.	
			Transition Period	4.966 cents per kWh per month.	

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Rate Class		Base Charge			Number of Customers
Seasonal	**D.**	This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 25,000 kW:			-
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$26.28 per kW per month of the customer's billing demand, plus $26.28 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
			Winter Period	$19.74 per kW per month of the customer's billing demand, plus $19.74 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
			Transition Period	$14.85 per kW per month of the customer's billing demand, plus $14.85 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
		Energy Charge:	Summer Period	4.801 cents per kWh per month.	
			Winter Period	4.425 cents per kWh per month.	
			Transition Period	4.341 cents per kWh per month.	

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Rate Class		Base Charge			Number of Customers
Manufacturing	**B.**	This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 5,000 kW but not more than 15,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive.			-
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$17.48 per kW per month of the customer's onpeak billing demand, plus $4.66 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $17.48 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Winter Period	$10.18 per kW per month of the customer's onpeak billing demand, plus $4.66 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $10.18 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Transition Period	$4.66 per kW per month of the customer's offpeak billing demand, plus $10.18 per kW per month for each kW of the amount, if any, by which the customer's offpeak billing demand exceeds its offpeak contract demand.	

Energy Charge:	Summer Period	8.755 cents per kWh per month for all metered onpeak kWh, plus 5.221 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.299 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 1.666 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Winter Period	5.660 cents per kWh per month for all metered onpeak kWh, plus 5.221 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.299 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 1.666 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Transition Period	5.221 cents per kWh per month for the first 425 hours use of maximum metered demand, plus 3.299 cents per kWh per month for the next 195 hours use of maximum metered demand, plus 1.666 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours.

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Rate Class		Base Charge			Number of Customers
Manufacturing	**C.**	This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 15,000 kW but not more than 25,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive.			-
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$16.85 per kW per month of the customer's onpeak billing demand, plus $4.03 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $16.85 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Winter Period	$9.55 per kW per month of the customer's onpeak billing demand, plus $4.03 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $9.55 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Transition Period	$4.03 per kW per month of the customer's offpeak billing demand, plus $9.55 per kW per month for each kW of the amount, if any, by which the customer's offpeak billing demand exceeds its offpeak contract demand.	

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Energy Charge:	Summer Period	8.839 cents per kWh per month for all metered onpeak kWh, plus 5.207 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.285 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 1.652 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Winter Period	5.675 cents per kWh per month for all metered onpeak kWh, plus 5.207 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.285 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 1.652 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Transition Period	5.207 cents per kWh per month for the first 425 hours use of maximum metered demand, plus 3.285 cents per kWh per month for the next 195 hours use of maximum metered demand, plus 1.652 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours.

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Rate Class		Base Charge			Number of Customers
Manufacturing	**D.**	This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 25,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive.			-
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$17.24 per kW per month of the customer's onpeak billing demand, plus $4.42 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $17.24 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Winter Period	$9.94 per kW per month of the customer's onpeak billing demand, plus $4.42 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $9.94 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
			Transition Period	$4.42 per kW per month of the customer's offpeak billing demand, plus $9.94 per kW per month for each kW of the amount, if any, by which the customer's offpeak billing demand exceeds its offpeak contract demand.	

Energy Charge:	Summer Period	8.696 cents per kWh per month for all metered onpeak kWh, plus 5.068 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.144 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 1.513 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Winter Period	5.516 cents per kWh per month for all metered onpeak kWh, plus 5.068 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.144 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 1.513 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Transition Period	5.068 cents per kWh per month for the first 425 hours use of maximum metered demand, plus 3.144 cents per kWh per month for the next 195 hours use of maximum metered demand, plus 1.513 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours.

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Rate Class		Base Charge	Number of Customers
Manufacturing Seasonal Time of Use	**A.**	This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 1,000 kW but not more than 5,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive.	-

Customer Charge:	$1,500 per delivery point per month.	
Administrative Charge:	$700 per delivery point per month.	
Demand Charge:	Summer Period	$17.48 per kW per month of the customer's onpeak billing demand, plus $4.66 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $17.48 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.
	Winter Period	$10.18 per kW per month of the customer's onpeak billing demand, plus $4.66 per kW per month of the amount, if any, by which the customer's offpeak billing demand exceeds its onpeak billing demand, plus $10.18 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.
	Transition Period	$4.66 per kW per month of the customer's offpeak billing demand, plus $10.18 per kW per month for each kW of the amount, if any, by which the customer's offpeak billing demand exceeds its offpeak contract demand.

Energy Charge:	Summer Period	8.755 cents per kWh per month for all metered onpeak kWh, plus 5.221 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.299 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 1.666 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Winter Period	5.660 cents per kWh per month for all metered onpeak kWh, plus 5.221 cents per kWh per month for the first 425 hours of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 3.299 cents per kWh per month for the next 195 hours use of maximum metered demand multiplied by the ratio of offpeak energy to total energy, plus 1.666 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours multiplied by the ratio of offpeak energy to total energy.
	Transition Period	5.221 cents per kWh per month for the first 425 hours use of maximum metered demand, plus 3.299 cents per kWh per month for the next 195 hours use of maximum metered demand, plus 1.666 cents per kWh per month for the hours use of maximum metered demand in excess of 620 hours.

Manufacturing					**Number of Customers**
Seasonal	**B.**	This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 5,000 kW but not more than 15,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive.			1
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$19.85 per kW per month of the customer's billing demand, plus $19.85 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
			Winter Period	$13.34 per kW per month of the customer's billing demand, plus $13.34 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
			Transition Period	$8.43 per kW per month of the customer's billing demand, plus $8.43 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
		Energy Charge:	Summer Period	4.675 cents per kWh per month.	
			Winter Period	4.196 cents per kWh per month.	
			Transition Period	4.085 cents per kWh per month.	

			Number of Customers
Seasonal	**C.**	This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 15,000 kW but not more than 25,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive.	2

Customer Charge:	$1,500 per delivery point per month.	
Administrative Charge:	$700 per delivery point per month.	
Demand Charge:	Summer Period	$19.22 per kW per month of the customer's billing demand, plus $19.22 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.
	Winter Period	$12.71 per kW per month of the customer's billing demand, plus $12.71 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.
	Transition Period	$7.80 per kW per month of the customer's billing demand, plus $7.80 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.
Energy Charge:	Summer Period	4.644 cents per kWh per month.
	Winter Period	4.195 cents per kWh per month.
	Transition Period	4.087 cents per kWh per month.

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2014
(Unaudited)

Schedule 4

Manufacturing					**Number of Customers**
Seasonal	**D.**	This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 25,000 kW; and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive.			1
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:	Summer Period	$22.59 per kW per month of the customer's billing demand, plus $22.59 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
			Winter Period	$16.08 per kW per month of the customer's billing demand, plus $16.08 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
			Transition Period	$11.17 per kW per month of the customer's billing demand, plus $11.17 per kW per month for each kW of the amount, if any, by which the customer's billing demand exceeds its contract demand.	
		Energy Charge:	Summer Period	3.938 cents per kWh per month.	
			Winter Period	3.580 cents per kWh per month.	
			Transition Period	3.494 cents per kWh per month.	

Knoxville Utilities Board Electric Division

Supplemental Information - Schedule of Current Rates in Force

June 30, 2014

(Unaudited)

Schedule 4

Rate Class	Base Charge	Number of Customers
Outdoor Lighting		
	Part A - Charges for Street and Park Lighting Systems, Traffic Signal Systems, and Athletic Field Lighting Installations	51

Energy Charge:	Summer Period	7.349 cents per kWh per month.
	Winter Period	7.349 cents per kWh per month.
	Transition Period	7.349 cents per kWh per month.

Facility Charge: The annual facility charge shall be 14.27 percent of the installed cost to KUB's electric system of the facilities devoted to street and park lighting service specified in this Part A. Such installed cost shall be recomputed on July 1 of each year, or more often if substantial changes in the facilities are made. Each month, one-twelfth of the then total annual facility charge shall be billed to the customer. If any part of the facilities has not been provided at the electric system's expense, or if the installed cost of any portion thereof is reflected on the books of another municipality or agency or department, the annual facility charge shall be adjusted to reflect properly the remaining cost to be borne by the electric system.

Customer Charge: $2.50.

Part B - Charges for Outdoor Lighting for Individual Customers 901

Charges Per Fixture Per Month

a.

Type of Fixture	(Watts)	(Lumens)	Rated kWh	Facility Charge	Total Lamp Charge
Mercury Vapor or Incandescent*	175	7,650	70	$ 4.46	$ 9.60
	400	19,100	155	6.23	17.62
	1000**	47,500	378	9.96	37.74
High Pressure Sodium	100	8,550	42	4.46	7.55
	250	23,000	105	5.29	13.01
	400	45,000	165	6.23	18.36
	1000**	126,000	385	9.96	38.25
Decorative	100	8,550	42	5.08	8.17

* Mercury Vapor and Incandescent fixtures not offered for new service.

** 1,000 watt fixtures not offered for new service.

b. Energy Charge: For each lamp size under **a.** above, 7.349 cents per rated kWh per month.

Additional pole charge: $3.00 per pole.

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2014
(Unaudited)
Schedule 4

Rate Class	Base Charge	Number of Customers
LED Pilot Program	Service under the LED Pilot Program shall only be available for select outdoor (security) lighting facilities of governmental entities located in the KUB electric system service territory. Participation in the LED Pilot Program shall be on a voluntary basis.	
	Pilot Program Charges - No Capital Contribution	-

The following charges are applicable to those customers participating in the LED Pilot Program, for whom the installed cost of facilities for providing service under the program has been borne by the electric system. The following charges are per LED fixture per month.

LED Fixture Type	Facility Charge	Rated kWh	Energy Charge Per kWh	Total Charge
LED - 150WE - Rectangular Head	$ 11.96	38	$ 0.07349	$ 14.75
LED - 150WE - Cobra Head	10.91	38	0.07349	13.70
LED - 250WE - Rectangular Head	$ 14.38	57	$ 0.07349	$ 18.57
LED - 250WE - Cobra Head	13.10	57	0.07349	17.29

Base Charge	Number of Customers
Pilot Program Charges - Capital Contribution	-

The following charges are applicable to those customers participating in the LED Pilot Program, for whom the installed cost of facilities providing service under the program has been borne by the customer. The following charges are per LED fixture per month.

LED Fixture Type	Facility Charge	Rated kWh	Energy Charge Per kWh	Total Charge
LED - 150WE - Rectangular Head	$ 5.15	38	$ 0.07349	$ 7.94
LED - 150WE - Cobra Head	5.03	38	0.07349	7.82
LED - 250WE - Rectangular Head	$ 5.99	57	$ 0.07349	$ 10.18
LED - 250WE - Cobra Head	5.83	57	0.07349	10.02

Additional pole charge: $3.00 per pole.

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Independent Auditors' 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*

To the Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Knoxville Utilities Board ("KUB", (an independent agency reported as a component unit for financial purposes only) of Knoxville, Tennessee, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements, and have issued our report thereon dated October 24, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered KUB's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
October 24, 2014

Knoxville Utilities Board
Gas Division
Financial Statements and Supplemental Information
June 30, 2014 and 2013

Knoxville Utilities Board Gas Division
Index
June 30, 2014 and 2013

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Independent Auditors' Report

To the Board of Commissioners
Knoxville Utilities Board - Gas Division
Knoxville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Knoxville Utilities Board, Gas Division, (the "Division"), an independent agency reported as a component unit for financial reporting purposes only, of Knoxville, Tennessee, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Division, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Schedule of Funding Progress on pages 3-22 and 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Division's basic financial statements. The supplemental schedules on pages 43-50 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
October 24, 2014

Knoxville Utilities Board (KUB), comprised of Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners oversees KUB. The Board has all powers to construct, acquire, expand, or operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. The Gas Division (Division) provides services to certain customers in Knox County and portions of Anderson and Loudon counties. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the Federal Energy Regulatory Commission and the Governmental Accounting Standards Board, as applicable. The financial statements present only the Gas Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2014 and 2013, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Division's Management Discussion and Analysis ("MD&A") focuses on the fiscal year ending June 30, 2014 activities, resulting changes and current known facts, and should be read in conjunction with the Division's financial statements.

Gas Division Highlights

System Highlights

KUB's gas system serves 97,930 customers, and its service territory covers 282 square miles. KUB maintains 2,298 miles of service mains to provide 12.6 million dekatherms of natural gas to its customers annually.

Natural gas sales revenues were 13.1 percent higher than last year primarily due to a 9.6 percent increase in residential sales due to colder winter temperatures. Record breaking cold temperatures lead to a new system demand peak in January 2014 of 133,366 dekatherms. The previous gas system peak was 119,282 dekatherms in January 2010.

The Division generated $4.1 million of additional margin during the fiscal year as a result of the October 2013 five percent rate increase that was approved by the Board of Commissioners in June 2013 to help fund the gas system's capital improvements.

The typical residential gas customer's average monthly gas bill was $58.01 for the twelve months ending June 30, 2014, representing an increase of $0.94 compared to last year based on the same volumes.

In September 2013, the Division sold $25 million in gas system revenue bonds to fund capital system improvements.

The gas system has added approximately 1,000 customers over the past three years representing annual growth less than 1 percent. System growth has been limited over the three year period due to the economic recession.

Century II Infrastructure Program

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

In 2013, the Board extended the funding approach for Century II to include the natural gas system. The Board formally endorsed and adopted by resolution, a ten year funding plan for the Gas Division.

In May 2014, KUB management provided an updated assessment of the overall condition of each utility and the progress made during the resumption of the Century II program. At that time the Board endorsed a long range ten year funding plan for the continuation of Century II programs for the natural gas system, including a combination of rate increases and debt issues to fully fund the programs for the next ten years.

In June 2014, the Board approved a series of three annual rate increases for the gas system. Each gas rate increase will generate an additional $1.8 million in gas system revenue.

The natural gas system replaced 6.6 miles of cast iron/ductile iron gas main, while staying within the Division's total capital budget during fiscal year 2014.

Financial Highlights

Fiscal Year 2014 Compared to Fiscal Year 2013

The Division's net position increased $10.6 million or 6.5 percent, compared to a $5.4 million increase last fiscal year.

Operating revenue increased $13.5 million or 13.1 percent, the result of a 4.1 percent increase in sales volumes and a five percent rate increase effective October 2013. Purchased gas expense was $6.9 million or 11.1 percent higher due to increased purchases to meet higher demand. Margin on gas sales (operating revenue less purchased gas expense) increased $6.6 million or 16.1 percent, reflecting the higher level of gas sales volumes and additional revenue from the rate increase.

Operating expenses (excluding purchased gas expense) increased $0.6 million or 1.9 percent. Depreciation expense was $0.6 million higher than the prior year. Operating and maintenance (O&M) expenditures and taxes and tax equivalents were each consistent with fiscal year 2013.

The Division used 59 percent of gas system sales revenue on wholesale gas purchases for the fiscal year ended June 30, 2014.

Interest income was consistent with the prior fiscal year. Interest expense increased $1 million compared with the prior year, the net result of additional interest cost from the $25 million September 2013 bond sale, a full year of expense for the December 2012 bond issuance and lower interest expense resulting from bond refundings in 2012 and 2013.

Total plant assets (net) increased $5.9 million or 2.7 percent over the end of the last fiscal year due to the replacement and construction of gas mains. KUB replaced 6.6 miles of cast iron/ductile iron gas mains over the course of the fiscal year.

Long-term debt represented 39.2 percent of the Division's capital structure as of June 30, 2014, as compared to 36.1 percent last year. Capital structure equals long-term debt (which includes the current portion of revenue bonds and notes, as applicable, due to be retired next fiscal year) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Current year debt coverage for the fiscal year was 3.52. Maximum debt service coverage was 3.20.

Fiscal Year 2013 Compared to Fiscal Year 2012

The Division's net position increased $5.4 million or 3.4 percent, compared to a $0.6 million increase last fiscal year.

Operating revenue increased $16.8 million or 19.4 percent, the result of a 13.8 percent increase in sales volumes. Purchased gas expense was $11.4 million or 22.4 percent higher due to increased purchases to meet higher demand and slightly lower gas costs per unit. Margin on gas sales (operating revenue less purchased gas expense) increased $5.4 million or 15.2 percent, reflecting the higher level of gas sales volumes.

Operating expenses (excluding purchased gas expense) increased $0.7 million or 2.2 percent. Operating and maintenance (O&M) expenditures decreased $0.4 million or 2.2 percent. Depreciation expense was $0.8 million higher than the prior year. Taxes and tax equivalents were $0.2 million higher than the prior year.

The Division expended 60 percent of gas system sales revenue on wholesale gas purchases for the fiscal year ended June 30, 2013.

In July 2012, the Division issued a short-term revenue anticipation note (line of credit) for $20 million for the purpose of managing seasonal cash flow during the winter heating season. During the fiscal year, $2.6 million was drawn and repaid by the Division.

Lower interest rates on longer-term investments resulted in a $0.1 million decrease in interest income. Interest expense was consistent with the prior year, the net result of additional interest from a $10 million December 2012 bond issue and lower interest expense resulting from bond refunding in 2012 and 2013.

Total plant assets (net) increased $6.7 million or 3.2 percent over the end of the last fiscal year due to the replacement and construction of gas mains.

Long-term debt represented 36.1 percent of the Division's capital structure as of June 30, 2013, as compared to 35.6 percent last year. Capital structure equals long-term debt (which includes the current portion of revenue bonds and notes, as applicable, due to be retired next fiscal year) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Current year debt coverage for the fiscal year was 3.00. Maximum debt service coverage was 2.88.

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Division Cash Budget Appropriations

KUB's Board of Commissioners adopted a Gas Division budget of $115.9 million for fiscal year 2014. In April 2014, additional appropriations were approved by the Board in the amount of $10 million to cover higher than anticipated wholesale energy costs. Actual disbursements exceeded the original budget by $4.8 million, with Purchased Energy exceeding the original budget by $10.4 million and O&M and Capital expenses lagging the budget by a total of $5.6 million. The general fund balance was $11.3 million higher than originally budgeted as a result of higher than anticipated revenues from operations, driven primarily by the colder than normal winter. The chart below depicts KUB's original budget compared to actual results.

Gas Division Cash Report
As of June 30, 2014

(in thousands of dollars)	**FY 2014 Budget****	**FY 2014 Actual FYTD**	**Dollar Variance***	**Percent Variance**
Beginning Balance General Fund	$ 20,103	$ 20,103		
Operating Receipts	104,743	121,140	16,397	15.7%
Disbursements				
Purchased Energy Expense	56,947	67,320	(10,373)	-18.2%
Operation & Maintenance Expense	18,708	16,884	1,824	9.7%
Capital Expenditures	24,513	20,689	3,824	15.6%
Debt Service & Taxes	15,704	15,750	(46)	-0.3%
Total Disbursements	115,872	120,643	(4,771)	4.1%
Bond Proceeds	24,750	23,708	(1,042)	-4.2%
Net Flow throughs and Transfers	(982)	(294)	688	70.1%
Ending General Fund Balance	$ 32,742	$ 44,014	$ 11,272	34.4%

* *Impact to Cash; (-) indicates a decrease or negative impact to cash*
** *Excludes additional appropriations of $10 million*

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Knoxville Utilities Board Gas Division - Financial Statements

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

Statement of Net Position

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

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

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

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

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

Statement of Revenues, Expenses and Changes in Net Position

The Division reports its revenues and expenses (both operating and non-operating) on the Statement of Revenues, Expenses and Changes in Net Position. In addition, any contributions in aid of construction (funds received via grants, developers, etc. to fund capital projects) and associated write-downs of plant assets are reported on this statement.

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

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

Statement of Cash Flows

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

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

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

Condensed Financial Statements

Statement of Net Position

The following table reflects the condensed Statement of Net Position for the Gas Division compared to the prior year and the year preceding the prior year.

Statements of Net Position
As of June 30

(in thousands of dollars)	**2014**	**2013**	**2012**
Current and other assets	$ 83,575	$ 57,097	$ 49,952
Capital assets, net	221,372	215,490	208,788
Deferred outflows of resources	512	584	825
Total assets and deferred outflows of resources	305,459	273,171	259,565
Current and other liabilities	22,182	19,758	16,919
Long-term debt outstanding	107,215	87,565	82,845
Deferred inflows of resources	1,744	2,158	1,480
Total liabilities and deferred inflows of resources	131,141	109,481	101,244
Net position			
Net investment in capital assets	107,234	121,257	120,404
Restricted	1,725	1,602	1,476
Unrestricted	65,359	40,831	36,441
Total net position	$ 174,318	$ 163,690	$ 158,321

Normal Impacts on Statement of Net Position

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

- Change in net position (from Statement of Revenues, Expenses and Changes in Net Position): impacts (increase/decrease) current and other assets and/or capital assets and unrestricted net position.

- Issuing debt for capital: increases deferred outflows and inflows of resources and long-term debt.

- Spending debt proceeds on new capital: reduces current assets and increases capital assets.

- Spending of non-debt related current assets on new capital: (a) reduces current assets and increases capital assets and (b) reduces unrestricted net position and increases net investment in capital assets.

- Principal payment on debt: (a) reduces current and other assets and reduces long-term debt and (b) reduces unrestricted net position and increases net investment in capital assets.

- Reduction of capital assets through depreciation: reduces capital assets and net investment in capital assets.

Impacts and Analysis

Current and Other Assets

Fiscal Year 2014 Compared to Fiscal Year 2013

Current and other assets increased $26.5 million or 46.4 percent. General fund cash and investments increased $23.9 million, due to a higher level of gas sales volumes and the use of $25 million in proceeds from revenue bonds, rather than general fund cash, to fund capital expenditures. Operating contingency reserves increased $1.3 million. Accounts receivable increased $0.7 million compared to June 2013. Gas in storage rose $0.9 million due to a 3.2 percent increase in storage volumes compared to last June, reflecting a timing variance in filling storage.

Fiscal Year 2013 Compared to Fiscal Year 2012

Current and other assets increased $7.1 million or 14.3 percent. General fund cash and investments increased $7.4 million, due to a higher level of gas sales volumes and the use of $10 million in proceeds from revenue bonds to fund a portion of capital expenditures. Accounts receivable increased $4.5 million compared to June 2012, reflecting a higher level of balance due KUB for KUB's residential gas customers, the result of the colder winter. In addition, operating contingency reserves increased $1.1 million.

The Division under recovered $0.8 million in wholesale gas costs from its customers through its Purchased Gas Adjustment mechanism in fiscal year 2013, as compared to a $2.8 million under recovery in fiscal year 2012. This under recovery of costs will be collected from customers next fiscal year through adjustments to rates via the Purchased Gas Adjustment. The net effect was a $2 million reduction in assets. Gas in storage decreased $4.5 million due to a 30.3 percent decrease in storage volumes compared to last June, reflecting higher sales volume due to the colder winter.

Capital Assets

Fiscal Year 2014 Compared to Fiscal Year 2013

Capital assets increased $5.9 million or 2.7 percent. Major capital expenditures during the year included $9.8 million for gas main replacement and $5.6 million for the construction of mains and service extensions. The Division also retired $1.6 million of assets during the year.

Fiscal Year 2013 Compared to Fiscal Year 2012

Capital assets increased $6.7 million or 3.2 percent. Major capital expenditures during the year included $8.3 million for gas main replacement and $4.5 million for the construction of mains and service extensions. The Division also retired $2.1 million of assets during the year.

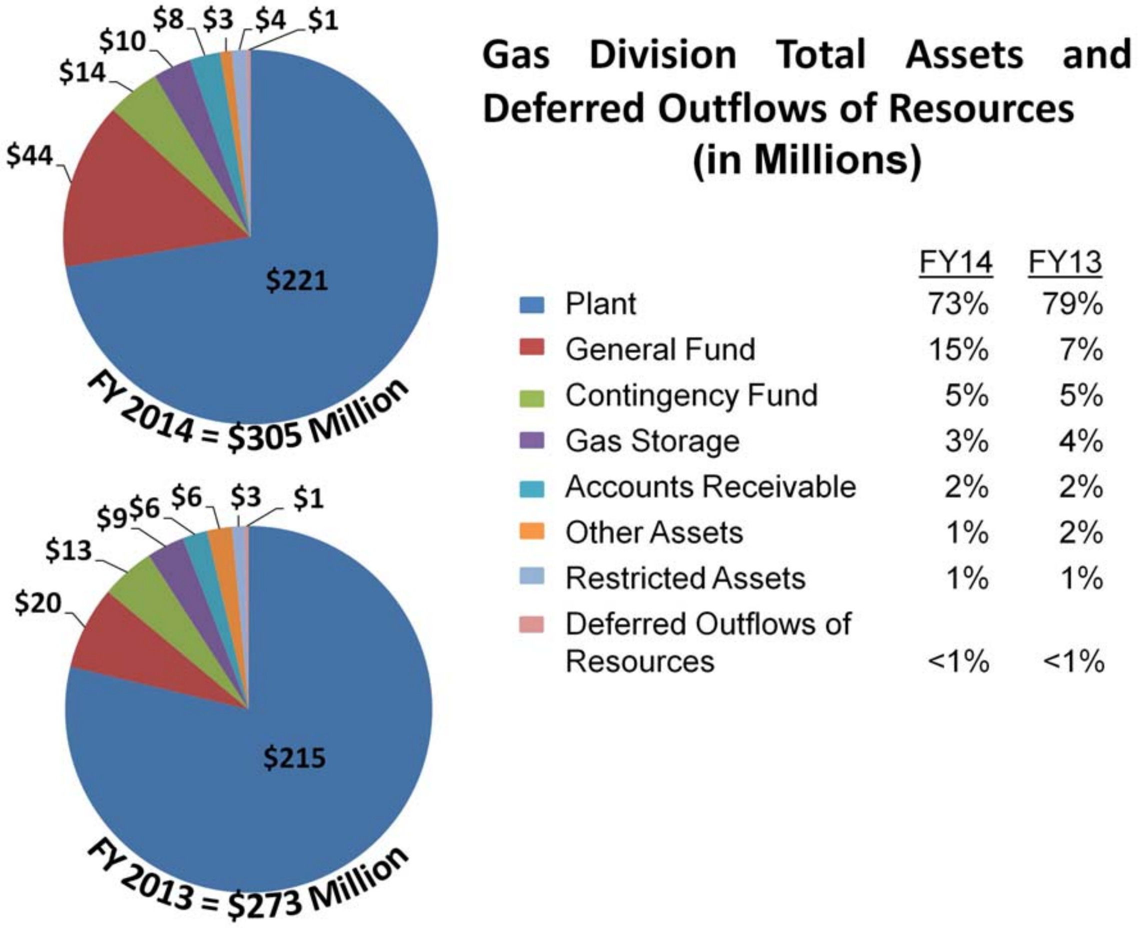
Deferred Outflows of Resources

Fiscal Year 2014 Compared to Fiscal Year 2013

Deferred outflows of resources were consistent with the prior fiscal year.

Fiscal Year 2013 Compared to Fiscal Year 2012

Deferred outflows of resources were $0.6 million, which was down $0.2 million compared to the prior year.



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

	FY14	FY13
■ Plant	73%	79%
■ General Fund	15%	7%
■ Contingency Fund	5%	5%
■ Gas Storage	3%	4%
■ Accounts Receivable	2%	2%
■ Other Assets	1%	2%
■ Restricted Assets	1%	1%
■ Deferred Outflows of Resources	<1%	<1%

Current and Other Liabilities

Fiscal Year 2014 Compared to Fiscal Year 2013

Current and other liabilities increased $2.4 million or 12.3 percent. The Division over recovered $1.3 million in wholesale gas costs from its customers in fiscal year 2014, as compared to a $0.8 million under recovery in fiscal year 2013. This over recovery of costs will be flowed back to KUB's gas customers next fiscal year through adjustments to rates via the Purchased Gas Adjustment. Current payables for bond debt and related interest increased $0.4 million and $0.3 million, respectively. Accounts payable increased $0.1 million compared to the prior fiscal year.

Fiscal Year 2013 Compared to Fiscal Year 2012

Current and other liabilities increased $2.8 million or 16.8 percent. Accounts payable rose $2 million, due to higher purchased gas expenses, the result of more volumes purchased for injection into storage in June 2013 compared with last fiscal year.

Long-Term Debt

Fiscal Year 2014 Compared to Fiscal Year 2013

Long-term debt was $19.7 million or 22.4 percent higher than the prior year, the net result of $25 million additional debt and the scheduled repayment of bond debt during the fiscal year.

Fiscal Year 2013 Compared to Fiscal Year 2012

Long-term debt was $4.7 million or 5.7 percent higher than the prior year, the net result of $10 million of additional debt, the scheduled repayment of bond debt during the fiscal year, and a $0.5 million reduction in principal as a result of the March 2013 debt refunding.

Deferred Inflows of Resources

Fiscal Year 2014 Compared to Fiscal Year 2013

Deferred inflows of resources decreased $0.4 million or 19.2 percent compared to the prior year. This reflects amortization of premiums, issuance costs as well as the discount on the September 2013 bond sale.

Fiscal Year 2013 Compared to Fiscal Year 2012

Deferred inflows of resources totaled $2.2 million as of June 30, 2013 compared to $1.5 million in June of the prior year. The $0.7 million increase reflects premiums incurred with the March 2013 bond refunding.

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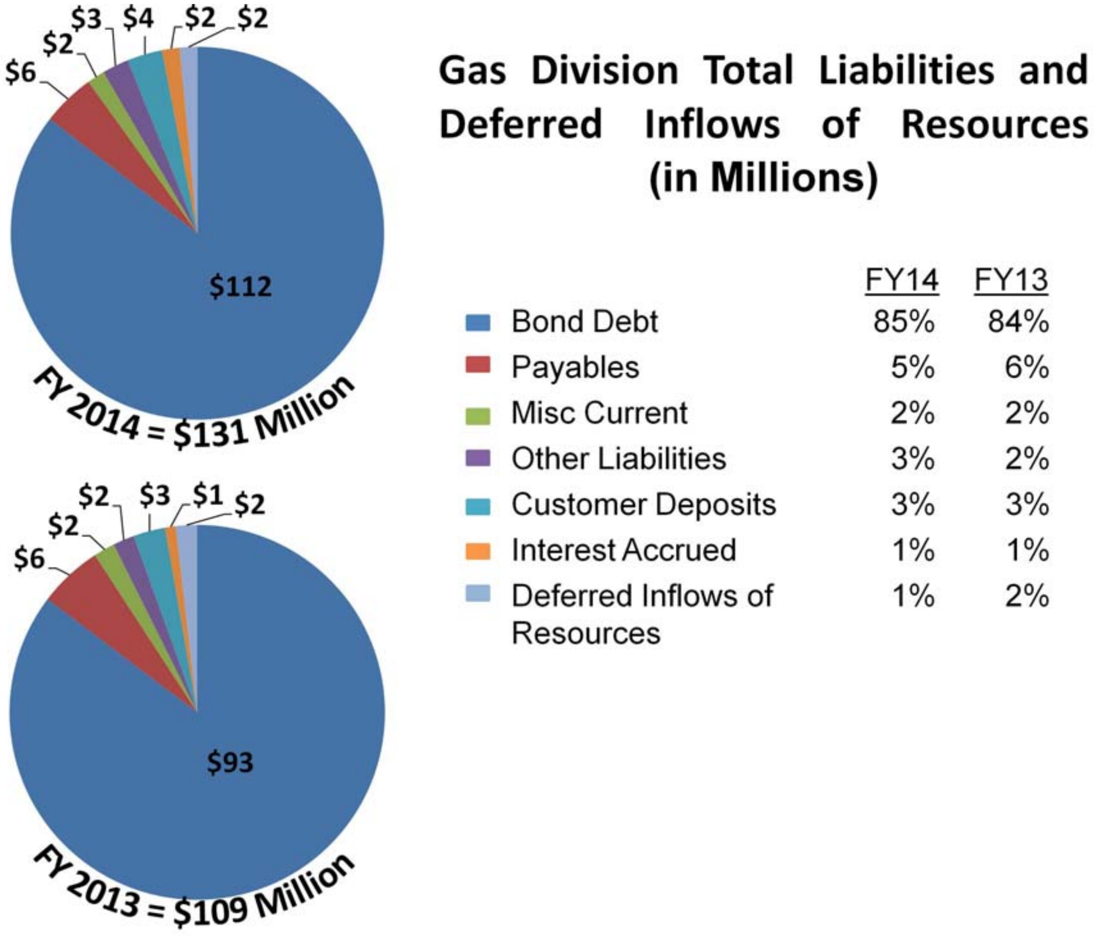


Gas Division Total Liabilities and Deferred Inflows of Resources (in Millions)

	FY14	FY13
■ Bond Debt	85%	84%
■ Payables	5%	6%
■ Misc Current	2%	2%
■ Other Liabilities	3%	2%
■ Customer Deposits	3%	3%
■ Interest Accrued	1%	1%
■ Deferred Inflows of Resources	1%	2%

Net Position

Fiscal Year 2014 Compared to Fiscal Year 2013

Invested in capital assets, net of debt decreased $14 million or 11.6 percent, primarily attributed to an increase of $19.7 million in long term debt offset by an increase in net plant in service of $5.9 million. Restricted net position was up $0.1 million based on the net increase of the bond fund and accrued interest payable. Unrestricted net position increased $24.5 million primarily due to a $23.9 million rise in general fund cash compared to June of the prior year.

Fiscal Year 2013 Compared to Fiscal Year 2012

Invested in capital assets, net of debt increased $0.9 million or 0.7 percent, primarily attributed to an increase in net plant in service of $6.7 million offset by a $4.7 million increase in long term debt. Restricted net position was up $0.1 million based on the net increase of the bond fund and accrued interest payable. Unrestricted net position increased $4.4 million primarily due to a $7.4 million rise in general fund cash compared to June of the prior year.

Statement of Revenues, Expenses and Changes in Net Position

The following table reflects the condensed Statement of Revenues, Expenses and Changes in Net Position for the Gas Division compared to the prior year and the year preceding the prior year.

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

(in thousands of dollars)	2014	2013	2012
Operating revenues	$ 117,146	$ 103,597	$ 86,761
Less: Purchased gas expense	69,351	62,415	51,006
Margin from sales	47,795	41,182	35,755
Operating expenses			
Distribution	7,617	7,897	7,386
Customer service	2,626	2,484	2,448
Administrative and general	6,460	6,333	7,255
Depreciation and amortization	9,675	9,113	8,278
Taxes and tax equivalents	6,336	6,275	6,042
Total operating expenses	32,714	32,102	31,409
Operating income	15,081	9,080	4,346
Interest income	144	149	239
Interest expense	(4,772)	(3,780)	(3,826)
Other income/(expense)	175	(80)	(207)
Change in net position	$ 10,628	$ 5,369	$ 552

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

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

- Operating revenue is largely determined by volume of natural gas sales for the fiscal year. Any change (increase/decrease) in retail gas rates would also be a cause of change in operating revenue. The Division utilizes a Purchased Gas Adjustment (PGA) mechanism in setting its monthly retail gas rates. Through the PGA, the Division adjusts its retail rates each month based on current wholesale gas prices. If wholesale gas prices increase/decrease, the Division increases/decreases its retail gas rates accordingly.

- Volumes of gas purchased from the Division's wholesale gas suppliers for resale to customers impact purchased gas expense. The Division purchases gas for resale to its customers from a variety of wholesale suppliers. Changes (increase/decrease) in wholesale gas prices would also result in a change in purchased gas expense.

- Operating expenses (distribution, customer service, administrative and general) are normally impacted by changes in areas including, but not limited to, labor costs (staffing, wage rates), active employee and retiree medical costs, and gas distribution system maintenance.

- Depreciation expense is impacted by plant additions and retirements during the fiscal year.

- Taxes & tax equivalents are impacted by plant additions/retirements, changes in property tax rates, and gross margin levels.

- Interest income is impacted by the level of interest rates and investments.

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

- Other income/(expense) is impacted by miscellaneous non-operating revenues and expenses.

Impacts and Analysis

Margin from Sales

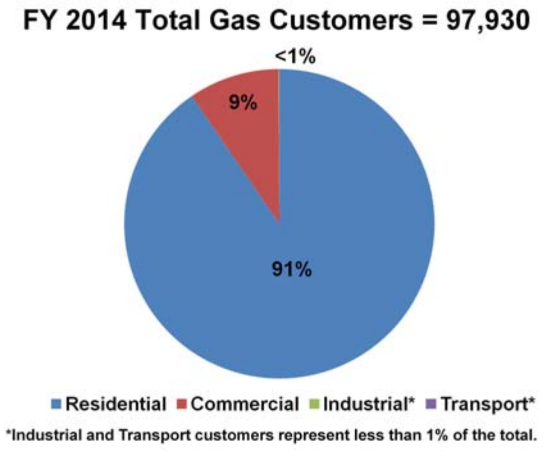
Fiscal Year 2014 Compared to Fiscal Year 2013

The Division’s net position increased $10.6 million. This increase was $5.3 million greater than the prior year’s change in net position. The growth in net position was predominantly the result of an increase in margin on sales.

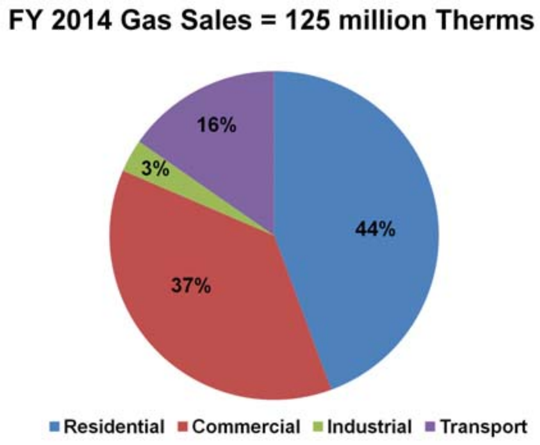
Margin on gas sales (operating revenue less purchased gas expense) increased $6.6 million or 16.1 percent due to a 4.2 percent increase in billed sales volumes. The increased sales volume resulted from a colder winter than the previous fiscal year’s normal winter conditions. In addition, a five percent rate increase was effective during the last three quarters of fiscal year 2014.

Operating revenue increased $13.5 million or 13.1 percent for the fiscal year ending June 30, 2014, the result of higher sales volumes and additional revenue from the rate increase.

Purchased gas expense increased $6.9 million or 11.1 percent, due to higher customer demand associated with a colder winter. KUB purchased 20.4 percent more gas from its suppliers during the fiscal year to meet increased customer demand and maintain gas storage. The net result was a 2 million dekatherm or 16.9 percent increase in total volumes delivered to KUB’s gas distribution system. The Division’s weighted average cost of gas purchased for fiscal year 2014 was $4.08 per dekatherm, as compared to $3.61 per dekatherm last year.


FY 2014 Total Gas Customers = 97,930

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


FY 2014 Gas Sales = 125 million Therms

Residential customers, whose natural gas is primarily used as a heat source during winter months, accounted for 91 percent of customers billed and 44 percent of total volumes sold during the year. Sales throughout the winter heating season of fiscal year 2014 were significantly higher than fiscal year 2013, resulting in an increase in residential sales volumes of 9.6 percent.

Commercial and Industrial sales volumes (including transportation customers) were consistent with the prior year. KUB's ten largest gas customers accounted for 21.9 percent of KUB's billed gas volumes. Those ten customers represent five industrial and five commercial customers, including one governmental customer. KUB also has 14 transport customers who purchase gas directly from a supplier other than KUB. KUB provides transportation service on its gas distribution system to those customers.

During the fiscal year, KUB changed the reporting methodology for gas customer counting. The effect of this change resulted in what appears to be a decline in gas customers of 295 in comparison to the prior fiscal year. The current fiscal year is an accurate depiction of total gas customers which has experienced limited growth in recent years.

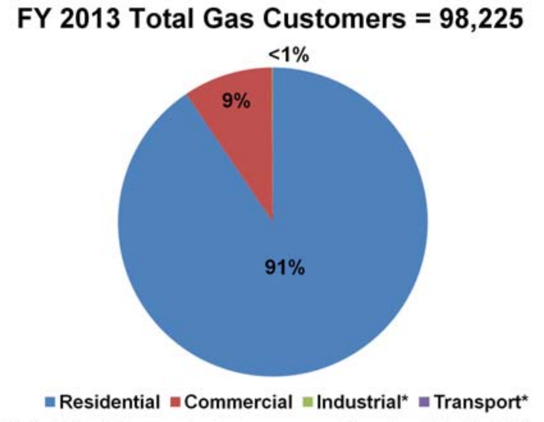
Fiscal Year 2013 Compared to Fiscal Year 2012

The Division's net position increased $5.4 million. This increase was $4.8 million greater than the prior year's change in net position. The growth in earnings was the result of an increase in margin on sales.

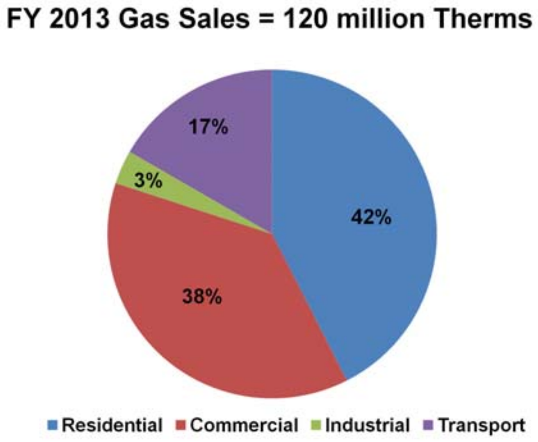
Margin on gas sales (operating revenue less purchased gas expense) increased $5.4 million or 15.2 percent due to a 13.7 percent increase in billed sales volumes. The increased sales volume resulted from normal winter weather in fiscal year 2013 compared to the mildest winter in KUB's service territory over the last twenty-five years in the previous fiscal year.

Operating revenue increased $16.8 million or 19.4 percent for the fiscal year ending June 30, 2013, the net effect of higher sales volumes and the flow through of slightly lower wholesale natural gas prices to customers through the Purchased Gas Adjustment. Rebates on bond interest payments from the federal government for federally taxable Build America Bonds (BABs) are reported as revenue in accordance with GASB. KUB recognized $0.2 million in revenue for BABs rebates in fiscal year 2013.

Purchased gas expense increased $11.4 million or 22.4 percent, due to higher customer demand reduced slightly by lower wholesale gas costs per unit. Although KUB purchased four percent less gas from its suppliers in 2013, the increased customer demand was met by a significantly higher draw down of gas in storage compared to fiscal year 2012. The net result was a 1 million dekatherm or 9.4 percent increase in total volumes delivered to KUB's gas distribution system. The Division's weighted average cost of gas purchased for fiscal year 2013 was $3.61 per dekatherm, as compared to $3.73 per dekatherm last year.



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



Residential customers, whose natural gas is primarily used as a heat source during winter months, accounted for 91 percent of customers billed and 42 percent of total volumes sold during the year. Residential sales volumes were consistent with the prior year for the first half of the fiscal year. Sales throughout the winter heating season of fiscal year 2013 were higher than fiscal year 2012, resulting in an overall 24.1 percent increase for the year.

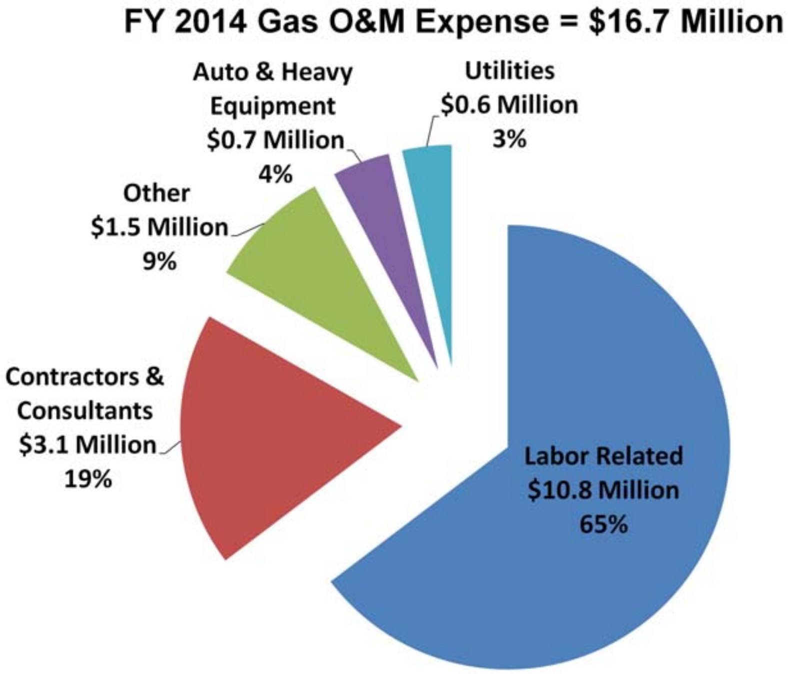
Commercial and Industrial sales volumes (including transportation customers) were up 7.2 percent compared to the prior year. KUB's ten largest gas customers accounted for 24.7 percent of KUB's billed gas volumes. Those ten customers represent five industrial and five commercial customers, including one governmental customer. KUB also has 15 transport customers who purchase gas directly from a supplier other than KUB. KUB provides transportation service on its gas distribution system to those customers.

Operating Expenses

Fiscal Year 2014 Compared to Fiscal Year 2013

Operating expenses (excluding purchased gas expense) increased $0.6 million or 1.9 percent compared to fiscal year 2013. Operating expenses are categorized as distribution (O&M), customer service (O&M), administrative and general (O&M), depreciation or taxes and tax equivalents:

- Distribution system operating and maintenance expenses were $0.3 million lower than the prior fiscal year, due to a decline in outside consultant expenses.
- Customer service expenses increased $0.1 million compared to last fiscal year.
- Administrative and general expenses increased $0.1 million or 2 percent.



- Depreciation expense was $0.6 million higher than the prior year, the result of a full year of depreciation for $17.4 million of assets added to plant in service in fiscal year 2013 and a partial year of depreciation for $23.4 million of assets added to plant in service in fiscal year 2014. In addition, the Division retired $1.6 million of assets during the year.
- Taxes and tax equivalents were consistent with the prior fiscal year.

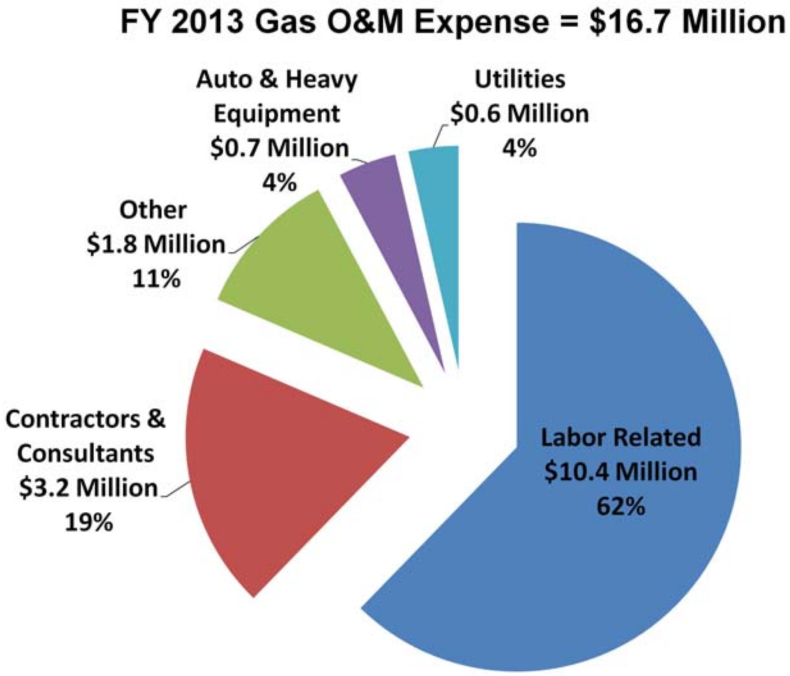
Fiscal Year 2013 Compared to Fiscal Year 2012

Operating expenses (excluding purchased gas expense) increased $0.7 million or 2.2 percent compared to fiscal year 2012. Operating expenses are categorized as distribution (O&M), customer service (O&M), administrative and general (O&M), depreciation or taxes and tax equivalents:

- Distribution system operating and maintenance expenses were $0.5 million higher than last fiscal year, due in part to the cost of a gas distribution system assessment.

- Customer service expenses were flat compared to last fiscal year.

- Administrative and general expenses declined $0.9 million or 12.7 percent, reflecting a $0.7 million reduction in the Division's portion of shared costs.



- Depreciation expense was $0.8 million higher than the prior year, the result of a full year of depreciation for $6 million of assets added to plant in service in fiscal year 2012 and a partial year of depreciation for $17.4 million of assets added to plant in service in fiscal year 2013. In addition, the Division retired $2.1 million of assets during the year.

- Taxes and tax equivalents were up $0.2 million as a result of higher tax equivalent payments due to increased net plant value.

Other Income and Expense

Fiscal Year 2014 Compared to Fiscal Year 2013

Contributions in aid of construction increased $2.9 million compared to the prior fiscal year. This was primarily due to a $3.9 million contribution from the University of Tennessee, representing a portion of the University's contribution for the South Loop project, a new gas transmission main. The South Loop project will provide additional capacity to meet the University's increased natural gas demand in the future.

Interest income was consistent with the prior fiscal year.

Interest expense increased $1 million compared with the prior year, the net result of additional interest from a $25 million September 2013 bond issue, a full year of expense for the December 2012 bond issuance and lower interest expense resulting from bond refunding in 2012 and 2013.

Other income (net) was $0.2 million higher than the prior fiscal year.

Fiscal Year 2013 Compared to Fiscal Year 2012

Interest income decreased $0.1 million. This decrease was due to lower interest rates on longer-term investments.

Interest expense was consistent with the prior year, the net result of a partial year's additional interest on $10 million of new debt in December 2012 and a reduction in expense from debt refinancing in 2012 and 2013.

Other income (net) was $0.1 million lower than the prior fiscal year.

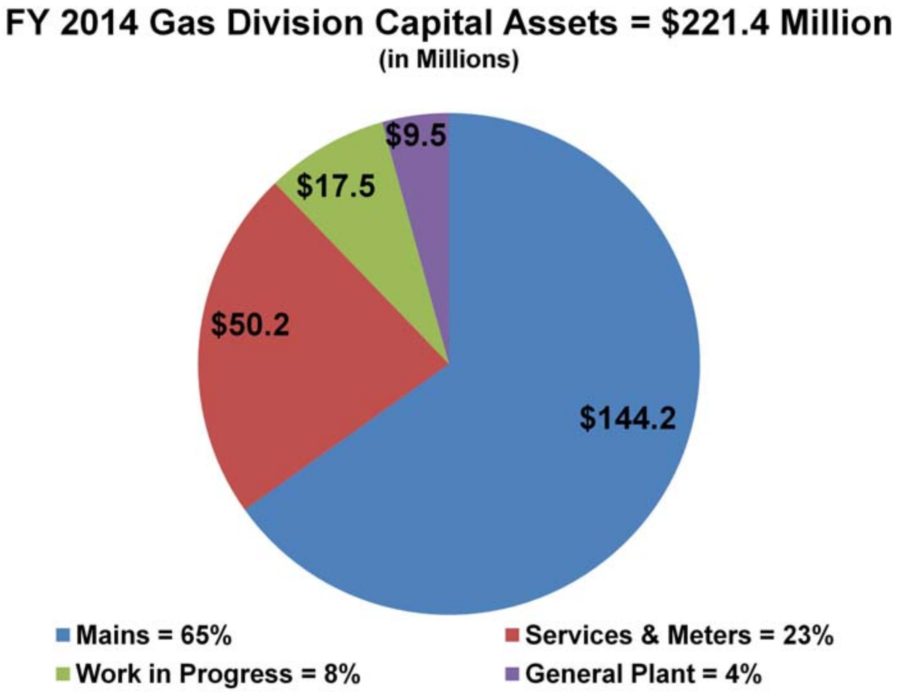
Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

(in thousands of dollars)	**2014**	**2013**	**2012**
Distribution plant:			
Mains	$ 144,218	$ 131,533	$ 124,045
Services and meters	50,238	48,911	47,963
Others	901	940	851
Total distribution plant	195,357	181,384	172,859
General plant	8,551	8,718	8,822
Total plant	203,908	190,102	181,681
Work in progress	17,464	25,388	27,107
Total net plant	$ 221,372	$ 215,490	$ 208,788

Fiscal Year 2014 Compared to Fiscal Year 2013

As of June 30, 2014, the Division had $221.4 million invested in a variety of capital assets, as reflected in the schedule of Capital Assets, which represents a net increase (including additions, retirements, and depreciation) of $5.9 million or 2.7 percent over the end of last fiscal year.

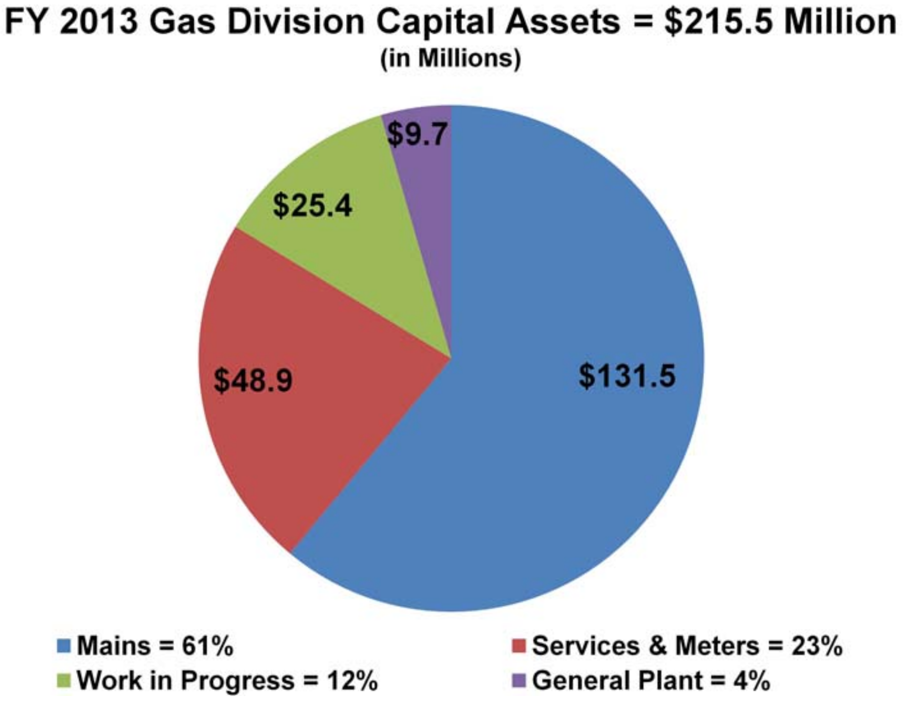


Major capital asset expenditures during the year were as follows:

- $9.8 million for main replacement
- $5.6 million for installation of new main and service extensions

Fiscal Year 2013 Compared to Fiscal Year 2012

As of June 30, 2013, the Division had $215.5 million invested in a variety of capital assets, as reflected in the schedule of Capital Assets, which represents a net increase (including additions, retirements, and depreciation) of $6.7 million or 3.2 percent over the end of last fiscal year.



Major capital asset expenditures during the year were as follows:

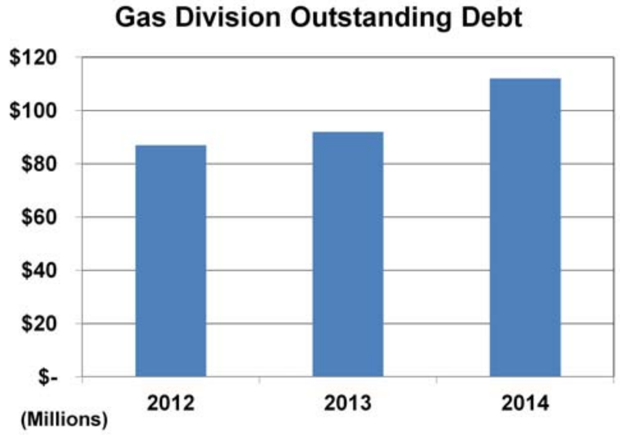
- $8.3 million for main replacement
- $4.5 million for installation of new main and service extensions

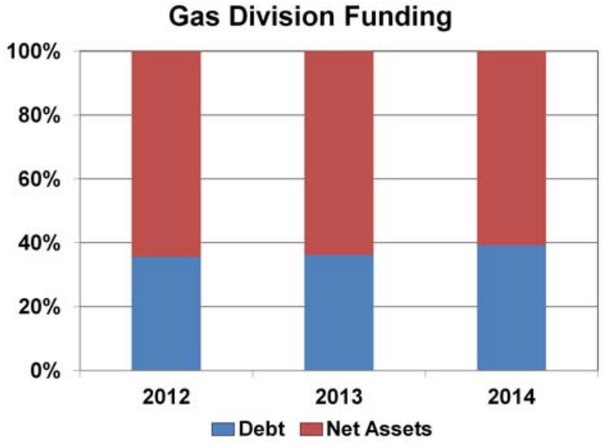
Debt Administration

The Gas Division's level of debt has increased during the past three years from $87.4 million in fiscal year 2012 to its current level of $112.4 million. The increase in debt has been used to fund capital improvements for the gas system. Debt as a percentage of capitalization represented 39.2 percent in 2014, 36.1 percent in 2013, and 35.6 percent at the end of fiscal year 2012.

Outstanding Debt
As of June 30

(in thousands of dollars)	2014	2013	2012
Revenue bonds	$ 112,365	$ 92,350	$ 87,360
Total outstanding debt	$ 112,365	$ 92,350	$ 87,360





The Division will pay $59.2 million in principal payments over the next ten years, representing 52.7 percent of the outstanding bonds. KUB's Debt Management Policy requires a minimum of 30 percent of gas debt principal be repaid over the next ten years.

Fiscal Year 2014 Compared to Fiscal Year 2013

As of June 30, 2014, the Division had $112.4 million in outstanding debt (including current portions of revenue bonds), compared to $92.4 million last year, representing an increase of $20 million or 21.7 percent. The Division's weighted average cost of debt as of June 30, 2014 was 3.9 percent.

In September 2013, the Division sold $25 million in gas system revenue bonds to fund capital system improvements.

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2014, the Division's revenue bonds were rated AA by Standard & Poor's and Aa2 by Moody's Investors Service.

Fiscal Year 2013 Compared to Fiscal Year 2012

As of June 30, 2013, the Division had $92.4 million in outstanding debt (including current portions of revenue bonds), compared to $87.4 million last year, representing an increase of $5 million or 5.7 percent. The Division's weighted average cost of debt as of June 30, 2013 was 3.8 percent.

In July 2012, the Gas Division issued a $20 million line of credit. The line of credit was issued in anticipation of funding purchased gas costs during the off-peak sales months. The Division drew down and repaid $2.6 million on the line of credit during the year.

In December 2012, the Division issued $10 million in gas system revenue bonds to fund capital system improvements.
The Division sold $11.6 million in revenue refunding bonds in March 2013 for the purpose of refunding outstanding bonds at lower interest rates. The refunding will result in total debt service savings of $1.6 million over the life of the bonds (or $1 million on a net present value basis).

As of June 30, 2013, the Division's revenue bonds were rated AA by Standard & Poor's and Aa2 by Moody's Investors Service.

Impacts on Future Financial Position

The Division expects to add 750 new gas customers during the course of the next fiscal year.

In June 2014, the KUB Board adopted three years of rate increases for all four systems to help fund the ongoing Century II infrastructure programs for each system. The natural gas rate increases will be effective October 2014, October 2015, and October 2016, respectively. Each rate increase will result in an additional $1.8 million in gas system revenue.

KUB debt portfolio includes $12 million of Gas Division 2010 Build America Bonds (BABs) in which the U.S. Treasury provides a rebate to KUB for a portion of the interest. The interest rebates were subject to federal sequestration during the fiscal year and were reduced by 7.2 percent. Any future actions by Congress may also affect the anticipated rebates for future fiscal years.

KUB will continue work on the installation of a new gas transmission main extending from South Knoxville to the University of Tennessee, providing increased capacity to meet future natural gas requirements for the university. The $23 million project is scheduled to be completed in November 2015.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, is effective for periods beginning after June 15, 2013. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68,* are effective for periods beginning after June 15, 2014. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on the Division's financial position or results of operations during fiscal year 2014.

Financial Contact

The Division's financial statements are designed to present users (citizens, customers, investors, and creditors) with a general overview of the Division's financial position and results of operations for the fiscal years ending June 30, 2014 and 2013. If you have questions about the statements or need additional financial information, contact KUB's Chief Financial Officer at 445 South Gay Street, Knoxville, Tennessee 37902.

Knoxville Utilities Board Gas Division
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	$ 44,014,211	$ 20,102,921
Short-term contingency fund investments	6,711,417	4,276,090
Other current assets	731,670	1,372,857
Accrued interest receivable	2,020	1,239
Accounts receivable, less allowance of uncollectible accounts of $37,851 in 2014 and $75,732 in 2013	8,245,324	7,520,573
Inventories	375,458	327,066
Gas storage	10,281,088	9,333,190
Prepaid expenses	419,558	604,310
Total current assets	70,780,746	43,538,246
Restricted assets:		
Gas bond fund	3,180,894	2,748,243
Other funds	8,336	10,226
Unused bond proceeds	1,055,410	-
Total restricted assets	4,244,640	2,758,469
Gas plant in service	308,375,915	286,601,236
Less accumulated depreciation	(104,468,506)	(96,499,232)
	203,907,409	190,102,004
Retirement in progress	200,850	186,237
Construction in progress	17,263,291	25,201,593
Net plant in service	221,371,550	215,489,834
Other assets:		
Long-term contingency fund investments	7,419,619	8,559,641
Under recovered purchased gas costs	-	841,779
Other	1,130,220	1,398,835
Total other assets	8,549,839	10,800,255
Total assets	304,946,775	272,586,804
Deferred outflows of resources:		
Unamortized bond refunding costs	511,898	583,939
Total deferred outflows of resources	511,898	583,939
Total assets and deferred outflows of resources	$ 305,458,673	$ 273,170,743

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

Knoxville Utilities Board Gas Division
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Liabilities, Deferred Inflows, and Capitalization		
Current liabilities:		
Current portion of revenue bonds	$ 5,150,000	$ 4,785,000
Sales tax collections payable	83,660	73,820
Accounts payable	6,296,865	6,192,203
Accrued expenses	2,376,263	2,404,472
Customer deposits plus accrued interest	3,456,133	3,343,786
Accrued interest on revenue bonds	1,464,127	1,156,173
Total current liabilities	18,827,048	17,955,454
Other liabilities:		
Accrued compensated absences	1,521,736	1,415,557
Customer advances for construction	539,984	308,087
Over recovered purchased gas costs	1,278,144	-
Other	15,123	78,396
Total other liabilities	3,354,987	1,802,040
Long-term debt:		
Gas revenue bonds	107,215,000	87,565,000
Total long-term debt	107,215,000	87,565,000
Total liabilities	129,397,035	107,322,494
Deferred inflows of resources:		
Unamortized costs	1,744,056	2,158,467
Total deferred inflows of resources	1,744,056	2,158,467
Total liabilities and deferred inflows of resources	131,141,091	109,480,961
Net position		
Net investment in capital assets	107,234,408	121,257,219
Restricted for:		
Debt service	1,716,767	1,592,070
Other	8,336	10,226
Unrestricted	65,358,071	40,830,267
Total net position	174,317,582	163,689,782
Total liabilities, deferred inflows, and net position	$ 305,458,673	$ 273,170,743

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

Knoxville Utilities Board Gas Division
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues	$ 117,145,734	$ 103,597,256
Operating expenses		
Purchased gas	69,351,087	62,415,207
Distribution	7,617,334	7,896,781
Customer service	2,626,258	2,483,563
Administrative and general	6,459,558	6,333,489
Provision for depreciation and amortization	9,674,685	9,112,867
Taxes and tax equivalents	6,336,412	6,275,336
Total operating expenses	102,065,334	94,517,243
Operating income	15,080,400	9,080,013
Non-operating revenues (expenses)		
Contributions in aid of construction	4,381,057	1,528,863
Interest and dividend income	143,753	148,552
Interest expense	(4,771,622)	(3,779,522)
Write-down of plant for costs recovered through contributions	(4,381,057)	(1,528,863)
Other	175,269	(80,099)
Total non-operating revenues (expenses)	(4,452,600)	(3,711,069)
Change in net position	10,627,800	5,368,944
Net position, beginning of year	163,689,782	158,320,838
Net position, end of year	$ 174,317,582	$ 163,689,782

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

Knoxville Utilities Board Gas Division
Statements of Cash Flows
June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash receipts from customers	$ 116,038,078	$ 98,583,683
Cash (payments to) receipts from other operations	1,160,789	1,053,980
Cash payments to suppliers of goods or services	(76,930,255)	(63,752,779)
Cash payments to employees for services	(8,269,996)	(7,721,873)
Payment in lieu of taxes	(5,761,856)	(5,735,914)
Net cash provided by operating activities	26,236,760	22,427,097
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	24,755,243	10,412,480
Principal paid on revenue bonds and notes payable	(4,985,000)	(4,515,000)
(Increase) decrease in unused bond proceeds	(1,055,410)	-
Interest paid on revenue bonds and notes payable	(3,926,186)	(3,699,787)
Acquisition and construction of gas plant	(20,235,230)	(17,463,871)
Changes in gas bond fund, restricted	(432,651)	(196,706)
Customer advances for construction	231,897	(60,670)
Proceeds received on disposal of plant	125,000	5,920
Cash received from developers and individuals for capital purposes	4,381,057	1,528,863
Net cash used in capital and related financing activities	(1,141,280)	(13,988,771)
Cash flows from investing activities:		
Changes in deposit and investment accounts:		
Purchase of investment securities	(1,383,364)	1,834,727
Maturities of investment securities	88,058	127,765
Interest received	142,972	160,287
Other property and investments	(31,856)	(179,459)
Net cash (used in) provided by investing activities	(1,184,190)	1,943,320
Net increase in cash and cash equivalents	23,911,290	10,381,646
Cash and cash equivalents, beginning of year	20,102,921	9,721,275
Cash and cash equivalents, end of year	$ 44,014,211	$ 20,102,921
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 15,080,400	$ 9,080,013
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expenses	9,956,968	9,337,980
Changes in operating assets and liabilities:		
Accounts receivable	(724,751)	(4,498,557)
Inventories	(48,392)	20,670
Prepaid expenses	(947,273)	3,905,612
Other assets	558,339	48,289
Sales tax collections payable	9,840	4,995
Accounts payable and accrued expenses	182,631	2,418,071
Underrecovered gas costs	2,119,923	1,983,384
Customer deposits plus accrued interest	112,347	102,146
Other liabilities	(63,272)	24,494
Net cash provided by operating activities	$ 26,236,760	$ 22,427,097
Noncash capital activities:		
Acquisition of plant assets through developer contributions	$ -	$ -

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

1. Description of Business

Knoxville Utilities Board (KUB), comprised of Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners oversees KUB. The Board has all powers to construct, acquire, expand, or operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions including setting rates. The Gas Division (Division) provides services to certain customers in Knox County and in two surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Gas Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2014 and 2013, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

2. Significant Accounting Policies

Basis of Accounting

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.* Statement No. 34 established standards for external financial reporting for all state and local governmental entities.

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

Recently Adopted New Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62 (Statement No. 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for KUB's fiscal year beginning July 1, 2012. The objective of this Statement is to incorporate into the GASB's authoritative literature certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants' (AICPA) accounting and financial reporting guidance issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

Statement No. 62 supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election to apply FASB statements, related interpretations, Accounting Principles Board opinions and accounting research bulletins issued post-November 30, 1989 that do not conflict with Governmental Accounting Standards. However, FASB pronouncements issued post-November 30, 1989 that do not conflict with or contradict Governmental Accounting Standards can continue to apply as other accounting literature.

In June 2011, the GASB issued Statement No. 63 (Statement No. 63), (*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position,* effective for KUB's fiscal year beginning July 1, 2012. Statement No. 63 amends the net asset reporting requirements in Statement No. 34 and other pronouncements. Under these new standards, financial statements include deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities, and will report *net position* instead of net assets. Statement No. 63 requires the classification of net position into three components – net investment in capital assets; net position-restricted; and net position-unrestricted.

These classifications are defined as follows:

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

- Net position-restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

- Net position-unrestricted – This component of net position consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Implementation of Statement No. 63 had no effect on KUB's net position or changes in net position.

In March 2012, the GASB issued Statement No. 65 (Statement No. 65), *Items Previously Reported as Assets and Liabilities*, effective for KUB's fiscal year beginning July 1, 2013; however, KUB early adopted Statement No. 65 effective for the fiscal year beginning July 1, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities. Implementation of Statement No. 65 had no effect on KUB's net position or changes in net position.

Gas Plant

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

The provision for depreciation of gas plant in service is based on the estimated useful lives of the assets, which range from three to thirty-three years, and is computed using the straight-line method. Pursuant to FERC, the caption "Provision for depreciation" in the statements of revenues, expenses and changes in net position does not include depreciation for transportation equipment of

$282,282 in fiscal year 2014 and $225,113 in fiscal year 2013. Interest costs are expensed as incurred.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of the KUB Gas Division. Operating revenue is recorded when the service is rendered, on a cycle basis, and includes an estimate of unbilled revenue. Revenues are reported net of bad debt expense of $88,807 in fiscal year 2014 and $48,460 in fiscal year 2013.

Non-operating Revenue

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

Expense

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

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

Pension Plan

The Division's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 10). The Division's policy is to fund pension cost accrued. As required by GASB Statement No. 27, KUB measures and discloses the annual pension cost on the accrual basis of accounting. At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

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, provision for doubtful accounts, depreciable lives of plant assets, unbilled revenue volumes, pension trust valuations, OPEB trust valuations, insurance liability reserves, and potential losses from contingencies and litigation. Actual results could differ from those estimates.

Restricted and Designated Assets

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

Cash Equivalents

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

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are items previously reported as assets 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 previously reported as liabilities related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. In accordance with Statement No. 62, KUB records debt issuance costs, including discounts and premiums as a deferred outflow or inflow. Likewise, 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.

Compensated Absences

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

Subsequent Events

KUB has evaluated events and transactions through October 24, 2014, the date these financial statements were issued, for items that should potentially be recognized or disclosed.

Reclassifications

Certain reclassifications have been made to fiscal year 2013 balances to conform to fiscal year 2014 presentation.

Purchased Gas Adjustment

In November 1990, the Division implemented a deferred Purchased Gas (Cost) Adjustment (PGA) mechanism, which allows the Division 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 KUB's Board of Commissioners. The rate-setting authority vested in the KUB 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 assure 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 assure that no excess or deficient cost recovery from KUB's customers occurs.

Under the PGA mechanism, the Division tracks the actual (under)/over recovered amount in the (Under)/Over recovered Purchased Gas Costs accounts. These accounts are rolled into the PGA rate adjustment on June 30 of each year thereby assuring that any (under)/over recovered amounts are passed on to the Division's customers. The amount of over/(under) recovered cost was $1,278,144 at June 30, 2014 and ($841,779) at June 30, 2013.

Recently Issued Accounting Pronouncements

In June 2012, the GASB issued two related Statements that affect accounting and financial reporting of pensions by state and local governments. GASB Statement No. 67 (Statement No. 67), *Financial Reporting for Pension Plans*, is intended to improve financial reporting for state and local government pension plans. GASB Statement No. 68 (Statement No. 68), *Accounting and Financial Reporting for Pensions,* establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. Statements No. 67 and 68 supersede existing guidance on financial reporting for defined pension plans found in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The objective of this statement is to clarify accounting and financial reporting for pensions. This statement requires governments to recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date of the beginning net pension liability calculated under Statement No. 68.

Statement No. 67 is effective for periods beginning after June 15, 2013 and Statements No. 68 and 71 are effective for periods beginning after June 15, 2014. 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's investment policy provides the framework for the administration and investment of cash deposits. The investment policy follows 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. KUB's Agency Bond investments are rated Aaa by Moody's Investors Service.

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

Classification of deposits and investments per statement of net position:

	2014	**2013**
Current assets		
Cash and cash equivalents	$ 44,014,211	$ 20,102,921
Short-term contingency fund investments	6,711,417	4,276,090
Other assets		
Long-term contingency fund investments	7,369,579	8,524,940
Restricted assets		
Unused bond proceeds	1,055,410	-
Gas bond fund	3,180,894	2,748,243
Other funds	8,336	10,226
	$ 62,339,847	$ 35,662,420

The above amounts do not include accrued interest of $50,040 in fiscal year 2014 and $34,701 in fiscal year 2013. Interest income is recorded on an accrual basis.

Investments and maturities of KUB’s deposits and investments:

	Deposit and Investment Maturities (in Years)		
	Fair Value	**Less Than 1**	**1-5**
Supersweep NOW and Other Deposits	$ 52,582,927	$ 52,582,927	$ -
State Treasurer's Investment Pool	1,058,483	1,058,483	-
Agency Bonds	9,749,812	2,383,306	7,366,506
Certificates of Deposits	7,509,005	7,509,005	-
	$ 70,900,227	$ 63,533,721	$ 7,366,506

4. Accounts Receivable

Accounts receivable consists of the following:

	2014	**2013**
Wholesale and retail customers		
Billed services	$ 6,483,622	$ 6,131,190
Unbilled services	1,446,920	1,154,898
Other	352,633	310,217
Allowance for uncollectible accounts	(37,851)	(75,732)
	$ 8,245,324	$ 7,520,573

5. Accounts Payable and Accruals

Accounts payable and accruals were composed of the following:

	2014	**2013**
Trade accounts	$ 6,296,865	$ 6,192,203
Salaries and wages	184,428	128,028
Self-insurance liabilities	298,833	331,386
Other current liabilities	1,893,002	1,945,058
	$ 8,673,128	$ 8,596,675

6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2013	Additions	Payments	Balance June 30, 2014	Amounts Due Within One Year
L-2005 - 3.0 - 4.75%	$ 12,025,000	$ -	$ 645,000	$ 11,380,000	$ 665,000
N-2007 - 4.0 - 5.0%	12,000,000	-	-	12,000,000	-
O-2010 - 2.0 - 3.0%	10,050,000	-	3,225,000	6,825,000	3,350,000
P-2010 - 3.3 - 6.2%	12,000,000	-	-	12,000,000	-
Q-2012 - 2.0 - 4.0%	24,695,000	-	665,000	24,030,000	685,000
R-2012 - 2.0 - 4.0%	10,000,000	-	200,000	9,800,000	200,000
S-2013 - 2.0 - 4.0%	11,580,000	-	50,000	11,530,000	50,000
T-2013 - 2.0 - 4.6%	-	25,000,000	200,000	24,800,000	200,000
Total debt	$ 92,350,000	$ 25,000,000	$ 4,985,000	$ 112,365,000	$ 5,150,000

Other liabilities consist of the following:

	Balance June 30, 2013	Increase	Decrease	Balance June 30, 2014	Amounts Due Within One Year
Accrued compensated absences	$ 1,415,557	$ 2,494,320	$ (2,388,141)	$ 1,521,736	$ 500,000
Customer advances for construction	308,087	349,629	(117,732)	539,984	9,000
Other	78,396	13,603	(76,876)	15,123	-
	$ 1,802,040	$ 2,857,552	$ (2,582,749)	$ 2,076,843	$ 509,000

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

Fiscal	Total		Grand
Year	Principal	Interest	Total
2015	$ 5,150,000	$ 4,392,380	$ 9,542,380
2016	5,320,000	4,268,592	9,588,592
2017	5,350,000	4,103,830	9,453,830
2018	5,550,000	3,912,322	9,462,322
2019	5,745,000	3,713,162	9,458,162
2020 - 2024	32,130,000	14,951,733	47,081,733
2025 - 2029	31,295,000	8,500,741	39,795,741
2030 - 2034	19,725,000	2,662,225	22,387,225
2035	2,100,000	96,600	2,196,600
Total	$ 112,365,000	$ 46,601,585	$ 158,966,585

The Division has pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet bond principal and interest payments when due. The requirements for the bonds are being met through monthly deposits to the Gas Bond Fund, as required by the bond covenants. As of June 30, 2014, these bond covenant requirements had been satisfied.

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

During fiscal year 2008, KUB's Gas Division issued Series N 2007 bonds to fund gas system capital improvements.

During fiscal year 2010, KUB's Gas Division issued Series O 2010 bonds to retire Series I 2001 bonds.

During fiscal year 2011, KUB's Gas Division issued Series P 2010 bonds to fund gas system capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change.

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

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

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

In prior years, certain revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $43.5 million at June 30, 2014, and the trust account assets are not included in the financial statements.

7. Lease Commitments

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

2015	$ 10,251
2016	3,698
2017	386
Total operating minimum lease payments	$ 14,335

8. Capital Assets

Capital assets activity for the year ended June 30, 2014, was as follows:

	Beginning 6/30/2013	Increase	Decrease	Ending 06/30/2014
Production Plant	$ 14,640	$ -	$ -	$ 14,640
Distribution Plant				
Mains	186,488,818	18,158,365	(839,159)	203,808,024
Services and Meters/Regulators	76,004,168	3,621,018	(495,290)	79,129,896
Other Accounts	1,493,418	24,982	(25,004)	1,493,396
Total Distribution Plant	$ 263,986,404	$ 21,804,365	$ (1,359,453)	$ 284,431,316
Total General Plant	22,600,192	1,618,598	(288,831)	23,929,959
Total Plant Assets	$ 286,601,236	$ 23,422,963	$ (1,648,284)	$ 308,375,915
Less Accumulated Depreciation	(96,499,232)	(9,564,636)	1,595,362	(104,468,506)
Net Plant Assets	$ 190,102,004	$ 13,858,327	$ (52,922)	$ 203,907,409
Work In Progress	25,387,830	14,664,114	(22,587,803)	17,464,141
Total Net Plant	$ 215,489,834	$ 28,522,441	$ (22,640,725)	$ 221,371,550

9. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. At June 30, 2014, the amount of these liabilities was $298,833 resulting from the following changes:

	2014	2013
Balance, beginning of year	$ 331,386	$ 368,673
Current year claims and changes in estimates	2,292,331	2,303,947
Claims payments	(2,324,884)	(2,341,234)
Balance, end of year	$ 298,833	$ 331,386

10. Pension Plan

Description of Plan

The Plan is a single-employer contributory, defined benefit pension plan established by Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville § 1107(J). The Plan is designed to provide retirement, disability and death benefits. The Plan is a governmental plan as defined by the Employee Retirement Income Security Act of

1974, is not subject to any of the provisions of the Act, and was revised January 1, 2014 to include all prior approved amendments.

At December 31, 2013, the Plan had approximately 639 retirees and beneficiaries currently receiving benefits and 49 terminated employees entitled to benefits but not yet receiving them. Of the approximately 778 current employees in the Plan, 743 were fully vested at December 31, 2013. 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 Pension Division, P.O. Box 59017, Knoxville, TN 37950-9017.

Effective January 1, 2011, KUB froze the Plan such that persons employed or re-employed by KUB on or after January 1, 2011, shall not be 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 Plan.

The Plan provides three different benefit arrangements for KUB participants, retirees, and beneficiaries, as follows:

Career Equity Program (CEP)

CEP is for eligible employees hired on or after January 1, 1999, and for eligible former City Division Plan A members who elected CEP coverage as of July 1, 1999. CEP is a closed plan.

All eligible employees became participants on the date of his/her KUB employment. Participants are covered by Social Security. Participation in CEP does not require or permit employee contributions.

Plan A
Plan A benefits are for former City Division Plan A active employees, vested terminated employees, retirees, and beneficiaries. Plan A is a closed plan.

All employees participating in the City Division Plan A as of June 30, 1999, were eligible to participate in KUB's Plan A or the CEP program. Participants of Plan A are covered by Social Security. Plan A is a closed plan and is not available to KUB employees hired after July 1, 1999. Participation in Plan A requires employee contributions of 3 percent of the first $4,800 of annual earnings and 4 percent of annual earnings in excess of $4,800. Plan A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or older.

Plan B
Plan B benefits are for former City Division Plan B active employees, vested terminated employees, retirees, and beneficiaries. Plan B is a closed plan.

All employees participating in the City Division Plan B as of June 30, 1999 are eligible to participate in KUB's Plan B. Plan B is now a closed plan and no participants can be added. Participants of Plan B are not covered by Social Security. Participation in Plan B requires employee contributions of 4 percent of annual earnings. Plan B provides for retirement benefits after 25 years of service and the attainment of age 50.

Funding Policy

For the Plan year ended December 31, 2013, a contribution of $6,314,399 will be made in the Plan sponsor's fiscal year ending June 30, 2015. The Gas Division's portion of this contribution is $1,136,592. The annual contribution was determined as part of the January 1, 2013 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. For the Plan year ended December 31, 2013, the Plan's actuarial funded ratio was 89.3 percent.

At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund, is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

Significant actuarial assumptions used in the valuation include (a) rate of return of investments of 8 percent, (b) the RP2000 Mortality Table, (c) annual projected salary increases based on participants' ages ranging from age 25 to age 65 with salary increases from 2.58 percent to 7.92 percent, and (d) cost of living adjustment of 2.8 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period.

As of the actuarial report for the Plan year ended December 31, 2013, contributions of $6,314,399 and $5,502,677 for 2013 and 2012, respectively, will be made during the Plan sponsor's fiscal years ending June 30, 2015 and 2014, respectively. Of these amounts, $1,136,592 and $1,045,509 are attributable to the Gas Division.

Subsequent to June 30, 2014, the actuarial valuation for the Plan year ending December 31, 2014 was completed. The actuarial valuation resulted in an actuarially determined contribution of $5,669,380 for the fiscal year ending June 30, 2016, based on the Plan's current funding policy. The Gas Division's portion of this contribution is $1,020,489. For the Plan year ending December 31, 2014, the Plan's actuarial funded ratio was 94.6 percent. See Required Supplementary Information for Pension Schedule of Funding Progress.

11. Defined Contribution Plan

KUB has a defined contribution 401(k) employee retirement savings plan covering eligible KUB employees. Employees hired prior to January 1, 2011 may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. Employees hired on or after January 1, 2011 have an enhanced 401(k) Plan due to the closure of the Defined Benefit Pension Plan. They may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. They also receive a nonelective KUB contribution of from 3 percent to 6 percent, depending on years of service, whether they contribute or not.

Since July 1, 2000, 401(k) matching contributions for employees eligible to participate in the KUB Pension Plan have been funded by the Pension Plan. These funds are held by the Pension trustee until eligible for distribution. IRS rules permit the funding of 401(k) matching contributions from excess pension assets for employees covered under the Pension Plan. Given the current funding level of the Pension Plan, effective July 1, 2011, KUB began to reimburse the Pension Plan for the current matching contributions. The match and nonelective contributions for employees hired on or after January 1, 2011 are paid directly by KUB.

12. Other Post-Employment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) established new standards for the measurement, recognition, and reporting of other post-employment benefits (OPEB). OPEB includes post-employment benefits other than pension, which, for KUB, is presently limited to post-employment health care. GASB Statement No. 45 (Statement No. 45) requires the recognition of the accrued OPEB liability for the respective year, plus the disclosure of the total unfunded liability. Statement No. 45 was effective for KUB for the fiscal year beginning July 1, 2007.

KUB currently provides post-employment health care benefits to 604 former employees and 619 covered dependents. The cost of coverage is shared with retirees and beneficiaries. KUB recognizes its share of the cost of post-employment health care benefits as an expense as claims are paid.

In anticipation of Statement No. 45, KUB amended its Group Health Plan in 1999, eliminating post-employment health care benefits for all employees hired on or after July 1, 1999. As of June 30, 2014, 399 active employees were eligible for individual and dependent coverage at separation. To qualify, the employee must meet the Rule of 80 (age plus years of service) with a minimum of 20 years of service, and be enrolled in medical coverage on their last day.

In May 2006, the state of Tennessee adopted Tennessee Code Annotated, Title 8, Chapter 50, Part 12 authorizing governmental entities to establish Trusts for the purpose of pre-funding their respective OPEB liabilities.

Although Statement No. 45 does not require pre-funding of the liability, KUB has determined that it is in the long-term economic interest of KUB and its ratepayers to establish a Trust to pre-fund KUB's OPEB liability.

In October 2007, the KUB Board authorized the establishment of an OPEB Trust. 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.

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.

The general administration and responsibility for the proper operation of the Trust is governed by a Board of Trustees, appointed by KUB's President & CEO. 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.

Total contributions to the OPEB Trust for the fiscal year ended June 30, 2014 were $4,057,091 (Division's share $770,847). The contribution to the Trust exceeded the annual actuarially determined contribution, as determined by the Postretirement Benefit Plan's actuarial valuation for the year ended December 31, 2012, which was $3,327,412 (Division's share $632,208). As of June 30, 2014, the employer's OPEB obligation has been exceeded by $177,322 (Division's share $33,691).

The actuarially determined contribution for the fiscal year ending June 30, 2015, as determined by the Plan's actuarial valuation for the year ended December 31, 2013 is $3,497,372 (Division's share $629,527).

The actuarial valuation for the Plan for the year ending December 31, 2014 has been completed. The valuation determined that the Plan's actuarial accrued liability was $46,889,808 (Division's share $8,440,165). The actuarial value of the Plan's assets was $43,409,955 (Division's share $7,813,792). As a result, the Plan's unfunded actuarial accrued liability was $3,479,853 (Division's share $626,374). The Plan's actuarial funded ratio was 93 percent. The valuation also determined that the employer's actuarially determined contribution is $953,221 for the fiscal year ending June 30, 2016 (Division's share $171,580). See Required Supplementary Information for OPEB Schedule of Funding Progress.

13. Related Party Transactions

The Division, in the normal course of operations, is involved in transactions with the City of Knoxville and with other systems of KUB. Such transactions for the years ended June 30, 2014 and 2013 are summarized as follows:

	2014	**2013**
City of Knoxville		
Amounts billed by the Division for utilities and related services	$ 583,982	$ 533,974
Payments by the Division in lieu of property tax	3,008,089	3,027,717
Payments by the Division for services provided	454,436	126,801
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	342,297	315,592
Interdivisional rental expense	430,112	428,310
Amounts billed to the Division by other divisions for utilities services provided	301,217	298,123

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

	2014	**2013**
Accounts receivable	$ 6,920	$ 13,949

14. Natural Gas Supply Contract Commitments

For fiscal year 2014, the Gas Division hedged 50 percent of its total gas purchases via gas supply contracts. As of June 30, 2014, the Gas Division had hedged the price on approximately 11 percent of its anticipated gas purchases for fiscal year 2015.

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

Firm obligations related to purchased gas - demand

	2015	2016	2017	2018	2019
Transportation					
Tennessee Gas Pipeline	$ 7,228,236	$ 2,409,412	$ -	$ -	$ -
East Tennessee Natural Gas	10,066,388	3,355,463	-	-	-
Storage					
Tennessee Gas Pipeline	2,076,288	692,096	-	-	-
East Tennessee Natural Gas	757,460	252,487	-	-	-
Saltville Natural Gas	1,854,180	1,854,180	1,531,650	564,060	423,045
Demand Total	$ 21,982,552	$ 8,563,638	$ 1,531,650	$ 564,060	$ 423,045

Firm obligations related to purchased gas - commodity

	2015	2016	2017	2018	2019
Baseload					
Conoco	$ 2,267,815	$ -	$ -	$ -	$ -
Equitable	3,552,262	-	-	-	-
Shell Energy	1,960,660				
CNX	3,519,055	3,519,055	-	-	-
Commodity Total	$ 11,299,792	$ 3,519,055	$ -	$ -	$ -

The total commodity values presented here are based upon firm supply obligations with each individual natural gas supplier. The firm obligations value for Conoco and Shell Energy are based upon firm supply obligations at locked prices with those suppliers. The firm obligations value for CNX and Equitable contracts are based upon firm supply obligations and the applicable four month NYMEX strip prices on June 30, 2014.

15. Other Commitments and Contingencies

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

Knoxville Utilities Board Gas Division
Required Supplemental Information - Schedule of Funding Progress
June 30, 2014
(Unaudited)

Pension Plan

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
January 1, 2010	$ 203,704,898	$ 190,679,453	$ (13,025,445)	106.8%	$ 48,228,428	(27.01%)
January 1, 2011	195,692,781	187,257,434	(8,435,347)	104.5%	47,405,874	(17.79%)
January 1, 2012	183,980,665	195,536,152	11,555,487	94.1%	48,836,721	23.66%
January 1, 2013	175,936,548	197,049,614	21,113,066	89.3%	47,553,598	44.40%
January 1, 2014	188,770,336	199,515,466	10,745,130	94.6%	47,107,350	22.81%

Other Post-Employment Benefits (OPEB)

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
January 1, 2008	$ -	$ 108,329,141	$ 108,329,141	0%	$ 31,234,509	346.8%
January 1, 2009	14,593,487	100,726,738	86,133,251	14%	31,846,091	270.5%
January 1, 2010	21,275,643	58,475,364	37,199,721	36%	30,069,028	123.7%
January 1, 2011	40,749,815	64,289,254	23,539,439	63%	28,878,791	81.5%
January 1, 2012	37,907,357	61,603,466	23,696,109	62%	28,269,123	83.8%
January 1, 2013	38,571,803	63,341,531	24,769,728	61%	27,566,340	89.9%
January 1, 2014	43,409,955	46,889,808	3,479,853	93%	26,724,154	13.0%

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Insurance in Force
June 30, 2014
(Unaudited) Schedule 1

Insurance coverage is for KUB as a consolidated entity.

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

Directors' and Officers' Liability Insurance
Covers KUB personnel appropriately authorized to make decisions on behalf of KUB (including but not limited to Commissioners, President and CEO, Senior Vice Presidents, Vice Presidents, and Directors) for wrongful acts. Limits of coverage - $20,000,000; $1,000,000 corporate deductible, $0 individual deductible.

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

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

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

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

Travel Accident
Covers losses related to employees' business travel. Limits of coverage - $1,500,000 aggregate.

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

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

Employee Health Plan Stop Loss Coverage
KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses in excess of $400,000 per individual participant.

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2014 Schedule 2

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	L-2005		N-2007		O-2010		P-2010			Q-2012	
FY	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Rebate***	**Principal**	**Interest**
14-15	$ 665,000	$ 505,878	$	$ 541,706	$ 3,350,000	$ 171,250	$	$ 645,843	$ 226,045	$ 685,000	$ 834,248
15-16	695,000	474,290		541,706	3,475,000	104,250		645,843	226,045	700,000	820,548
16-17	725,000	441,278	550,000	541,706			540,000	645,843	226,045	2,065,000	806,548
17-18	760,000	406,840	575,000	514,206			570,000	628,023	219,808	2,125,000	744,598
18-19	795,000	372,640	625,000	491,206			595,000	606,363	212,227	2,190,000	680,848
19-20	830,000	336,865	650,000	465,425			620,000	581,075	203,376	2,260,000	615,148
20-21	865,000	299,515	675,000	437,800			645,000	553,175	193,611	2,350,000	524,748
21-22	910,000	260,590	700,000	408,269			670,000	521,731	182,606	2,445,000	430,748
22-23	945,000	223,053	750,000	377,469			695,000	488,231	170,881	2,540,000	332,948
23-24	980,000	182,890	775,000	343,719			725,000	453,481	158,718	2,645,000	231,348
24-25	1,025,000	141,240	825,000	308,844			750,000	413,606	144,762	760,000	125,548
25-26	1,065,000	96,140	875,000	271,719			785,000	372,358	130,325	780,000	102,748
26-27	1,120,000	49,280	900,000	231,250			815,000	328,200	114,870	800,000	79,348
27-28			1,000,000	189,625			845,000	279,300	97,755	830,000	54,348
28-29			1,000,000	143,375			880,000	228,600	80,010	855,000	27,788
29-30			1,000,000	97,125			915,000	175,800	61,530		
30-31			1,100,000	50,875			950,000	120,900	42,315		
31-32							1,000,000	62,000	21,700		
32-33											
33-34											
34-35											
Total	$ 11,380,000	$ 3,790,499	$ 12,000,000	$ 5,956,025	$ 6,825,000	$ 275,500	$ 12,000,000	$ 7,750,372	$ 2,712,629	$ 24,030,000	$ 6,411,510

*Series P-2010 bonds were issued as federally taxable Build America Bonds. KUB will receive a 35 percent interest rebate payment from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is in effect until intervening Congressional action, at which time the sequestration rate is subject to change.

Knoxville Utilities Board Gas Division

Supplemental Information - Schedule of Debt Maturities by Fiscal Year

June 30, 2014

Schedule 2

Continued from Previous Page

	R-2012		S-2013		T-2013		Totals		Grand Total (P + I)	Grand Total (Less Rebate)
FY	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest		
14-15	$ 200,000	$ 292,530	$ 50,000	$ 377,100	$ 200,000	$ 1,023,825	$ 5,150,000	$ 4,392,380	$ 9,542,380	$ 9,316,335
15-16	200,000	288,530	50,000	375,600	200,000	1,017,825	5,320,000	4,268,592	9,588,592	9,362,547
16-17	400,000	282,530	570,000	374,100	500,000	1,011,825	5,350,000	4,103,830	9,453,830	9,227,785
17-18	425,000	270,530	595,000	351,300	500,000	996,825	5,550,000	3,912,322	9,462,322	9,242,514
18-19	425,000	257,780	615,000	327,500	500,000	976,825	5,745,000	3,713,162	9,458,162	9,245,935
19-20	450,000	240,781	645,000	302,900	500,000	956,825	5,955,000	3,499,019	9,454,019	9,250,643
20-21	475,000	222,781	695,000	277,100	500,000	936,825	6,205,000	3,251,944	9,456,944	9,263,333
21-22	475,000	203,781	715,000	249,300	500,000	916,825	6,415,000	2,991,244	9,406,244	9,223,638
22-23	500,000	184,781	730,000	227,850	500,000	901,825	6,660,000	2,736,157	9,396,157	9,225,276
23-24	525,000	169,781	745,000	205,950	500,000	886,200	6,895,000	2,473,369	9,368,369	9,209,651
24-25	550,000	159,281	790,000	183,600	1,550,000	869,950	6,250,000	2,202,069	8,452,069	8,307,307
25-26	575,000	142,781	800,000	159,900	1,600,000	813,763	6,480,000	1,959,409	8,439,409	8,309,084
26-27	575,000	130,560	840,000	135,900	1,650,000	749,763	6,700,000	1,704,301	8,404,301	8,289,431
27-28	600,000	117,625	875,000	110,700	1,700,000	683,763	5,850,000	1,435,361	7,285,361	7,187,606
28-29	625,000	99,625	905,000	84,450	1,750,000	615,763	6,015,000	1,199,601	7,214,601	7,134,591
29-30	650,000	84,000	940,000	57,300	1,950,000	543,575	5,455,000	957,800	6,412,800	6,351,270
30-31	675,000	64,500	970,000	29,100	2,000,000	460,700	5,695,000	726,075	6,421,075	6,378,760
31-32	725,000	44,250			2,000,000	373,200	3,725,000	479,450	4,204,450	4,182,750
32-33	750,000	22,500			2,000,000	283,200	2,750,000	305,700	3,055,700	3,055,700
33-34					2,100,000	193,200	2,100,000	193,200	2,293,200	2,293,200
34-35					2,100,000	96,600	2,100,000	96,600	2,196,600	2,196,600
Total	$ 9,800,000	$ 3,278,927	$ 11,530,000	$ 3,829,650	$ 24,800,000	$ 15,309,102	$ 112,365,000	$ 46,601,585	$ 158,966,585	$ 156,253,956

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2014
(Unaudited)

Schedule 3

Rate Class	Base Charge	Number of Customers
Residential (G-2)	For the regular monthly billing period for the months of November to April, inclusive: Customer charge per month $5.65 First 30 therms per month at 129.30 cents per therm Excess over 30 therms per month at 108.08 cents per therm For the regular monthly billing periods for the months of May to October, inclusive: Customer charge per month $5.65 First 50 therms per month 111.43 cents per therm Excess over 50 therms per month at 99.57 cents per therm	88,579
Commercial (G-4)	Available to any commercial or industrial customer: Customer charge per month $10.00 First 250 therms per month at 120.50 cents per therm Excess over 250 therms per month at 109.25 cents per therm	9,028
Commercial (G-6)	Available to any commercial or industrial customer incurring a demand of 27 therms or more during the current monthly billing period or during any of the eleven net preceding monthly billing periods. The net rate is the sum of the following demand and commodity charges: Customer charge: $120.00 per month Demand charge: $1.80 per therm of demand Commodity charge: First 30,000 therms per month at 83.29 cents per therm Excess over 30,000 therms per month at 74.38 cents per therm	293
Industrial (G-7)	Service under Rate Schedule G-7 shall be available to any customer who meets the following conditions: (a) Customer's annual Interruptible Gas use, on an actual or projected basis, shall not be less than 25,000 dekatherms; (b) Customer shall be permitted to purchase only one (1) dekatherm of Firm Gas under Rate Schedule G-7 for each two (2) dekatherms of Interruptible Gas which are purchased; (c) Customer must have standby equipment of sufficient capacity capable of providing the customer's normal gas service requirements for a period of five (5) working days without replenishment when Interruptible Gas is completely interrupted. Customer shall maintain such equipment ready for operation at any time and shall utilize a fuel other than gas furnished by KUB and shall be subject to periodic inspections by KUB to ensure compliance with this provision; and (d) KUB must determine that its existing distribution system facilities are adequate and available for the requested service.	16

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2014
(Unaudited)

Schedule 3

Rate Class	Base Charge	Number of Customers

The net rate is the sum of the following demand and commodity charges:

Customer charge: $200.00 per month

Demand charge: $18.00 per month per dekatherm of demand

Commodity charge:
(a) Firm Gas - $7.438 per dekatherm
(b) Interruptible Gas - (i) First 3,000 dekatherms per month at $6.393 per dekatherm; excess of 3,000 to 20,000 dekatherms per month at $5.825 per dekatherm; plus excess over 20,000 to 50,000 dekatherms per month at $5.068 per dekatherm; excess over 50,000 dekatherms per month at $4.962 per dekatherm
(c) Supplemental Gas - The Commodity Charge for Supplemental Gas shall be the total of: (a) the cost per dekatherm to KUB for the applicable Day of acquiring Supplemental Gas on the open market, subject to the approval of the Customer to purchase Supplemental Gas at or above such price and (b) the costs incurred by KUB in transporting such Supplemental Gas via connecting pipelines to one or more of KUB's delivery points.

Transportation charge: $1.861 per dekatherm for the first 3,000 dekatherms of gas Redelivered plus Unauthorized Gas; plus $1.293 per dekatherm for each dekatherm from 3,000 to and including 20,000 dekatherms of gas Redelivered plus Unauthorized Gas; plus $.536 per dekatherm for each dekatherm from 20,000 to and including 50,000 dekatherms of gas Redelivered plus Unauthorized Gas; plus $.430 per dekatherm for the excess over 50,000 dekatherms of gas Redelivered plus Unauthorized Gas.

Unauthorized Gas charge: $15.00 per dekatherm of Unauthorized Gas as a penalty, plus the total of: (a) the cost per dekatherm of obtaining such gas on the open market as determined by the higher of (1) the applicable Gulf Coast Price Index for the applicable Day as published in *Gas Daily* or, if *Gas Daily* is no longer published, in a comparable reliable source for natural gas prices or (2) the applicable first of the month Gulf Coast Price Index as published in *Inside FERC*, or if *Inside FERC* is no longer published, in a comparable reliable source for natural gas prices and (b) the costs incurred by KUB in transporting such Unauthorized Gas via connecting pipelines to one or more of KUB's delivery points.

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2014
(Unaudited)

Schedule 3

Rate Class	Base Charge	Number of Customers
G-11	Service under Rate Schedule G-11 shall be available to any customer who meets the following conditions:	10

(a) Customer's annual gas usage (excluding Firm Gas), on an actual or projected basis, shall not be less than 25,000 dekatherms;

(b) Customer shall be permitted to purchase only one (1) dekatherm of Firm Gas under Rate Schedule G-11 for each two (2) dekatherms of Transport Gas delivered by KUB to the Customer;

(c) Customer must have standby equipment of sufficient capacity capable of providing the customer's normal gas service requirements for a period of five (5) working days without replenishment when Transport Gas is completely interrupted. Customer shall maintain such equipment ready for operation at any time and shall utilize a fuel other than gas furnished by KUB and shall be subject to periodic inspections by KUB to ensure compliance with this provision;

(d) Customer's use under this rate shall not work a hardship on any other customers of KUB, nor adversely affect any other class of KUB's customers and further provided the Customer's use under this rate shall not adversely affect KUB's gas purchase plans and/or effective utilization of the daily demands under KUB's gas purchase contracts with its suppliers, as solely determined by KUB.

(e) KUB must determine that its existing distribution system facilities are adequate and available for the requested service; and

(f) Customer must execute a Transportation Service Agreement for interruptible transportation gas service.

The net rate is the sum of the following charges:

Customer charge:	$300.00
Demand charge:	$18.00 per dekatherm of demand
Firm Gas charge:	$7.438 per dekatherm
Transportation charge:	$1.861 per dekatherm for the first 3,000 dekatherms of non-Firm gas delivered to Customer; plus $1.293 per dekatherm for each dekatherm from 3,000 to and including 20,000 dekatherms of non-Firm gas delivered to Customer; plus $.536 per dekatherm for each dekatherm from 20,000 to and including 50,000 dekatherms of non-Firm gas delivered to Customer; plus $.430 per dekatherm for the excess over 50,000 dekatherms of non-Firm gas delivered to Customer.
Standby Gas charge:	The charge for Standby Gas shall be the total of: (a) the cost per dekatherm to KUB for the applicable Day of acquiring Standby Gas on the open market, subject to the approval of the Customer to purchase Standby Gas at or above such price and (b) the costs incurred by KUB in transporting such Standby Gas via connecting pipelines to one or more of KUB's delivery points.

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2014
(Unaudited)

Schedule 3

Rate Class	Base Charge	Number of Customers
	Unauthorized Gas charge: $15.00 per dekatherm of Unauthorized Gas as a penalty, plus the total of: (a) the cost per dekatherm of obtaining such gas on the open market as determined by the higher of (1) the applicable Gulf Coast Price Index for the applicable Day as published in *Gas Daily* or, if *Gas Daily* is no longer published, in a comparable reliable source for natural gas prices or (2) the applicable first of the month Gulf Coast Price Index as published in *Inside FERC*, or if *Inside FERC* is no longer published, in a comparable reliable source for natural gas prices and (b) the costs incurred by KUB in transporting such Unauthorized Gas via connecting pipelines to one or more of KUB's delivery points. Other charges: Imbalance Charges, and any pipeline scheduling, balancing, transportation, or other similar charges incurred by KUB in connection with the transportation of gas on behalf of the Customer, as applicable.	
G-12	Service under Rate Schedule G-12 shall be available to any customer when the following conditions are met: (a) Customer's annual gas usage, on an actual or projected basis, shall not be less than 12,500 dekatherms; (b) KUB must determine that its existing distribution system facilities are adequate and available for the requested service; (c) Customer must execute a Transportation Service Agreement for firm transportation gas service; and (d) Customer's use under this rate shall not work a hardship on any other customers of KUB, nor adversely affect any other class of KUB's customers and further provided the Customer's use under this rate shall not adversely affect KUB's gas purchase plans and/or effective utilization of the daily demands under KUB's gas purchase contracts with its suppliers, as solely determined by KUB. The net rate is the sum of the following charges: Customer charge: $300.00 Demand charge: $6.00 per dekatherm of demand Transportation charge: $2.104 per dekatherm for the first 3,000 dekatherms of gas delivered to Customer; plus $1.502 per dekatherm for each dekatherm from 3,000 to and including 10,000 dekatherms of gas delivered to Customer; plus $1.293 per dekatherm for each dekatherm from 10,000 to an including 20,000 dekatherms of gas delivered to Customer; plus $.717 per dekatherm for the excess over 20,000 dekatherms of gas delivered to Customer.	4

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2014
(Unaudited)

Schedule 3

Rate Class	Base Charge		Number of Customers
	Standby Gas charge:	The charge for Standby Gas shall be the total of: (a) the cost per dekatherm to KUB for the applicable Day of acquiring Standby Gas on the open market, subject to the approval of the Customer to purchase Standby Gas at or above such price and (b) the costs incurred by KUB in transporting such Standby Gas via connecting pipelines to one or more of KUB's delivery points.	
	Unauthorized Gas charge:	$15.00 per dekatherm of Unauthorized Gas as a penalty, plus the total of: (a) the cost per dekatherm of obtaining such gas on the open market as determined by the higher of (1) the applicable Gulf Coast Price Index for the applicable Day as published in *Gas Daily* or, if *Gas Daily* is no longer published, in a comparable reliable source for natural gas prices or (2) the applicable first of the month Gulf Coast Price Index as published in *Inside FERC*, or if *Inside FERC* is no longer published, in a comparable reliable source for natural gas prices and (b) the costs incurred by KUB in transporting such Unauthorized Gas via connecting pipelines to one or more of KUB's delivery points.	
	Other charges:	Imbalance Charges, and any pipeline scheduling, balancing, transportation, or other similar charges incurred by KUB in connection with the transportation of gas on behalf of the Customer, as applicable.	

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Independent Auditors' 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*

To the Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Knoxville Utilities Board ("KUB", (an independent agency reported as a component unit for financial purposes only) of Knoxville, Tennessee, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements, and have issued our report thereon dated October 24, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered KUB's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
October 24, 2014

Knoxville Utilities Board
Water Division

Financial Statements and Supplemental Information

June 30, 2014 and 2013

Knoxville Utilities Board Water Division
Index
June 30, 2014 and 2013

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Independent Auditors' Report

To the Board of Commissioners
Knoxville Utilities Board - Water Division
Knoxville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Knoxville Utilities Board, Water Division, (the "Division"), an independent agency reported as a component unit for financial reporting purposes only, of Knoxville, Tennessee, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Division, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Schedule of Funding Progress on pages 3-23 and 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Division's basic financial statements. The supplemental schedules on pages 43-49 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The supplemental schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
October 24, 2014

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners governs KUB. The Board has all powers to construct, acquire, expand, or operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. The Water Division (Division) provides services to certain customers in Knox County and in two surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners (NARUC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Water Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2014 and 2013, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Division's Management Discussion and Analysis ("MD&A") focuses on the fiscal year ending June 30, 2014 activities, resulting changes and current known facts, and should be read in conjunction with the Division's financial statements.

Water Division Highlights

System Highlights

KUB serves 78,336 water system customers over a 188 square mile service area. KUB maintains 1,408 miles of service mains, 28 storage facilities, 27 booster pump stations, and 1 treatment plant, which provided 12.1 billion gallons of water to KUB's water customers in fiscal year 2014. The average daily flow for fiscal year 2014 was 33.2 million gallons.

KUB added 71 customers to its water system during the fiscal year.

The last of three water rate increases adopted by the KUB Board of Commissioners in 2011 to help fund Century II water system infrastructure programs went into effect January 1, 2014. KUB generated $1.7 million of additional revenue during the fiscal year as a result of the 2013 and 2014 water rate increases.

The typical residential water customer's average monthly bill was $19.45 as of June 30, 2014 (based on monthly use of 500 cubic feet or 3,740 gallons). The monthly bill increased $1 compared to the prior fiscal year, the result of increased water rates.

In September 2013, the Division sold $25 million in water system revenue bonds to fund capital system improvements.

Water sales volumes have been impacted by the use of more efficient appliances and the conservation efforts of customers. As a result, water sales volumes have declined at an annual rate of 1 percent over the past decade.

Century II Infrastructure Program

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

KUB's Century II programs were resumed in 2011, after a break due to the economic recession. At that time, the KUB Board of Commissioners endorsed a ten year funding plan for the water system through a formal resolution. The Board adopted three years of water rate increases to help fund the plan. All three of the rate increases, adopted in 2011, have gone into effect.

In May 2014, KUB management provided an updated assessment of the overall condition of each utility and the progress made during the resumption of the Century II program. At that time the Board endorsed a long range ten year funding plan for the continuation of Century II programs for the water system, including a combination of rate increases and debt issues to fully fund the programs for the next ten years.

In June 2014, the Board approved a series of three annual rate increases for the water system. The July 2014 increase will provide $3.6 million in additional water system revenue, while the July 2015 and July 2016 rate increases will result in annual water system revenue of $2 million.

The water system replaced 10.2 miles of galvanized water main and 7.1 miles of cast iron water main, while staying within the Division's total capital budget during fiscal year 2014.

Financial Highlights

Fiscal Year 2014 Compared to Fiscal Year 2013

The Division's net position increased $1.5 million or 1 percent, compared to a $3 million increase last fiscal year.

Operating revenue increased $1.3 million or 3.4 percent, the net result of additional revenue from the Century II water rate increases, which were effective January 2013 and 2014 and a 2.3 percent decrease in water sales volumes.

Operating expenses increased $2 million or 6.6 percent. Operating and maintenance expenses ("O&M") increased $1.5 million or 6.7 percent compared to the prior year. Depreciation expense increased $0.5 million or 8 percent. Taxes and tax equivalents increased $0.1 million from the prior year.

Interest income was consistent with the prior fiscal year. However, interest expense was $0.9 million higher than the prior year, due to additional expense from the $25 million in bonds sold in September 2013.

Capital contributions were $0.1 million higher than the prior fiscal year, the result of increased contributed assets from developers.

Total plant assets (net) increased $13.7 million or 6.1 percent due to main replacement and treatment plant improvements.

Long-term debt represented 44.8 percent of the Division's capital structure as of June 30, 2014, as compared to 40.3 percent last year. Capital structure equals long-term debt (which includes the current portion of revenue bonds and notes, as applicable, due to be retired the next fiscal year) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the division's outstanding bonds. Current year debt coverage for the fiscal year was 2.11. Maximum debt service coverage was 1.83.

Fiscal Year 2013 Compared to Fiscal Year 2012

The Division's net position increased $3 million or 2 percent, compared to a $4.7 million increase last fiscal year.

Operating revenue increased $0.6 million or 1.6 percent, the net result of additional revenue from the Century II water rate increases, which were effective January 2012 and 2013, respectively, and a 4.3 percent decrease in water sales volumes.

Operating expenses increased $1 million or 3.2 percent. Operating and maintenance expenses ("O&M") increased $0.2 million or 1.1 percent compared to the prior year. Depreciation expense increased $0.7 million or 11.3 percent. Taxes and tax equivalents were $0.1 million higher than the prior year.

Lower interest rates on longer-term investments resulted in a $0.1 million decrease in interest income. Interest expense was $0.4 million higher than the prior year, the net result of additional interest from a $25 million December 2011 bond issue and interest cost reductions from March 2013 and April 2012 debt refundings.

Capital contributions decreased $0.8 million, the result of a reduction in contributed assets from developers.

Total plant assets (net) increased $18.1 million or 8.7 percent due to main replacement and treatment plant improvements.

Long-term debt represented 40.3 percent of the Division's capital structure as of June 30, 2013, as compared to 41.6 percent last year. Capital structure equals long-term debt (which includes the current portion of revenue bonds and notes, as applicable, due to be retired the next fiscal year) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the division's outstanding bonds. Current year debt coverage for the fiscal year was 2.18. Maximum debt service coverage was 2.25.

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Division Cash Budget Appropriations

KUB's Board of Commissioners adopted a Water Division budget of $58.8 million for fiscal year 2014. In April 2014, additional appropriations were approved by the Board in the amount of $1 million to cover debt service expenses. Actual disbursements were under the original budget by $0.4 million, with O&M and Capital expenses lagging the budget by a total of $0.9 million. The general fund balance was $0.2 higher than originally budgeted. The chart below depicts KUB's original budget compared to actual results.

Water Division Cash Report
As of June 30, 2014

(in thousands of dollars)	**FY 2014 Budget****	**FY 2014 Actual FYTD**	**Dollar Variance***	**Percent Variance**
Beginning Balance General Fund	$ 15,623	$ 15,623		
Operating Receipts	41,463	40,233	(1,230)	-3.0%
Disbursements				
Operation & Maintenance Expense	22,941	22,983	(42)	-0.2%
Capital Expenditures	24,881	23,894	987	4.0%
Debt Service & Taxes	11,027	11,572	(545)	-4.9%
Total Disbursements	58,849	58,449	400	0.7%
Bond Proceeds	24,750	24,828	78	0.3%
Net Flow Throughs and Transfers	(966)	(56)	910	94.2%
Ending General Fund Balance	$ 22,021	$ 22,179	$ 158	0.7%

* *Impact to Cash; (-) indicates a decrease or negative impact to cash*
** *Excludes additional appropriations of $1 million*

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Knoxville Utilities Board Water Division - Financial Statements

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

Statement of Net Position

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

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

Net investment in capital assets, reflects the book value of all capital assets less the outstanding balances of debt used to acquire, construct, or improve those assets.
Restricted net position are assets that have been limited to specific uses by the Division's bond covenants or through resolutions passed by the KUB Board of Commissioners.

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

Statement of Revenues, Expenses, and Changes in Net Position

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

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

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

Statement of Cash Flows

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

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

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

Condensed Financial Statements

Statement of Net Position

The following table reflects the condensed Statement of Net Position for the Water Division compared to the prior year and the year preceding the prior year.

Statements of Net Position
As of June 30

(in thousands of dollars)	2014	2013	2012
Current and other assets	$ 42,860	$ 35,862	$ 51,812
Capital assets, net	239,706	226,022	207,969
Deferred outflows of resources	260	280	304
Total assets and deferred outflows of resources	282,826	262,164	260,085
Current and other liabilities	10,584	12,152	9,977
Long-term debt outstanding	119,745	98,785	102,075
Deferred inflows of resources	384	594	393
Total liabilities and deferred inflows of resources	130,713	111,531	112,445
Net position			
Net investment in capital assets	116,197	123,858	102,645
Restricted	1,219	1,027	1,070
Unrestricted	34,697	25,748	43,925
Total net position	$ 152,113	$ 150,633	$ 147,640

Normal Impacts on Statement of Net Position

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

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

Impacts and Analysis

Current and Other Assets

Fiscal Year 2014 Compared to Fiscal Year 2013

Current and other assets increased $7 million or 19.5 percent. The Division's general fund cash (consisting of cash and cash equivalents, short-term investments, and long-term investments) increased $6.6 million compared to last year due to the use of $25 million in proceeds from revenue bonds, rather than general fund cash, to fund water system capital projects.

Fiscal Year 2013 Compared to Fiscal Year 2012

Current and other assets decreased $15.9 million, largely due to the expending of $13.8 million of bond proceeds from a prior year debt issue. The Division's general fund cash (consisting of cash and cash equivalents, short-term investments, and long-term investments) decreased $3.8 million compared to last year, as general fund cash was used to fund a portion of water system capital projects.

Capital Assets

Fiscal Year 2014 Compared to Fiscal Year 2013

Capital assets, net of depreciation, increased $13.7 million or 6.1 percent. Capital expenditures included $9.2 million for plant and system improvements and $7.7 million for water main replacement. The Division retired $2.7 million of assets during the fiscal year.

Fiscal Year 2013 Compared to Fiscal Year 2012

Capital assets, net of depreciation, increased $18.1 million or 8.7 percent. Capital expenditures included $11.5 million for water main replacement, $10.1 million for plant and system improvements, and $0.9 million for the relocation of water system assets in coordination with Tennessee Department of Transportation projects. The Division retired $5.1 million of assets during the fiscal year.

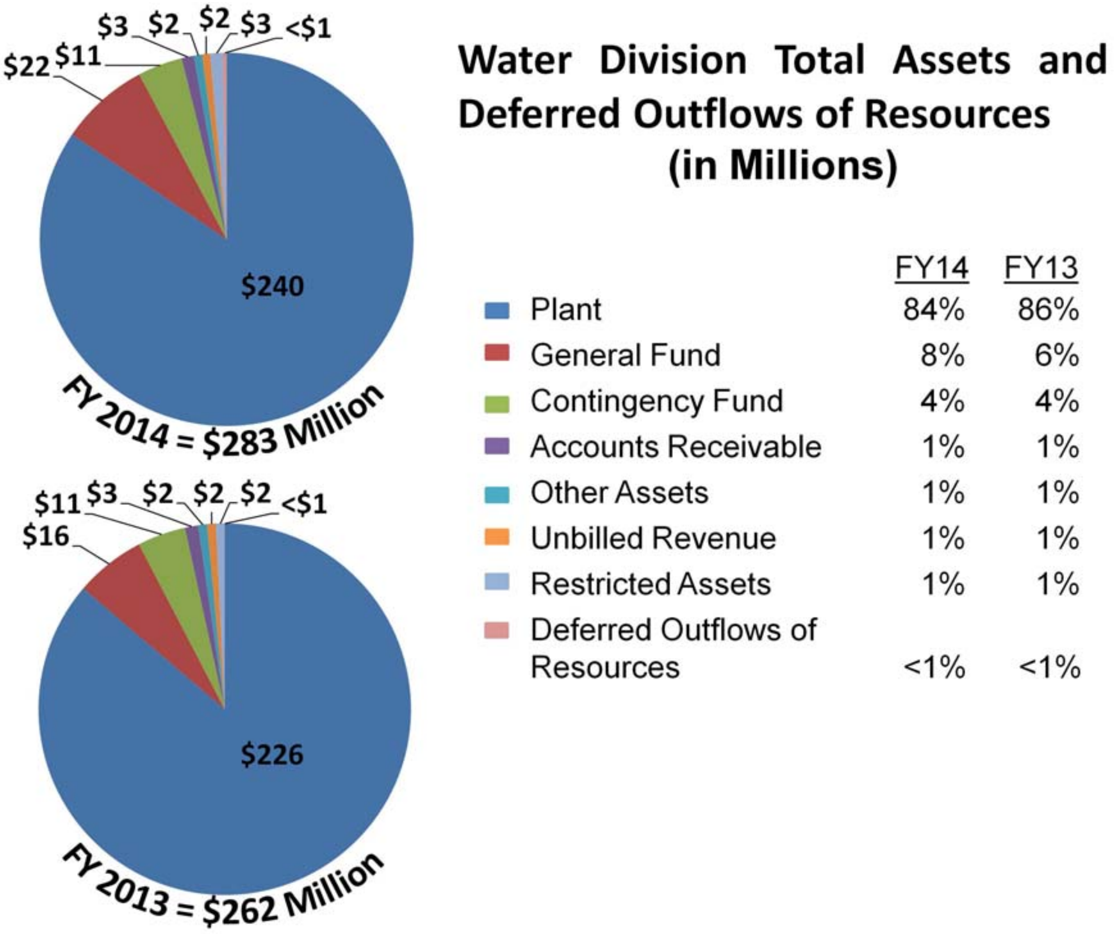
Deferred Outflows of Resources

Fiscal Year 2014 Compared to Fiscal Year 2013

Deferred outflows of resources were consistent with the prior year at $0.3 million.

Fiscal Year 2013 Compared to Fiscal Year 2012

Deferred outflows of resources were $0.3 million, which was consistent with the prior fiscal year.



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

	FY14	FY13
🟦 Plant	84%	86%
🟥 General Fund	8%	6%
🟩 Contingency Fund	4%	4%
🟪 Accounts Receivable	1%	1%
🟦 Other Assets	1%	1%
🟧 Unbilled Revenue	1%	1%
🟦 Restricted Assets	1%	1%
🟥 Deferred Outflows of Resources	<1%	<1%

Current and Other Liabilities

Fiscal Year 2014 Compared to Fiscal Year 2013

Current and other liabilities decreased $1.6 million in comparison to the prior fiscal year primarily due to a $2.3 million decrease in accounts payable.

Fiscal Year 2013 Compared to Fiscal Year 2012

Current and other liabilities increased $2.2 million primarily due to a rise in accounts payable resulting from a higher level of contractor expense in June 2013 compared to June of the prior year.

Long-Term Debt

Fiscal Year 2014 Compared to Fiscal Year 2013

Long-term debt increased $21 million or 21.2 percent, the combined result of additional debt of $25 million and the scheduled repayment of outstanding revenue bonds during the fiscal year.

Fiscal Year 2013 Compared to Fiscal Year 2012

Long-term debt decreased $3.3 million or 3.2 percent, the combined result of scheduled repayment of outstanding revenue bonds during the fiscal year and a $0.2 million debt reduction due to the refunding of outstanding bonds.

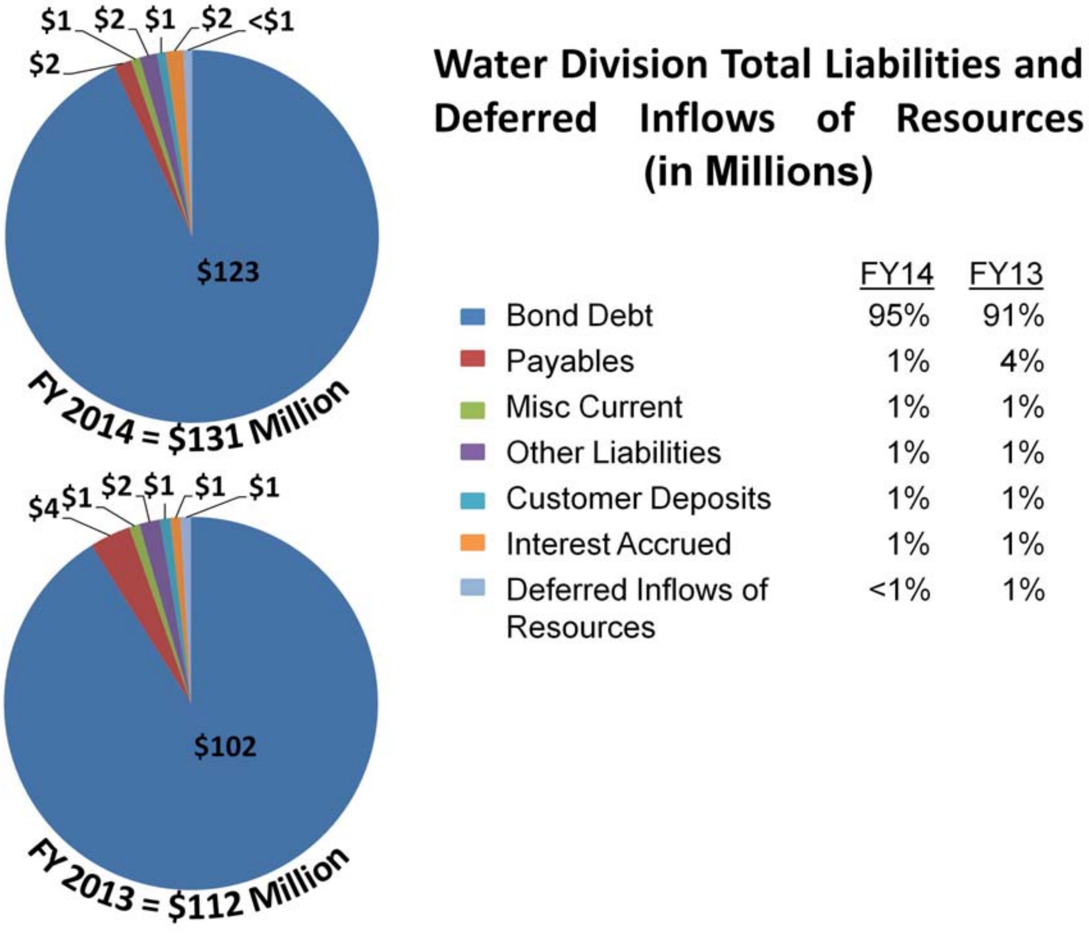
Deferred Inflows of Resources

Fiscal Year 2014 Compared to Fiscal Year 2013

Deferred inflows of resources were $0.4 million, which was $0.2 million less than the prior fiscal year, due to amortization of premiums.

Fiscal Year 2013 Compared to Fiscal Year 2012

The Division also incurred $0.3 million of unamortized premium expense as part of the refunding of $9.5 million in outstanding bonds, which was reflected in the $0.2 million increase in deferred inflows compared to the prior year.



Net Position

Fiscal Year 2014 Compared to Fiscal Year 2013

Net position increased $1.5 million this fiscal year. Net investment in capital assets decreased $7.7 million, due to the net effect of an increase to net plant in service of $13.7 million and additional debt of $25 million. Unrestricted net position increased $8.9 million, primarily due to unused bond proceeds for capital improvements in the general fund. Restricted assets increased $0.2 million, due to additional funds restricted for debt service.

Fiscal Year 2013 Compared to Fiscal Year 2012

Net position increased $3 million this fiscal year. Net investment in capital assets rose $21.2 million, as net plant in service increased $18.1 million, while debt and deferred amounts decreased $3.1 million. Unrestricted net position decreased $18.2 million, as unused bond proceeds were used for capital improvements. Restricted assets remained flat.

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Statement of Revenues, Expenses, and Changes in Net Position

The following table reflects the condensed Statement of Revenues, Expenses, and Changes in Net Position for the Water Division compared to the prior year and the year preceding the prior year.

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

(in thousands of dollars)	2014	2013	2012
Operating revenues	$ 39,374	$ 38,063	$ 37,476
Operating expenses			
Treatment	3,355	2,954	3,440
Distribution	13,635	12,760	11,806
Customer service	1,517	1,462	1,402
Administrative and general	4,364	4,252	4,542
Depreciation and amortization	6,934	6,419	5,768
Taxes and tax equivalents	3,042	2,960	2,883
Total operating expenses	32,847	30,807	29,841
Operating income	6,527	7,256	7,635
Interest income	126	140	200
Interest expense	(5,258)	(4,364)	(3,948)
Other income/(expense)	(73)	(96)	(106)
Change in net position before capital contributions	1,322	2,936	3,781
Capital Contributions	158	57	913
Change in net position	$ 1,480	$ 2,993	$ 4,694

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

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

- Operating revenues are largely determined by the volumes of water sold during the fiscal year. Any change (increase/decrease) in retail water rates would also be a cause of change in operating revenue.

- Operating expenses (treatment, distribution, customer service, administrative and general) are normally impacted by changes in areas including, but not limited to, labor cost (staffing, wage rates), active employee and retiree medical costs, chemicals, and water system maintenance.

- Depreciation expense is impacted by plant additions and retirements during the fiscal year.

- Taxes and tax equivalents are impacted by plant additions/retirements and changes in property tax rates.

- Interest expense is impacted by the level of interest rates and investments.

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

- Other income/(expenses) is impacted by miscellaneous non-operating revenues and expenses.

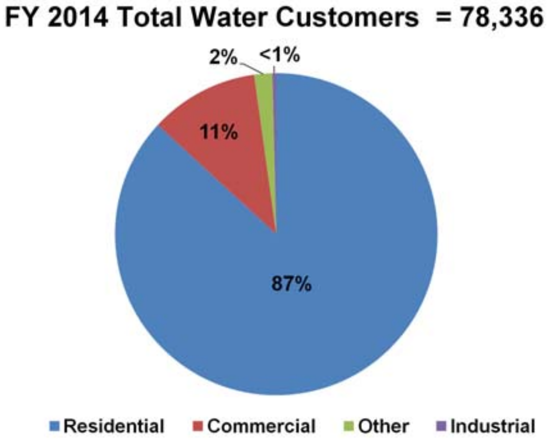
- Capital contributions are impacted by a donation of facilities/infrastructure to KUB by developers and governmental agencies. The contributions are recognized as revenue and recorded as plant in service based on the fair market value of the asset(s).

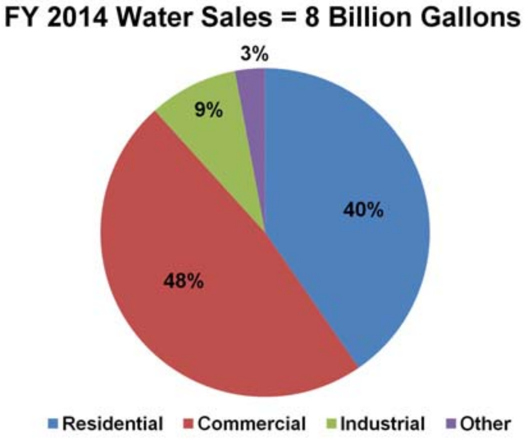
Impacts and Analysis

Margin from Sales

Fiscal Year 2014 Compared to Fiscal Year 2013

The Division's change in net position was $1.5 million this fiscal year, which is $1.5 million less than last year's $3 million increase. Operating revenues increased $1.3 million or 3.4 percent, the net result of a five percent rate increase on customers' bills in January 2013 and 2014 and a 2.3 percent reduction in water sales volumes. Operating expenses rose $2 million, interest expense increased $0.9 million, and capital contributions from developers increased $0.1 million.


FY 2014 Total Water Customers = 78,336


FY 2014 Water Sales = 8 Billion Gallons

Residential customers represented 87 percent of water customers and accounted for 40 percent of water sales volumes for the year. Commercial and industrial customers accounted for the largest portion (57 percent) of total sales volumes during the year.

KUB's ten largest water customers accounted for 11.3 percent of KUB's billed water volumes. Those ten customers represent five industrial and five commercial customers, including three governmental customers.

Residential water sales volumes were 1.8 percent lower than the prior fiscal year. Residential sales were lower throughout the majority of the year, but especially in the spring due to higher precipitation levels.

Commercial sales volumes decreased 1.7 percent compared to the prior year. Industrial sales volumes decreased 5.5 percent compared to the prior year.

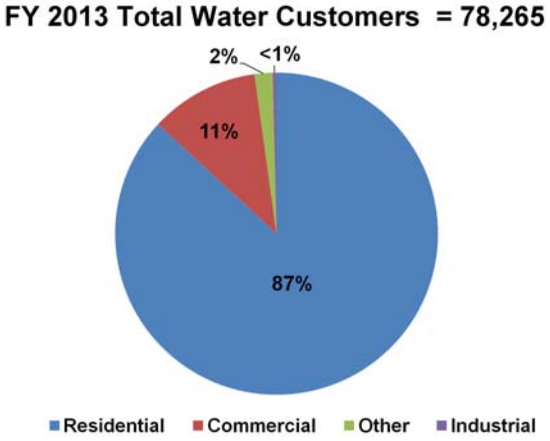
KUB has added 725 water customers over the past three years, representing annual growth of less than 1 percent. Water system growth has slowed in recent years, in large part due to the slowdown of new housing construction.

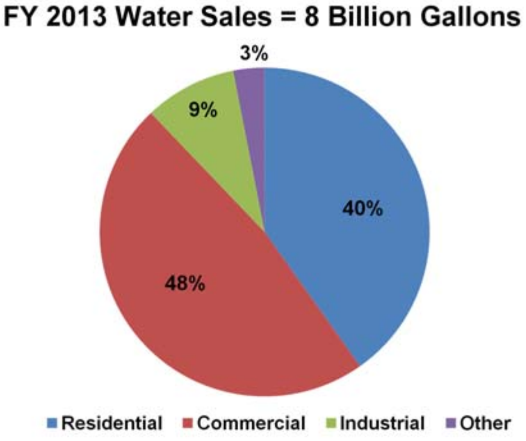
Fiscal year 2014 water sales volumes were less than the prior fiscal year, due to lower water sales for all rate classes. Sales volumes have remained relatively consistent by customer class over the last three years.

Fiscal Year 2013 Compared to Fiscal Year 2012

The Division's change in net position was $3 million this fiscal year, which is $1.7 million less than last year's $4.7 million increase. While operating revenues increased $0.6 million, operating expenses rose $1 million, interest expense increased $0.4 million, and capital contributions from developers declined $0.8 million.

Operating revenue increased $0.6 million or 1.6 percent, the result of additional revenue from two five percent rate increases, which were effective on customers' bills in January 2012 and January 2013, respectively. The additional revenue from the rate increases was partially offset by a 4.3 percent reduction in water sales volumes compared to the prior year.





Residential customers represented 87 percent of water customers and accounted for 40 percent of water sales volumes for the year. Commercial and industrial customers accounted for the largest portion (57 percent) of total sales volumes during the year.

KUB's ten largest water customers accounted for 8.1 percent of KUB's billed water volumes. Those ten customers represent nine industrial customers and one governmental customer.

Residential water sales volumes were 2.7 percent lower than the prior fiscal year. Residential sales were lower throughout the majority of the year, but especially in the spring due to higher than normal precipitation levels.

Commercial sales volumes decreased 3.9 percent compared to the prior year. Industrial sales volumes decreased 4.2 percent compared to the prior year.

Operating Expenses

Fiscal Year 2014 Compared to Fiscal Year 2013

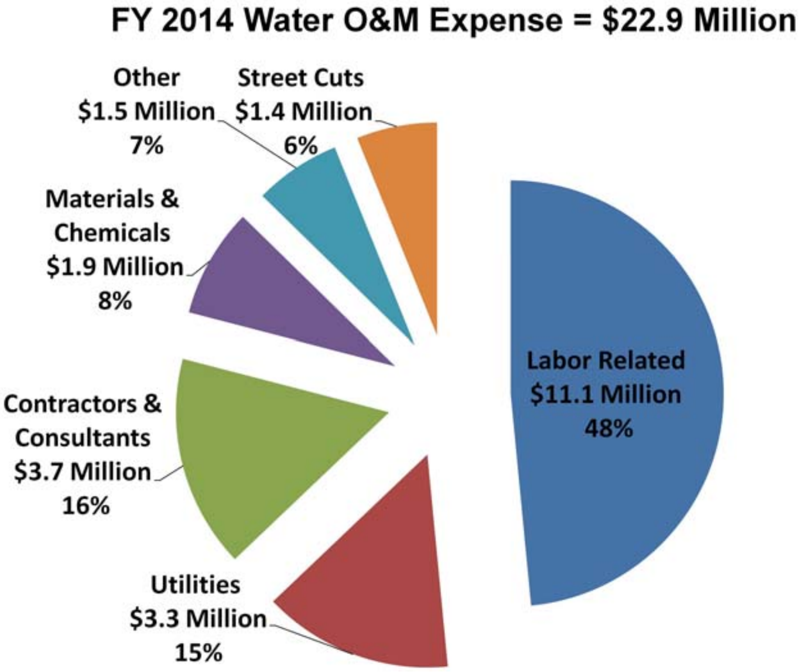
Operating expenses increased $2 million or 6.6 percent. Operating expenses are categorized as treatment (O&M), distribution (O&M), customer service (O&M), administrative and general (O&M), depreciation or taxes and tax equivalents:

- Treatment expenses increased $0.4 million or 13.6 percent, primarily reflecting higher labor related expenses.

- Distribution expenses were $0.9 million or 6.9 percent higher than the prior fiscal year, due to increased outside contractor costs and labor related expenses.

- Customer service expenses increased $0.1 million.

- Administrative and general expenses increased $0.1 million or 2.6 percent.



- Depreciation expense was up $0.5 million reflecting a full year of depreciation on $21.4 million of water system assets added the previous fiscal year and a partial year of depreciation on $23.9 million of assets added in fiscal year 2014. In addition, $2.7 million of assets were retired during fiscal year 2014.

- Taxes and tax equivalents increased $0.1 million from prior fiscal year.

Fiscal Year 2013 Compared to Fiscal Year 2012

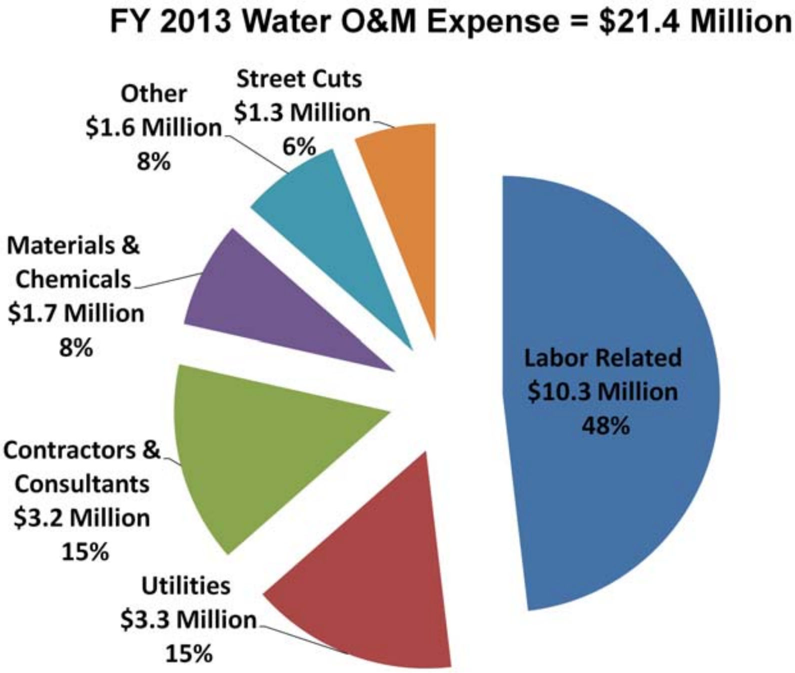
Operating expenses increased $1 million or 3.2 percent. Operating expenses are categorized as treatment (O&M), distribution (O&M), customer service (O&M), administrative and general (O&M), depreciation or taxes and tax equivalents:

- Treatment expenses decreased $0.5 million or 14.1 percent, reflecting lower labor related expenses.

- Distribution expenses were $1 million or 8.1 percent higher than the prior fiscal year, partially due to increased costs for street-cuts and utilities.

- Customer service expenses increased $0.1 million, the result of increased meter reading expenses.

- Administrative and general expenses decreased $0.3 million or 6.4 percent, partially due to a $0.2 million decrease in damage claims.



- Depreciation expense was up $0.7 million reflecting a full year of depreciation on $9.9 million of water system assets added the previous fiscal year and a partial year of depreciation on $21.4 million of assets added in fiscal year 2013. In addition, $5.1 million of assets were retired during fiscal year 2013.

- Taxes and tax equivalents were up $0.1 million or 2.7 percent based on higher net plant values.

Other Income and Expense

Fiscal Year 2014 Compared to Fiscal Year 2013

Interest income was consistent with the prior fiscal year.

Interest expense increased $0.9 million, reflecting interest expense on $25 million in water bonds sold during the fiscal year.

Other income (net) was consistent with the prior fiscal year.

Capital contributions by developers were $0.1 million higher than fiscal year 2013.

Fiscal Year 2013 Compared to Fiscal Year 2012

Interest income was $0.1 million lower than the prior year due to an overall lower level of cash investments and lower longer-term interest rates.

Interest expense increased $0.4 million, reflecting interest expense on $25 million in water bonds sold during the previous fiscal year.

Other income (net) was consistent with the prior fiscal year.

Capital contributions by developers were $0.8 million lower than fiscal year 2012.

Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

(in thousands of dollars)	**2014**	**2013**	**2012**
Production plant	$ 76	$ 90	$ 103
Pumping & treatment plant	41,201	41,719	41,028
Distribution plant:			
Distribution Mains	117,714	102,333	92,994
Transmission Mains	19,506	19,401	17,942
Services and meters	18,561	17,427	16,563
Others	10,891	10,483	10,470
Total distribution plant	166,672	149,644	137,969
General plant	8,240	7,868	7,638
Total plant	216,189	199,321	186,738
Work in progress	23,517	26,701	21,231
Total net plant	$ 239,706	$ 226,022	$ 207,969

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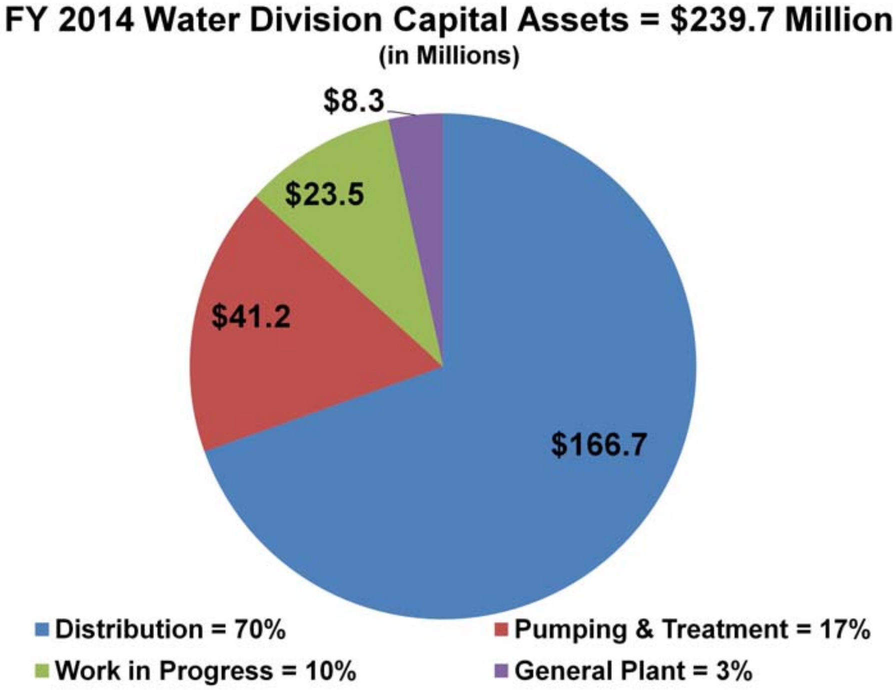
Fiscal Year 2014 Compared to Fiscal Year 2013

As of June 30, 2014, the Division had $239.7 million invested in a variety of capital assets, as reflected in the schedule of Capital Assets, which represented a net increase (including additions, retirements, and depreciation) of $13.7 million or 6.1 percent over the end of the last fiscal year.



Major capital asset expenditures during the year were as follows:

- $9.2 million for major plant and system improvements
- $7.7 million for galvanized and cast iron water main replacement

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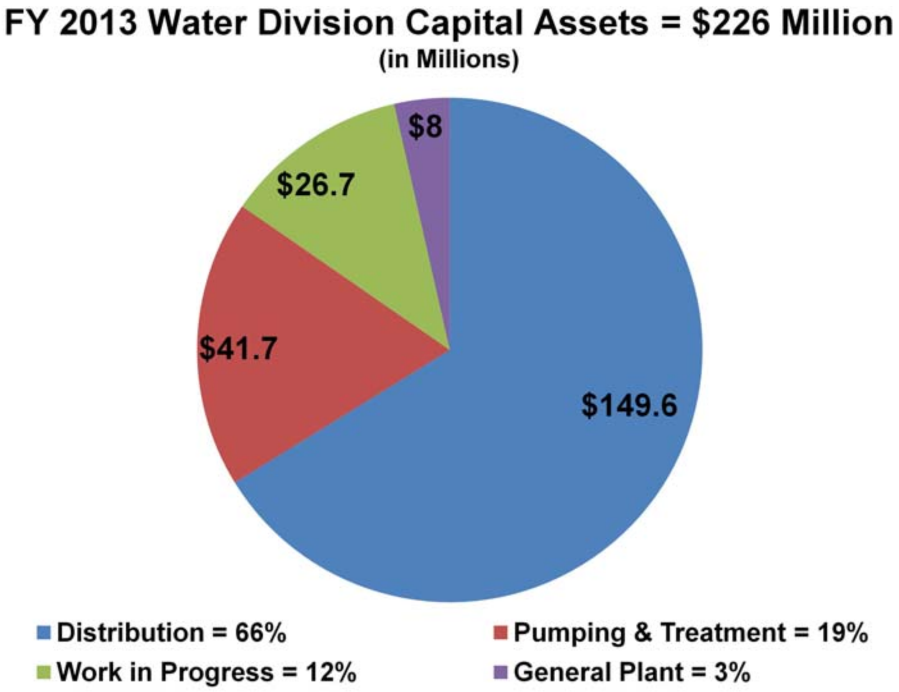
Fiscal Year 2013 Compared to Fiscal Year 2012

As of June 30, 2013, the Division had $226 million invested in a variety of capital assets, as reflected in the schedule of Capital Assets, which represented a net increase (including additions, retirements, and depreciation) of $18.1 million or 8.7 percent over the end of the last fiscal year.



Major capital asset expenditures during the year were as follows:

- $11.5 million for galvanized and cast iron water main replacement
- $10.1 million for major plant and system improvements
- $0.9 million for relocation of assets in coordination with the Tennessee Department of Transportation projects

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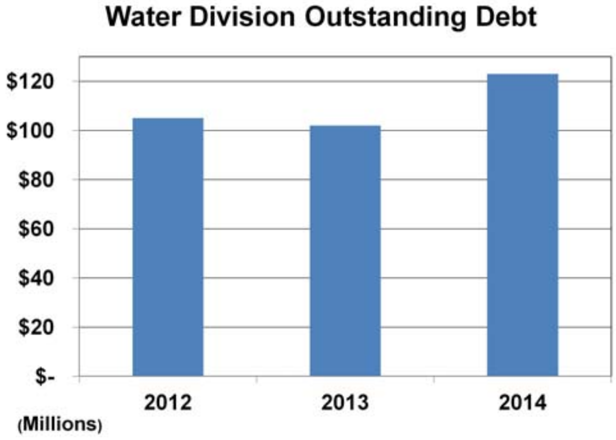
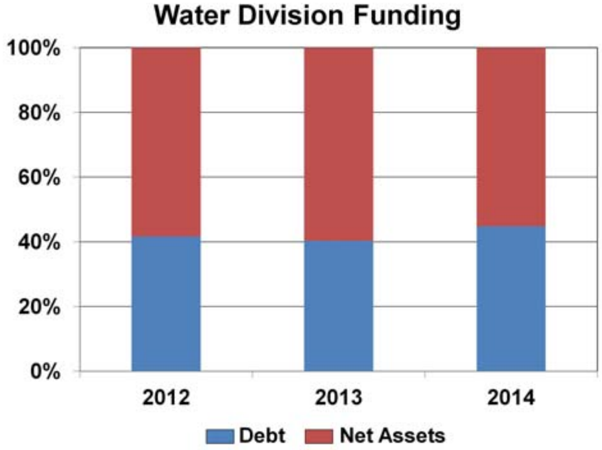
Debt Administration

The Water Division's level of debt has increased from $101.9 million in fiscal year 2013 to $123.4 million in fiscal year 2014. The increase in debt was used to fund capital improvements for the water system. Debt as a percentage of capitalization represented 44.8 percent in 2014, 40.3 percent in 2013, and 41.6 percent at the end of fiscal year 2012.

Outstanding Debt
As of June 30

(in thousands of dollars)	**2014**	**2013**	**2012**
Revenue bonds	$ 123,385	$ 101,850	$ 105,235
Total outstanding debt	$ 123,385	$ 101,850	$ 105,235





The Division will pay $43.6 million in principal payments over the next ten years, representing 35.3 percent of the outstanding bonds. KUB's Debt Management Policy requires a minimum of 30 percent of water debt principal be repaid over the next ten years.

Fiscal Year 2014 Compared to Fiscal Year 2013

As of June 30, 2014, the Division had $123.4 million in outstanding debt (including the current portion of revenue bonds), compared to $101.9 million last year, an increase of $21.5 million or 21.1 percent. The Division's weighted average cost of debt as of June 30, 2014 was 4.06 percent.

This increase in debt was the net effect of the $25 million issuance of revenue bonds and the scheduled repayment of bond debt during the fiscal year.

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2014, the Division's revenue bonds were rated AA+ by Standard & Poor's and Aa2 by Moody's Investors Service.

Fiscal Year 2013 Compared to Fiscal Year 2012

As of June 30, 2013, the Division had $101.9 million in outstanding debt (including the current portion of revenue bonds), compared to $105.2 million last year, a decrease of $3.3 million or 3.1 percent. The Division's weighted average cost of debt as of June 30, 2013 was 4.02 percent.

This decrease in debt was attributable to the scheduled repayment of bond debt during the fiscal year and the refunding of outstanding bonds.

In March 2013, KUB issued $9.3 million in water system revenue refunding bonds, which when combined with a $0.3 million reoffering premium, refunded $9.5 million in outstanding water system bonds and covered the underwriter's discount and costs of issuance. The refunding will save $1.3 million in debt service over the life of the bonds ($0.8 million on a net present value basis).

As of June 30, 2013, the Division's revenue bonds were rated AA+ by Standard & Poor's and Aa2 by Moody's Investors Service.

Impacts on Future Financial Position

KUB anticipates adding 250 additional water system customers during fiscal year 2015.

In June 2014, the KUB Board adopted three years of rate increases for all four systems to help fund the ongoing Century II infrastructure programs for each system. The water rate increases will be effective July 2014, July 2015, and July 2016, respectively. The July 2014 increase will provide $3.6 million in additional water system revenue, while the July 2015 and July 2016 rate increases will result in annual water system revenue of $2 million.

KUB sold $8 million in water system revenue bonds in August 2014 for the purpose of funding water system capital improvements in fiscal year 2015. The true interest cost of bonds, which were sold through a competitive bidding process was 3.49 percent.

The Water Division's revenue bonds were upgraded with the bond sale in August 2014 to the rating of AAA, the highest rating provided by Standard & Poor's. The Aa2 bond rating from Moody's Investors Service was reaffirmed.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, is effective for periods beginning after June 15, 2013. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68,* are effective for periods beginning after June 15, 2014. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on the Division's financial position or results of operations during fiscal year 2014.

Financial Contact

The Division's financial statements are designed to present users (citizens, customers, investors, and creditors) with a general overview of the Division's financial position and results of operations for the fiscal years ending June 30, 2014 and 2013. If you have questions about the statements or need additional financial information, contact KUB's Chief Financial Officer at 445 South Gay Street, Knoxville, Tennessee 37902.

Knoxville Utilities Board Water Division
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	$ 15,178,461	$ 12,123,240
Short-term investments	7,000,000	3,500,000
Short-term contingency fund investments	5,202,977	4,985,531
Other current assets	103,731	74,160
Accrued interest receivable	13,961	6,025
Accounts receivable, less allowance of uncollectible accounts of $44,960 in 2014 and $52,800 in 2013	4,565,871	4,391,101
Inventories	991,866	932,104
Prepaid expenses	324,602	470,667
Total current assets	33,381,469	26,482,828
Restricted assets:		
Water bond fund	2,883,036	2,374,996
Other funds	5,703	6,997
Total restricted assets	2,888,739	2,381,993
Water plant in service	313,478,645	292,307,539
Less accumulated depreciation	(97,290,740)	(92,986,123)
	216,187,905	199,321,416
Retirement in progress	51,740	159,124
Construction in progress	23,466,042	26,541,345
Net plant in service	239,705,687	226,021,885
Other assets:		
Long-term contingency fund investments	5,768,571	6,003,006
Other	820,986	994,669
Total other assets	6,589,557	6,997,675
Total assets	282,565,452	261,884,381
Deferred outflows of resources:		
Unamortized bond refunding costs	260,151	280,012
Total deferred outflows of resources	260,151	280,012
Total assets and deferred outflows of resources	$ 282,825,603	$ 262,164,393

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

Knoxville Utilities Board Water Division
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Capitalization and Liabilities		
Current liabilities:		
Current portion of revenue bonds	$ 3,640,000	$ 3,065,000
Sales tax collections payable	237,391	224,527
Accounts payable	1,511,988	3,859,030
Accrued expenses	1,268,929	1,242,853
Customer deposits plus accrued interest	732,259	726,433
Accrued interest on revenue bonds	1,669,603	1,354,745
Total current liabilities	9,060,170	10,472,588
Other liabilities:		
Accrued compensated absences	1,491,316	1,586,092
Other	32,821	93,817
Total other liabilities	1,524,137	1,679,909
Long-term debt:		
Water revenue bonds	119,745,000	98,785,000
Total long-term debt	119,745,000	98,785,000
Total liabilities	130,329,307	110,937,497
Deferred inflows of resources:		
Unamortized costs	383,669	593,592
Total deferred inflows of resources	383,669	593,592
Total liabilities and deferred inflows of resources	130,712,976	111,531,089
Net position		
Net investment in capital assets	116,197,169	123,858,306
Restricted for:		
Debt service	1,213,433	1,020,251
Other	5,703	6,997
Unrestricted	34,696,322	25,747,750
Total net position	152,112,627	150,633,304
Total liabilities, deferred inflows, and net position	$ 282,825,603	$ 262,164,393

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

Knoxville Utilities Board Water Division

Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues	$ 39,373,714	$ 38,063,528
Operating expenses		
Treatment	3,355,348	2,954,150
Distribution	13,635,443	12,760,266
Customer service	1,517,093	1,461,949
Administrative and general	4,363,596	4,251,375
Provision for depreciation and amortization	6,933,752	6,419,430
Taxes and tax equivalents	3,041,944	2,959,900
Total operating expenses	32,847,176	30,807,070
Operating income	6,526,538	7,256,458
Non-operating revenues (expenses)		
Contributions in aid of construction	464,748	703,844
Interest and dividend income	125,448	139,775
Interest expense	(5,257,923)	(4,363,951)
Write-down of plant for costs recovered through contributions	(464,748)	(703,844)
Other	(72,599)	(96,232)
Total non-operating revenues (expenses)	(5,205,074)	(4,320,408)
Change in net position before capital contributions	1,321,464	2,936,050
Capital contributions	157,859	56,852
Change in net position	1,479,323	2,992,902
Net position, beginning of year	150,633,304	147,640,402
Net position, end of year	$ 152,112,627	$ 150,633,304

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

Knoxville Utilities Board Water Division
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash receipts from customers	$ 38,747,289	$ 37,676,306
Cash receipts from other operations	904,124	1,169,939
Cash payments to suppliers of goods or services	(16,831,753)	(12,115,361)
Cash payments to employees for services	(9,559,997)	(8,831,362)
Payment in lieu of taxes	(2,377,350)	(2,335,619)
Net cash provided by operating activities	10,882,313	15,563,903
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	24,823,073	-
Principal paid on revenue bonds and notes payable	(3,465,000)	(3,160,000)
Decrease (increase) in unused bond proceeds	-	13,803,726
Interest paid on revenue bonds and notes payable	(4,518,219)	(4,390,442)
Acquisition and construction of water plant	(21,283,275)	(25,618,359)
Changes in water bond fund, restricted	(508,041)	59,673
Proceeds received on disposal of plant	23,064	24,171
Cash received from developers and individuals for capital purposes	464,748	703,844
Net cash used in capital and related financing activities	(4,463,650)	(18,577,387)
Cash flows from investing activities:		
Purchase of investment securities	(3,573,869)	(3,063,869)
Maturities of investment securities	90,858	69,170
Interest received	117,512	141,057
Other property and investments	2,057	106,356
Net cash used in investing activities	(3,363,442)	(2,747,286)
Net increase (decrease) in cash and cash equivalents	3,055,221	(5,760,770)
Cash and cash equivalents, beginning of year	12,123,240	17,884,010
Cash and cash equivalents, end of year	$ 15,178,461	$ 12,123,240
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 6,526,538	$ 7,256,458
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expenses	7,181,731	6,691,156
Changes in operating assets and liabilities:		
Accounts receivable	(174,770)	108,286
Inventories	(59,762)	(41,207)
Prepaid expenses	525	(437,475)
Other assets	(133,901)	(310,305)
Sales tax collections payable	12,865	(2,999)
Accounts payable and accrued expenses	(2,415,740)	2,252,431
Customer deposits plus accrued interest	5,825	24,077
Other liabilities	(60,998)	23,481
Net cash provided by operating activities	$ 10,882,313	$ 15,563,903
Noncash capital activities:		
Acquisition of plant assets through developer contributions	$ 157,859	$ 56,852

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

1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners governs KUB. The Board has all powers to construct, acquire, expand, or operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions including setting rates. The Water Division (Division) provides services to certain customers in Knox County and in two surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners (NARUC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Water Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2014 and 2013, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

2. Significant Accounting Policies

Basis of Accounting

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.* Statement No. 34 established standards for external financial reporting for all state and local governmental entities.

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

Recently Adopted New Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62 (Statement No. 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for KUB's fiscal year beginning July 1, 2012. The objective of this Statement is to incorporate into the GASB's authoritative literature certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants' (AICPA) accounting and financial reporting guidance issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

Statement No. 62 supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election to apply FASB statements, related interpretations, Accounting Principles Board opinions and accounting research bulletins issued post-November 30, 1989 that do not conflict with Governmental Accounting Standards. However, FASB pronouncements issued post-November 30, 1989 that do not conflict with or contradict Governmental Accounting Standards can continue to apply as other accounting literature.

In June 2011, the GASB issued Statement No. 63 (Statement No. 63), (*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position,* effective for KUB's fiscal year beginning July 1, 2012. Statement No. 63 amends the net asset reporting requirements in Statement No. 34 and other pronouncements. Under these new standards, financial statements include deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities, and will report *net position* instead of net assets. Statement No. 63 requires the classification of net position into three components – net investment in capital assets; net position-restricted; and net position-unrestricted.

These classifications are defined as follows:

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

- Net position-restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

- Net position-unrestricted – This component of net position consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Implementation of Statement No. 63 had no effect on KUB's net position or changes in net position.

In March 2012, the GASB issued Statement No. 65 (Statement No. 65), *Items Previously Reported as Assets and Liabilities*, effective for KUB's fiscal year beginning July 1, 2013; however, KUB early adopted Statement No. 65 effective for the fiscal year beginning July 1, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities. Implementation of Statement No. 65 had no effect on KUB's net position or changes in net position.

Water Plant

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

The provision for depreciation of water plant in service is based on the estimated useful lives of the assets, which range from three to sixty-seven years, and is computed using the straight-line method. Pursuant to NARUC, the caption "Provision for depreciation" in the statements of revenues, expenses and changes in net position does not include depreciation for transportation equipment of $247,979 in fiscal year 2014 and $271,726 in fiscal year 2013. Interest costs are expensed as incurred.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of the KUB Water Division. Operating revenue is recorded when the service is rendered, on a cycle basis, and includes an estimate of unbilled revenue. Revenues are reported net of bad debt expense of $107,707 in fiscal year 2014 and $122,196 in fiscal year 2013.

Non-operating Revenue

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

Expense

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

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

Pension Plan

The Division's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 10). The Division's policy is to fund pension cost accrued. As required by GASB Statement No. 27, KUB measures and discloses the annual pension cost on the accrual basis of accounting. At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

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, provision for doubtful accounts, depreciable lives of plant assets, unbilled revenue volumes, pension trust valuations, OPEB trust valuations, insurance liability reserves, and potential losses from contingencies and litigation. Actual results could differ from those estimates.

Restricted and Designated Assets

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

Cash Equivalents

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

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are items previously reported as assets 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 previously reported as liabilities related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. In accordance with Statement No. 62, KUB records debt issuance costs, including discounts and premiums as a deferred outflow or inflow. Likewise, 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.

Compensated Absences

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

Subsequent Events

KUB has evaluated events and transactions through October 24, 2014, the date these financial statements were issued, for items that should potentially be recognized or disclosed.

Reclassifications

Certain reclassifications have been made to fiscal year 2013 balances to conform to fiscal year 2014 presentation.

Recently Issued Accounting Pronouncements

In June 2012, the GASB issued two related Statements that affect accounting and financial reporting of pensions by state and local governments. GASB Statement No. 67 (Statement No. 67), *Financial Reporting for Pension Plans*, is intended to improve financial reporting for state and local government pension plans. GASB Statement No. 68 (Statement No. 68), *Accounting and Financial Reporting for Pensions,* establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. Statements No. 67 and 68 supersede existing guidance on financial reporting for defined pension plans found in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The objective of this statement is to clarify accounting and financial reporting for pensions. This statement requires governments to recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date of the beginning net pension liability calculated under Statement No. 68.

Statement No. 67 is effective for periods beginning after June 15, 2013 and Statements No. 68 and 71 are effective for periods beginning after June 15, 2014. 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’s investment policy provides the framework for the administration and investment of cash deposits. The investment policy follows 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. KUB’s Agency Bond investments are rated Aaa by Moody’s Investors Service.

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

Classification of deposits and investments per statement of net position:

	2014	2013
Current assets		
Cash and cash equivalents	$ 15,178,461	$ 12,123,240
Short-term investments	7,000,000	3,500,000
Short-term contingency fund investments	5,202,977	4,985,531
Other assets		
Long-term contingency fund investments	5,737,073	5,956,565
Restricted assets		
Water bond fund	2,883,036	2,374,996
Other funds	5,703	6,997
	$ 36,007,250	$ 28,947,329

The above amounts do not include accrued interest of $31,498 in fiscal year 2014 and $46,441 in fiscal year 2013. Interest income is recorded on an accrual basis.

Investments and maturities of KUB’s deposits and investments:

	Deposit and Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	$ 18,123,652	$ 18,123,652	$ -
State Treasurer's Investment Pool	2,560	2,560	-
Agency Bonds	7,892,806	2,158,292	5,734,514
Certificates of Deposits	12,927,721	12,927,721	-
	$ 38,946,739	$ 33,212,225	$ 5,734,514

4. Accounts Receivable

Accounts receivable consists of the following:

	2014	2013
Wholesale and retail customers		
Billed services	$ 2,831,835	$ 2,734,309
Unbilled services	1,576,709	1,528,922
Other	202,287	180,670
Allowance for uncollectible accounts	(44,960)	(52,800)
	$ 4,565,871	$ 4,391,101

5. Accounts Payable and Accruals

Accounts payable and accruals were composed of the following:

	2014	2013
Trade accounts	$ 1,511,988	$ 3,859,030
Salaries and wages	243,592	207,229
Self-insurance liabilities	204,465	225,417
Other current liabilities	820,872	810,207
	$ 2,780,917	$ 5,101,883

6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2013	Additions	Payments	Balance June 30, 2014	Amounts Due Within One Year
R-2005 - 3.5 - 5.0%	$ 490,000	$ -	$ 235,000	$ 255,000	$ 255,000
S-2005 - 3.5 - 5.0%	7,575,000	-	415,000	7,160,000	425,000
T-2007 - 4.0 - 5.5%	25,000,000	-	650,000	24,350,000	675,000
U-2009 - 3.0 - 4.5%	25,000,000	-	750,000	24,250,000	800,000
W-2011 - 2.0 - 4.0%	24,450,000	-	550,000	23,900,000	550,000
X-2012 - 3.0 - 5.0%	10,050,000	-	440,000	9,610,000	460,000
Y-2013 - 3.0 - 4.0%	9,285,000	-	25,000	9,260,000	25,000
Z-2013 - 2.0 - 5.0%	-	25,000,000	400,000	24,600,000	450,000
Total debt	$ 101,850,000	$ 25,000,000	$ 3,465,000	$ 123,385,000	$ 3,640,000

Other liabilities consist of the following:

	Balance June 30, 2013	Increase	Decrease	Balance June 30, 2014	Amounts Due Within One Year
Accrued compensated absences	$ 1,586,092	$ 2,110,437	$ (2,205,213)	$ 1,491,316	$ 500,000
Other	93,817	117,599	(178,595)	32,821	-
	$ 1,679,909	$ 2,228,036	$ (2,383,808)	$ 1,524,137	$ 500,000

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

Fiscal Year		Principal		Total Interest		Grand Total
2015	$	3,640,000	$	5,008,809	$	8,648,809
2016		3,740,000		4,877,690		8,617,690
2017		3,935,000		4,731,490		8,666,490
2018		4,095,000		4,555,340		8,650,340
2019		4,235,000		4,389,690		8,624,690
2020 - 2024		23,925,000		19,340,807		43,265,807
2025 - 2029		28,855,000		14,478,980		43,333,980
2030 - 2034		27,635,000		8,424,427		36,059,427
2035 - 2039		15,150,000		3,895,094		19,045,094
2040 - 2044		8,175,000		1,027,500		9,202,500
Total	$	123,385,000	$	70,729,827	$	194,114,827

The Division has pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet bond principal and interest payments when due. The requirements for the bonds are being met through monthly deposits to the Water Bond Fund, as required by the bond covenants. As of June 30, 2014, these bond covenants had been satisfied.

During fiscal year 2006, KUB's Water Division issued Series R 2005 bonds for the purpose of funding water system capital improvements. KUB's Water Division also issued Series S 2005 bonds to retire certain existing debt and fund water system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series P 2001 bonds, as such amounts mature.

During fiscal year 2008, KUB's Water Division issued Series T 2007 bonds to fund water system capital improvements.

During fiscal year 2010, KUB's Water Division issued Series U 2009 bonds to fund water system capital improvements.

During fiscal year 2012, KUB's Water Division issued Series W 2011 bonds to fund water system capital improvements. KUB's Water Division also issued Series X 2012 bonds to retire Series Q 2004 bonds.

During fiscal year 2013, KUB's Water Division issued Series Y 2013 bonds to retire a portion of outstanding Series R 2005 bonds.

During fiscal year 2014, KUB's Water Division issued Series Z 2013 bonds to fund water system capital improvements.

In prior years, certain water system revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $16.6 million at June 30, 2014, and the trust account assets are not included in the financial statements.

7. Lease Commitments

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

2015	$ 7,404
2016	2,671
2017	278
Total operating minimum lease payments	$ 10,353

8. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning 6/30/2013	Increase	Decrease	Ending 06/30/2014
Production Plant	$ 727,863	$ -	$ -	$ 727,863
Pumping & Treatment Plant	64,374,463	1,453,930	(290,103)	65,538,290
Distribution Plant				
Distribution Mains	129,748,438	17,316,663	(1,187,743)	145,877,358
Transmission Mains	26,795,413	509,435	(43,433)	27,261,415
Services & Meters	28,644,956	1,986,014	(789,237)	29,841,733
Other Accounts	20,857,760	955,085	(133,065)	21,679,780
Total Distribution Plant	$ 206,046,567	$ 20,767,197	$ (2,153,478)	$ 224,660,286
Total General Plant	21,158,646	1,631,977	(238,417)	22,552,206
Total Water Plant	$ 292,307,539	$ 23,853,104	$ (2,681,998)	$ 313,478,645
Less Accumulated Depreciation	(92,986,123)	(6,924,520)	2,619,903	(97,290,740)
Net Plant Assets	$ 199,321,416	$ 16,928,584	$ (62,095)	$ 216,187,905
Work In Progress	26,700,469	20,587,700	(23,770,387)	23,517,782
Total Net Plant	$ 226,021,885	$ 37,516,284	$ (23,832,482)	$ 239,705,687

9. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. At June 30, 2014, the amount of these liabilities was $204,465 resulting from the following changes:

	2014	**2013**
Balance, beginning of year	$ 225,417	$ 237,628
Current year claims and changes in estimates	1,602,477	1,598,466
Claims payments	(1,623,429)	(1,610,677)
Balance, end of year	$ 204,465	$ 225,417

10. Pension Plan

Description of Plan

The Plan is a single-employer contributory, defined benefit pension plan established by Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville §1107(J). The Plan is designed to provide retirement, disability and death benefits. The Plan is a governmental plan as defined by the Employee Retirement Income Security Act of 1974, is not subject to any of the provisions of the Act, and was revised January 1, 2014 to include all prior approved amendments.

At December 31, 2013, the Plan had approximately 639 retirees and beneficiaries currently receiving benefits and 49 terminated employees entitled to benefits but not yet receiving them. Of the approximately 778 current employees in the Plan, 743 were fully vested at December 31, 2013. 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 froze the Plan such that persons employed or re-employed by KUB on or after January 1, 2011, shall not be 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 Plan.

The Plan provides three different benefit arrangements for KUB participants, retirees, and beneficiaries, as follows:

Career Equity Program (CEP)

CEP is for eligible employees hired on or after January 1, 1999, and for eligible former City Division Plan A members who elected CEP coverage as of July 1, 1999. CEP is a closed plan.

All eligible employees became participants on the date of his/her KUB employment. Participants are covered by Social Security. Participation in CEP does not require or permit employee contributions.

Plan A

Plan A benefits are for former City Division Plan A active employees, vested terminated employees, retirees, and beneficiaries. Plan A is a closed plan.

All employees participating in the City Division Plan A as of June 30, 1999, were eligible to participate in KUB's Plan A or the CEP program. Participants of Plan A are covered by Social Security. Plan A is a closed plan and is not available to KUB employees hired after July 1, 1999. Participation in Plan A requires employee contributions of 3 percent of the first $4,800 of annual earnings and 5 percent of annual earnings in excess of $4,800. Plan A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or older.

Plan B
Plan B benefits are for former City Division Plan B active employees, vested terminated employees, retirees, and beneficiaries. Plan B is a closed plan.

All employees participating in the City Division Plan B as of June 30, 1999 are eligible to participate in KUB's Plan B. Plan B is now a closed plan and no participants can be added. Participants of Plan B are not covered by Social Security. Participation in Plan B requires employee contributions of 4 percent of annual earnings. Plan B provides for retirement benefits after 25 years of service and the attainment of age 50.

Funding Policy
For the Plan year ended December 31, 2013, a contribution of $6,314,399 will be made in the Plan sponsor's fiscal year ending June 30, 2015. The Water Division's portion of this contribution is $820,872. The contribution was determined as part of the January 1, 2013 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. For the Plan year ended December 31, 2013, the Plan's actuarial funded ratio was 89.3 percent.

At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund, is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

Significant actuarial assumptions used in the valuation include (a) rate of return of investments of 8 percent, (b) the RP2000 Mortality Table, (c) annual projected salary increases based on participants' ages ranging from age 25 to age 65 with salary increases from 2.58 percent to 7.92 percent, and (d) cost of living adjustment of 2.8 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period.

As of the actuarial report for the Plan year ended December 31, 2013, contributions of $6,314,399 and $5,502,677 for 2013 and 2012, respectively, will be made during the Plan sponsor's fiscal years ending June 30, 2015 and 2014, respectively. Of these amounts, $820,872 and $715,348 are attributable to the Water Division.

Subsequent to June 30, 2014, the actuarial valuation for the Plan year ending December 31, 2014 was completed. The actuarial valuation resulted in an actuarially determined contribution of $5,669,380 for the fiscal year ending June 30, 2016, based on the Plan's current funding policy. The Water Division's portion of this contribution is $737,019. For the Plan year ending December 31, 2014, the Plan's actuarial funded ratio was 94.6 percent. See Required Supplementary Information for Pension Schedule of Funding Progress.

11. Defined Contribution Plan

KUB has a defined contribution 401(k) employee retirement savings plan covering eligible KUB employees. Employees hired prior to January 1, 2011 may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. Employees hired on or after January 1, 2011 have an enhanced 401(k) Plan due to the closure of the Defined Benefit Pension Plan. They may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. They also receive a nonelective KUB contribution of from 3 percent to 6 percent, depending on years of service, whether they contribute or not.

Since July 1, 2000, 401(k) matching contributions for employees eligible to participate in the KUB Pension Plan have been funded by the Pension Plan. These funds are held by the Pension trustee until eligible for distribution. IRS rules permit the funding of 401(k) matching contributions from excess pension assets for employees covered under the Pension Plan. Based on the funding level of the Pension Plan, effective July 1, 2011, KUB began to reimburse the Pension Plan for the current matching contributions. The match and nonelective contributions for employees hired on or after January 1, 2011 are paid directly by KUB.

12. Other Post-Employment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) established new standards for the measurement, recognition, and reporting of other post-employment benefits (OPEB). OPEB includes post-employment benefits other than pension, which, for KUB, is presently limited to post-employment health care. GASB Statement No. 45 (Statement No. 45) requires the recognition of the accrued OPEB liability for the respective year, plus the disclosure of the total unfunded liability. Statement No. 45 was effective for KUB for the fiscal year beginning July 1, 2007.

KUB currently provides post-employment health care benefits to 604 former employees and 619 covered dependents. The cost of coverage is shared with retirees and beneficiaries. KUB recognizes its share of the cost of post-employment health care benefits as an expense as claims are paid.

In anticipation of Statement No. 45, KUB amended its Group Health Plan in 1999, eliminating post-employment health care benefits for all employees hired on or after July 1, 1999. As of June 30, 2014, 399 active employees were eligible for individual and dependent coverage at separation. To qualify, the employee must meet the Rule of 80 (age plus years of service) with a minimum of 20 years of service, and be enrolled in medical coverage on their last day.

In May 2006, the state of Tennessee adopted Tennessee Code Annotated, Title 8, Chapter 50, Part 12 authorizing governmental entities to establish Trusts for the purpose of pre-funding their respective OPEB liabilities.

Although Statement No. 45 does not require pre-funding of the liability, KUB has determined that it is in the long-term economic interest of KUB and its ratepayers to establish a Trust to pre-fund KUB's OPEB liability.

In October 2007, the KUB Board authorized the establishment of an OPEB Trust. 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.

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.

The general administration and responsibility for the proper operation of the Trust is governed by a Board of Trustees, appointed by KUB's President & CEO. 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.

Total contributions to the OPEB Trust for the fiscal year ended June 30, 2014 were $4,057,091 (Division's share $527,422). The contribution to the Trust exceeded the annual actuarially determined contribution, as determined by the Postretirement Benefit Plan's actuarial valuation for the year ended December 31, 2012, which was $3,327,412 (Division's share $432,564). As of June 30, 2014, the employer's OPEB obligation has been exceeded by $177,322 (Division's share $23,052).

The actuarially determined contribution for the fiscal year ending June 30, 2015, as determined by the Plan's actuarial valuation for the year ended December 31, 2013 is $3,497,372 (Division's share $454,658).

The actuarial valuation for the Plan for the year ending December 31, 2014 has been completed. The valuation determined that the Plan's actuarial accrued liability was $46,889,808 (Division's share $6,095,675). The actuarial value of the Plan's assets was $43,409,955 (Division's share $5,643,294). As a result, the Plan's unfunded actuarial accrued liability was $3,479,853 (Division's share $452,381). The Plan's actuarial funded ratio was 93 percent. The valuation also determined that the employer's actuarially determined contribution is $953,221 for the fiscal year ending June 30, 2016 (Division's share $123,919). See Required Supplementary Information for OPEB Schedule of Funding Progress.

13. Related Party Transactions

The Division, in the normal course of operations, is involved in transactions with the City of Knoxville and with other divisions of KUB. Such transactions for the years ended June 30, 2014 and 2013, are summarized as follows:

	2014	2013
City of Knoxville		
Amounts billed by the Division for utilities and related services	$ 3,229,509	$ 3,447,230
Payments by the Division in lieu of property tax	2,377,350	2,335,619
Payments by the Division for services provided	696,190	343,159
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	358,304	327,946
Interdivisional rental expense	197,536	147,724
Interdivisional rental income	80,427	101,944
Amounts billed to the Division by other divisions for utilities services provided	3,120,332	2,997,490

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

	2014	2013
Accounts receivable	$ 62,221	$ 291,817

14. Unaccounted for Water Schedule

As required by Tennessee Code Annotated, KUB is required to include a Supplemental Schedule in the annual audited financial statements for the Schedule of Unaccounted for Water. For reports submitted January 1, 2013 and later, the American Water Works Association (AWWA) water loss reporting model must be used. For fiscal years 2013 and 2014, water utilities are required to have a Validity Score greater than 65 and maintain non-revenue water as a percent by cost of operating system of less than 30%. For fiscal year 2013, KUB reported a Validity Score of 88 and non-revenue water as a percent by cost of operating system of 10.4%. For fiscal year 2014, KUB reported a Validity Score of 85 and non-revenue water as a percent by cost of operating system of 11.3%. See Supplemental Information Schedule 5 for the AWWA Reporting Worksheet.

15. Other Commitments and Contingencies

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

Knoxville Utilities Board Water Division
Required Supplementary Information – Schedule of Funding Progress
June 30, 2014
(Unaudited)

Pension Plan

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
January 1, 2010	$ 203,704,898	$ 190,679,453	$ (13,025,445)	106.8%	$ 48,228,428	(27.01%)
January 1, 2011	195,692,781	187,257,434	(8,435,347)	104.5%	47,405,874	(17.79%)
January 1, 2012	183,980,665	195,536,152	11,555,487	94.1%	48,836,721	23.66%
January 1, 2013	175,936,548	197,049,614	21,113,066	89.3%	47,553,598	44.40%
January 1, 2014	188,770,336	199,515,466	10,745,130	94.6%	47,107,350	22.81%

Other Post-Employment Benefits (OPEB)

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
January 1, 2008	$ -	$ 108,329,141	$ 108,329,141	0%	$ 31,234,509	346.8%
January 1, 2009	14,593,487	100,726,738	86,133,251	14%	31,846,091	270.5%
January 1, 2010	21,275,643	58,475,364	37,199,721	36%	30,069,028	123.7%
January 1, 2011	40,749,815	64,289,254	23,539,439	63%	28,878,791	81.5%
January 1, 2012	37,907,357	61,603,466	23,696,109	62%	28,269,123	83.8%
January 1, 2013	38,571,803	63,341,531	24,769,728	61%	27,566,340	89.9%
January 1, 2014	43,409,955	46,889,808	3,479,853	93%	26,724,154	13.0%

Knoxville Utilities Board Water Division
Supplemental Information –
Schedule of Expenditures of Federal Awards by Grant
June 30, 2014

Schedule 1

KUB was awarded two grants from Tennessee Emergency Management Agency (as a flow through from FEMA) for reimbursement for costs related to storms in 2011. The schedule below shows the activities for the current fiscal year.

Program Name	Federal/State Agency	CFDA Number	Contract Number	Beginning Receivable	Cash Receipts	Expenditures	Adjustments	Ending Receivable
U.S. Department of Homeland Security	Tennessee Emergency Management	97.036	34101-0000009205	$ 8,175	$ -	$ -	$ -	$ 8,175
U.S. Department of Homeland Security	Tennessee Emergency Management	97.036	34101-0000009832	$ 833	$ -	$ -	$ -	$ 833
		Total Program 97.036		$ 9,008	$ -	$ -	$ -	$ 9,008
		Total Federal Awards		$ 9,008	$ -	$ -	$ -	$ 9,008

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Knoxville Utilities Board and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Insurance in Force
June 30, 2014
(Unaudited) Schedule 2

Insurance coverage is for KUB as a consolidated entity.

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

Directors' and Officers' Liability Insurance
Covers KUB personnel appropriately authorized to make decisions on behalf of KUB (including but not limited to Commissioners, President and CEO, Senior Vice Presidents, Vice Presidents, and Directors) for wrongful acts. Limits of coverage - $20,000,000; $1,000,000 corporate deductible, $0 individual deductible.

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

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

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

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

Travel Accident
Covers losses related to employees' business travel. Limits of coverage - $1,500,000 aggregate.

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

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

Employee Health Plan Stop Loss Coverage
KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses in excess of $400,000 per individual participant.

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2014

Schedule 3

Continued on Next Page

	R-2005		S-2005		T-2007		U-2009		W-2011	
FY	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
14-15	$ 255,000	$ 9,244	$ 425,000	$ 306,521	$ 675,000	$ 1,103,644	$ 800,000	$ 988,625	$ 550,000	$ 893,750
15-16			440,000	289,521	700,000	1,066,519	825,000	964,625	550,000	882,750
16-17			465,000	267,521	750,000	1,028,019	875,000	931,625	550,000	871,750
17-18			485,000	244,271	800,000	986,769	925,000	896,625	550,000	844,250
18-19			500,000	224,871	825,000	942,769	950,000	859,625	550,000	827,750
19-20			520,000	204,871	875,000	909,769	1,000,000	821,625	550,000	805,750
20-21			545,000	183,421	900,000	874,769	1,050,000	781,625	550,000	789,250
21-22			570,000	160,940	950,000	837,644	1,125,000	739,625	550,000	772,750
22-23			590,000	137,428	1,000,000	798,456	1,175,000	694,625	500,000	756,250
23-24			615,000	112,353	1,050,000	755,956	1,225,000	647,625	500,000	741,250
24-25			640,000	86,215	1,100,000	711,331	1,300,000	598,625	500,000	726,250
25-26			665,000	58,695	1,150,000	664,031	1,350,000	546,625	500,000	710,625
26-27			700,000	30,100	1,200,000	610,844	1,425,000	492,625	500,000	693,125
27-28					1,225,000	555,344	1,500,000	435,625	500,000	673,125
28-29					1,250,000	501,750	1,575,000	375,625	500,000	655,625
29-30					1,300,000	445,500	1,650,000	308,688	500,000	635,625
30-31					2,750,000	387,000	1,750,000	238,563	500,000	617,500
31-32					2,850,000	263,250	1,825,000	164,188	500,000	598,750
32-33					3,000,000	135,000	1,925,000	86,625	500,000	580,000
33-34									2,000,000	560,000
34-35									2,000,000	480,000
35-36									2,000,000	400,000
36-37									2,000,000	320,000
37-38									2,000,000	240,000
38-39									2,000,000	160,000
39-40									2,000,000	80,000
40-41										
41-42										
42-43										
43-44										
	$ 255,000	$ 9,244	$ 7,160,000	$ 2,306,728	$ 24,350,000	$ 13,578,364	$ 24,250,000	$ 11,573,439	$ 23,900,000	$ 16,316,125

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2014

Schedule 3

Continued from Previous Page

	X-2012		Y-2013		Z-2013		TOTAL		Grand
FY	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
14-15	$ 460,000	$ 393,000	$ 25,000	$ 290,900	$ 450,000	$ 1,023,125	$ 3,640,000	$ 5,008,809	$ 8,648,809
15-16	485,000	370,000	265,000	290,150	475,000	1,014,125	3,740,000	4,877,690	8,617,690
16-17	515,000	345,750	280,000	282,200	500,000	1,004,625	3,935,000	4,731,490	8,666,490
17-18	535,000	320,000	300,000	273,800	500,000	989,625	4,095,000	4,555,340	8,650,340
18-19	565,000	293,250	320,000	261,800	525,000	979,625	4,235,000	4,389,690	8,624,690
19-20	590,000	265,000	340,000	249,000	550,000	963,875	4,425,000	4,219,890	8,644,890
20-21	625,000	235,500	350,000	235,400	575,000	947,375	4,595,000	4,047,340	8,642,340
21-22	655,000	204,250	375,000	221,400	600,000	930,125	4,825,000	3,866,734	8,691,734
22-23	670,000	184,600	400,000	210,150	625,000	912,125	4,960,000	3,693,634	8,653,634
23-24	690,000	164,500	415,000	198,150	625,000	893,375	5,120,000	3,513,209	8,633,209
24-25	710,000	143,800	435,000	185,700	650,000	874,625	5,335,000	3,326,546	8,661,546
25-26	735,000	120,725	450,000	172,650	675,000	852,688	5,525,000	3,126,039	8,651,039
26-27	765,000	95,000	470,000	159,150	700,000	828,219	5,760,000	2,909,063	8,669,063
27-28	790,000	64,400	1,250,000	145,050	750,000	800,219	6,015,000	2,673,763	8,688,763
28-29	820,000	32,800	1,300,000	107,550	775,000	770,219	6,220,000	2,443,569	8,663,569
29-30			2,285,000	68,550	800,000	738,250	6,535,000	2,196,613	8,731,613
30-31					825,000	704,250	5,825,000	1,947,313	7,772,313
31-32					850,000	669,188	6,025,000	1,695,376	7,720,376
32-33					900,000	632,000	6,325,000	1,433,625	7,758,625
33-34					925,000	591,500	2,925,000	1,151,500	4,076,500
34-35					950,000	549,875	2,950,000	1,029,875	3,979,875
35-36					1,000,000	507,125	3,000,000	907,125	3,907,125
36-37					1,025,000	460,875	3,025,000	780,875	3,805,875
37-38					1,075,000	413,469	3,075,000	653,469	3,728,469
38-39					1,100,000	363,750	3,100,000	523,750	3,623,750
39-40					1,150,000	308,750	3,150,000	388,750	3,538,750
40-41					1,200,000	251,250	1,200,000	251,250	1,451,250
41-42					1,225,000	191,250	1,225,000	191,250	1,416,250
42-43					1,275,000	130,000	1,275,000	130,000	1,405,000
43-44					1,325,000	66,250	1,325,000	66,250	1,391,250
	$ 9,610,000	$ 3,232,575	$ 9,260,000	$ 3,351,600	$ 24,600,000	$ 20,361,752	$ 123,385,000	$ 70,729,827	$ 194,114,827

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2014
(Unaudited)
Schedule 4

Rate Class	Base Charge	Number of Customers
Residential Inside City rate	For water furnished to premises entirely within the corporate limits of the City of Knoxville:	54,977

Commodity Charge

First	0 to 2	100 Cubic Feet Per Month at $0.25 Per 100 Cubic Feet
Over	2	100 Cubic Feet Per Month at $2.65 Per 100 Cubic Feet

Additional Monthly Customer Charge

For	5/8" meter	$	11.00
For	1" meter		25.10
For	1 1/2" meter		37.00
For	2" meter		53.00

Rate Class	Base Charge	Number of Customers
Residential Outside City rate	For water furnished to premises upon which any water faucet or other outlet is outside the corporate limits of the City of Knoxville:	13,063

Commodity Charge

First	0 to 2	100 Cubic Feet Per Month at $0.30 Per 100 Cubic Feet
Over	2	100 Cubic Feet Per Month at $3.20 Per 100 Cubic Feet

Additional Monthly Customer Charge

For	5/8" meter	$	12.40
For	1" meter		29.40
For	1 1/2" meter		43.40
For	2" meter		62.40

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Current Rates in Force
June 30, 2014
(Unaudited) Schedule 4

Rate Class	Base Charge	Number of Customers
Non-Residential Inside City rate/ Industrial Park rate	For water furnished to premises entirely within the corporate limits of the City of Knoxville or within the boundaries of an area recognized as an industrial park by the Tennessee Department of Economic and Community Development:	9,608

Commodity Charge

First	2	100 Cubic Feet Per Month at $1.25 Per 100 Cubic Feet
Next	8	100 Cubic Feet Per Month at $2.90 Per 100 Cubic Feet
Next	90	100 Cubic Feet Per Month at $3.55 Per 100 Cubic Feet
Next	300	100 Cubic Feet Per Month at $2.45 Per 100 Cubic Feet
Next	4,600	100 Cubic Feet Per Month at $1.70 Per 100 Cubic Feet
Next	5,000	100 Cubic Feet Per Month at $1.00 Per 100 Cubic Feet

Additional Monthly Customer Charge

For	5/8" meter	$ 11.00
For	1" meter	25.10
For	1 1/2" meter	37.00
For	2" meter	53.00
For	3" meter	110.00
For	4" meter	182.00
For	6" meter	398.00
For	8" meter	700.00
For	10" meter	1,066.00
For	12" meter	1,578.00

Rate Class	Base Charge	Number of Customers
Non-Residential Outside City rate	For water furnished to premises upon which any water faucet or other outlet is outside the corporate limits of the City of Knoxville, excluding premises within the boundaries of an area recognized as an industrial park by the Tennessee Department of Economic and Community Development:	688

Commodity Charge

First	2	100 Cubic Feet Per Month at $1.50 Per 100 Cubic Feet
Next	8	100 Cubic Feet Per Month at $3.40 Per 100 Cubic Feet
Next	90	100 Cubic Feet Per Month at $4.25 Per 100 Cubic Feet
Next	300	100 Cubic Feet Per Month at $2.95 Per 100 Cubic Feet
Next	4,600	100 Cubic Feet Per Month at $2.05 Per 100 Cubic Feet
Next	5,000	100 Cubic Feet Per Month at $1.20 Per 100 Cubic Feet

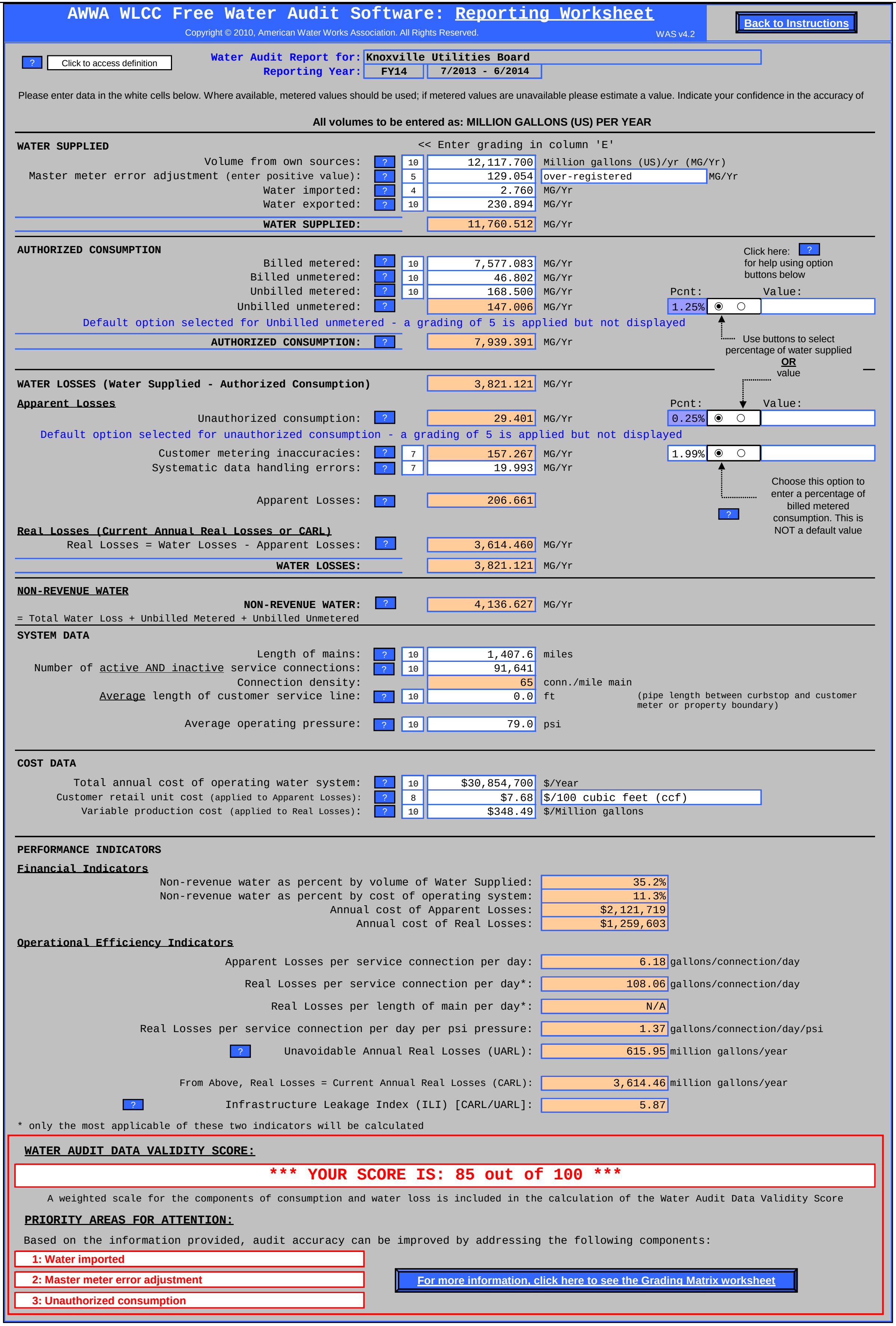
Additional Monthly Customer Charge

For	5/8" meter	$ 12.40
For	1" meter	29.40
For	1 1/2" meter	43.40
For	2" meter	62.40
For	3" meter	131.00
For	4" meter	219.00
For	6" meter	478.00
For	8" meter	840.00
For	10" meter	1,279.00
For	12" meter	1,895.00

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Unaccounted for Water
June 30, 2014

(Unaudited)

Schedule 5



AWWA WLCC Free Water Audit Software: Reporting Worksheet

WAS v4.2

Water Audit Report for: Knoxville Utilities Board

Reporting Year: FY14 7/2013 - 6/2014

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

WATER SUPPLIED << Enter grading in column 'E'

	Grading	Value	Unit
Volume from own sources:	10	12,117.700	Million gallons (US)/yr (MG/Yr)
Master meter error adjustment (enter positive value):	5	129.054	over-registered MG/Yr
Water imported:	4	2.760	MG/Yr
Water exported:	10	230.894	MG/Yr
WATER SUPPLIED:		11,760.512	MG/Yr

AUTHORIZED CONSUMPTION

Click here: ? for help using option buttons below

	Grading	Value	Unit	Pcnt:		Value:
Billed metered:	10	7,577.083	MG/Yr			
Billed unmetered:	10	46.802	MG/Yr			
Unbilled metered:	10	168.500	MG/Yr			
Unbilled unmetered:		147.006	MG/Yr	1.25%	● ○	
AUTHORIZED CONSUMPTION:		7,939.391	MG/Yr			

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

Use buttons to select percentage of water supplied **OR** value

WATER LOSSES (Water Supplied - Authorized Consumption) 3,821.121 MG/Yr

Apparent Losses

	Grading	Value	Unit	Pcnt:		Value:
Unauthorized consumption:		29.401	MG/Yr	0.25%	● ○	
Customer metering inaccuracies:	7	157.267	MG/Yr	1.99%	● ○	
Systematic data handling errors:	7	19.993	MG/Yr			
Apparent Losses:		206.661				

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Choose this option to enter a percentage of billed metered consumption. This is NOT a default value

Real Losses (Current Annual Real Losses or CARL)

	Value	Unit
Real Losses = Water Losses - Apparent Losses:	3,614.460	MG/Yr
WATER LOSSES:	3,821.121	MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 4,136.627 MG/Yr

= Total Water Loss + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

	Grading	Value	Unit
Length of mains:	10	1,407.6	miles
Number of active AND inactive service connections:	10	91,641	
Connection density:		65	conn./mile main
Average length of customer service line:	10	0.0	ft (pipe length between curbstop and customer meter or property boundary)
Average operating pressure:	10	79.0	psi

COST DATA

	Grading	Value	Unit
Total annual cost of operating water system:	10	$30,854,700	$/Year
Customer retail unit cost (applied to Apparent Losses):	8	$7.68	$/100 cubic feet (ccf)
Variable production cost (applied to Real Losses):	10	$348.49	$/Million gallons

PERFORMANCE INDICATORS

Financial Indicators

	Value
Non-revenue water as percent by volume of Water Supplied:	35.2%
Non-revenue water as percent by cost of operating system:	11.3%
Annual cost of Apparent Losses:	$2,121,719
Annual cost of Real Losses:	$1,259,603

Operational Efficiency Indicators

	Value	Unit
Apparent Losses per service connection per day:	6.18	gallons/connection/day
Real Losses per service connection per day*:	108.06	gallons/connection/day
Real Losses per length of main per day*:	N/A	
Real Losses per service connection per day per psi pressure:	1.37	gallons/connection/day/psi
Unavoidable Annual Real Losses (UARL):	615.95	million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):	3,614.46	million gallons/year
Infrastructure Leakage Index (ILI) [CARL/UARL]:	5.87	

* only the most applicable of these two indicators will be calculated

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 85 out of 100 *****

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

1: Water imported
2: Master meter error adjustment
3: Unauthorized consumption

• Certified Public Accountants
• Business Advisors

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RM
RODEFER MOSS & CO, PLLC

Independent Auditors' 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*

To the Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Knoxville Utilities Board ("KUB", (an independent agency reported as a component unit for financial purposes only) of Knoxville, Tennessee, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements, and have issued our report thereon dated October 24, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered KUB's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
October 24, 2014

Knoxville Utilities Board
Wastewater Division

Financial Statements and Supplemental Information

June 30, 2014 and 2013

Knoxville Utilities Board Wastewater Division
Index
June 30, 2014 and 2013

• Certified Public Accountants
• Business Advisors

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RODEFER MOSS & CO, PLLC

Independent Auditors' Report

To the Board of Commissioners
Knoxville Utilities Board - Wastewater Division
Knoxville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Knoxville Utilities Board, Wastewater Division, (the "Division"), an independent agency reported as a component unit for financial reporting purposes only, of Knoxville, Tennessee, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Division, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Schedule of Funding Progress on pages 3-23 and 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Division's basic financial statements. The supplemental schedules on pages 44-51 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The supplemental schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
October 24, 2014

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners governs KUB. The Board has all powers to construct, acquire, expand, or operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. The Wastewater Division (Division) provides services to certain customers in Knox County and in two surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners (NARUC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Wastewater Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2014 and 2013, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Division's Management Discussion and Analysis ("MD&A") focuses on the fiscal year ending June 30, 2014 activities, resulting changes and current known facts, and should be read in conjunction with the Division's financial statements.

Wastewater Division Highlights

System Highlights

The wastewater service area covers 256 square miles and includes 69,613 wastewater customers. KUB maintains 1,320 miles of services mains, 76 pump stations, and 4 treatment plants to treat 14.5 billion gallons of wastewater on an annual basis. The average daily flow is 40 million gallons daily.

The wastewater system added 85 customers during fiscal year 2014.

The typical residential wastewater customer's monthly bill was $47.50 at fiscal year end, which is consistent with the prior fiscal year.

KUB completed its tenth full year of wastewater operations under the requirements of the federal Consent Decree. All collection system projects required under the federal Consent Decree were completed as of June 30, 2014.

During fiscal year 2014, KUB continued to construct upgrades to its Kuwahee and Fourth Creek wastewater treatment facilities in order to comply with the requirements of the Consent Decree. KUB's treatment plants continue to meet high standards of operation. KUB's Eastbridge wastewater treatment plant won an Operational Excellence award from the Tennessee Kentucky Water Environment Association. The Kuwahee and Eastbridge wastewater plants were awarded the National Association of Clean Water Agencies Peak Performance award for outstanding compliance within the permitted limits. KUB's Biosolids Program won Tennessee's award from the Tennessee Kentucky Water Environment Association for Beneficial Use of Biosolids Award.

KUB continued to maintain certification with the National Biosolids Partnership following a rigorous review process and independent audit that was conducted in December 2013. (Biosolids are nutrient-rich organic matter produced by wastewater treatment that can be recycled as fertilizer).

Century II Infrastructure Program

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

In 2013, the Board extended the funding approach for Century II to include the wastewater system. The Board formally endorsed and adopted by resolution, a ten year funding plan for the Wastewater Division.

In May 2014, KUB management provided an updated assessment of the overall condition of each utility and the progress made during the resumption of the Century II program. At that time the Board endorsed a long range ten year funding plan for the continuation of Century II programs for the wastewater system, including a combination of rate increases and debt issues to fully fund the programs for the next ten years.

In June 2014, the Board approved a series of three annual rate increases for the wastewater system. The wastewater rate increase will produce an additional $4.7 million of annual sales revenues.

The wastewater system rehabilitated or replaced 46.2 miles of wastewater system main, exceeding the target level of 25 miles, while staying within the Division's total capital budget during fiscal year 2014.

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 must be completed by June 30, 2016. Through its PACE 10 program, KUB is addressing the terms of the Consent Decree. PACE 10 is an accelerated ten-year program to help improve Knoxville's waterways, the quality of life, and the economic well being of the community. The Consent Decree also required KUB to perform an evaluation of the wet-weather performance and capacity of its wastewater treatment plants.

In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB's Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provides for a biologically enhanced high-rate clarification (the "BEHRC") secondary treatment system to be installed at the Fourth Creek treatment plant by June 30, 2018 and at the Kuwahee treatment plant by June 30, 2021. The total cost of such improvements is estimated to be approximately $120 million.

KUB's funding plan for the Consent Decree includes long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2014, the Wastewater Division had issued $425 million in bonds to fund system capital improvements since the inception of the Consent Decree. The KUB Board of Commissioners approved two 50 percent rate increases, which went into effect in April 2005 and January 2007, respectively. The Board also approved an 8 percent rate increase, which was effective in September 2008, and two 12 percent rate increases, which were effective in April 2011 and

October 2012, respectively. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

KUB continues to be in compliance with Consent Decree requirements. As part of the PACE 10 program, KUB has installed storage tanks providing 34 million gallons of wastewater storage to control wet-weather overflows and rehabilitated or replaced approximately 276.5 miles of collection system pipe. KUB also continues to maintain a proactive operations and maintenance plan for the wastewater collection system including inspection, cleaning, grease control, and private lateral enforcement. The result of the PACE 10 program is a substantial reduction in sanitary sewer overflows.

During fiscal year 2014, the Wastewater Division incurred $42.3 million in total expenditures related to Consent Decree requirements, including $4.3 million for operating costs and $38 million in capital improvements which included the rehabilitation or replacement of 46.2 miles of wastewater main. During the fiscal year, $26 million was spent on sewer mini-basin rehab and replacement. Upgrades completed at the Fourth Creek treatment facility accounted for $3.7 million of fiscal year 2014 capital expenditures. Trunk line replacement and rehabilitation accounted for $2.2 million of capital expenditures during the fiscal year, while pump station improvements accounted for $3.7 million.

As of June 30, 2014, the Wastewater Division had completed its tenth full year under the Consent Decree, spending $467.5 million on capital investments to meet Consent Decree requirements. All collection system projects required under the federal Consent Decree were completed as of June 30, 2014.

Financial Highlights

Fiscal Year 2014 Compared to Fiscal Year 2013

The Division's net position increased $5.7 million or 2.3 percent, compared to an $8.8 million increase last fiscal year.

Operating revenue increased $0.5 million or 0.6 percent, the net result of additional revenue generated during the fiscal year from the 12 percent rate increase effective on October 2012 customer bills, offset by a 1.9 percent decline in wastewater billed sales volumes.

Operating expenses increased $3.7 million or 8 percent. Operating and maintenance (O&M) expenditures increased $1.9 million or 6.6 percent. Depreciation expense rose $1.6 million or 11.3 percent. Taxes and tax equivalents increased $0.2 million or 6.1 percent.

Non-operating revenues were consistent with the prior year. Interest income was $0.1 million less than the prior fiscal year. Interest expense decreased $0.6 million or 2.9 percent, the net effect of a March 2013 revenue bond refunding and a $65 million revenue bond issuance in the prior fiscal year. Other income (net) was $0.5 million lower reflecting a loss on disposition of property.

Capital contributions increased $0.1 million, the result of an increase in donated assets from developers compared to the previous fiscal year.

Total plant assets (net) increased $24.2 million or 3.9 percent since the end of last fiscal year.

Long-term debt represented 63.9 percent of the Division's capital structure as of June 30, 2014, as compared to 64.9 percent last year. The decrease is attributable to the scheduled repayment of debt during the fiscal year. Capital structure equals long-term debt (which includes the current portion of revenue bonds and notes, as applicable, due to be retired the next fiscal year) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Current year debt coverage for the fiscal year was 1.61. Maximum debt service coverage was 1.59.

Fiscal Year 2013 Compared to Fiscal Year 2012

The Division's net position increased $8.8 million or 3.7 percent, compared to a $12 million increase last fiscal year.

Operating revenue increased $4.1 million or 5.8 percent, the result of additional revenue from the 12 percent rate increase effective on October 2012 customer bills. Wastewater billed sales were consistently below prior years' levels for the majority of fiscal year 2013.

Operating expenses increased $4.7 million or 11.3 percent. Operating and maintenance (O&M) expenditures increased $2.9 million or 11.6 percent. Depreciation expense rose $1.5 million or 12 percent. Taxes and tax equivalents increased $0.2 million or 6.4 percent.

Non-operating revenues decreased $0.9 million from the prior year. Lower interest rates on longer-term investments resulted in a $0.2 million decrease in interest income. Interest expense increased $0.5 million or 2.7 percent, due to interest costs associated with the issuance of $65 million in bonds in December 2012.

Capital contributions decreased $1.7 million, the result of a decline in donated assets from developers compared to the previous fiscal year.

Total plant assets (net) increased $43.8 million or 7.6 percent since the end of last fiscal year.

Long-term debt represented 64.9 percent of the Division's capital structure as of June 30, 2013, as compared to 62 percent last year. The increase is the net result of the $65 million bond issue in December 2012, a portion of refunding bonds sold in March 2013 to cover interest expense on the bonds prior to the call date, and the scheduled repayment of debt during the fiscal year. Capital structure equals long-term debt (which includes the current portion of revenue bonds and notes, as applicable, due to be retired the next fiscal year) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Current year debt coverage for the fiscal year was 1.75. Maximum debt service coverage was 1.64.

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Division Cash Budget Appropriations

KUB's Board of Commissioners adopted a Wastewater Division budget of $113.7 million for fiscal year 2014. At year end, the Division was $4.9 million under budget. Capital spending was $2.6 million less than planned due to timing and cost of projects. O&M spending was $2.2 million under budget primarily due to labor related costs. Cash operating receipts were $2.7 million lower than projected due to lower than projected sales revenue. The Division's general fund balance was $2.4 million higher in fiscal year 2014 than budgeted. The numbers below are presented on a cash basis.

Wastewater Division Cash Report
As of June 30, 2014

(in thousands of dollars)	**FY 2014 Budget**	**FY 2014 Actual FYTD**	**Dollar Variance***	**Percent Variance**
Beginning Balance General Fund	$ 47,911	$ 47,911		
Operating Receipts	79,738	77,043	(2,695)	-3.4%
Disbursements				
Operation & Maintenance Expense	32,041	29,803	2,238	7.0%
Capital Expenditures	49,603	46,988	2,615	5.3%
Debt Service & Taxes	32,042	32,036	6	-
Total Disbursements	113,686	108,827	4,859	4.3%
Net Flow throughs and Transfers	(976)	(713)	263	26.9%
Ending General Fund Balance	$ 12,987	$ 15,414	$ 2,427	18.7%

**Impact to Cash; (-) indicates a decrease or negative impact to cash*

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Knoxville Utilities Board Wastewater Division - Financial Statements

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

Statement of Net Position

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

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

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

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

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

Statement of Revenues, Expenses and Changes in Net Position

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

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

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

Statement of Cash Flows

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

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

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

Condensed Financial Statements

Statement of Net Position

The following table reflects the condensed Statement of Net Position for the Wastewater Division compared to the prior year and the year preceding the prior year.

Statements of Net Position
As of June 30

(in thousands of dollars)	**2014**	**2013**	**2012**
Current and other assets	$ 62,704	$ 94,800	$ 67,629
Capital assets, net	642,302	618,134	574,384
Deferred outflows of resources	10,064	10,533	666
Total assets and deferred outflows of resources	715,070	723,467	642,679
Current and other liabilities	19,979	24,967	19,419
Long-term debt outstanding	441,035	450,050	383,705
Deferred inflows of resources	57	125	-
Total liabilities and deferred inflows of resources	461,071	475,142	403,124
Net position			
Net investment in capital assets	201,947	169,625	183,964
Restricted	2,263	2,148	1,756
Unrestricted	49,789	76,552	53,835
Total net position	$ 253,999	$ 248,325	$ 239,555

Normal Impacts on Statement of Net Position

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

- Change in net position (from Statement of Revenues, Expenses and Changes in Net Position): impacts (increase/decrease) current and other assets and/or capital assets and unrestricted net position.

- Issuing debt for capital: increases deferred outflows and inflows of resources and long-term debt.

- Spending debt proceeds on new capital: reduces current assets and increases capital assets.

- Spending of non-debt related current assets on new capital: (a) reduces current assets and increases capital assets and (b) reduces unrestricted net position and increases net investment in capital assets.

- Principal payment on debt: (a) reduces current and other assets and reduces long-term debt and (b) reduces unrestricted net position and increases net investment in capital assets.

- Reduction of capital assets through depreciation: reduces capital assets and net investment in capital assets.

Impacts and Analysis

Current and Other Assets

Fiscal Year 2014 Compared to Fiscal Year 2013

Current and other assets decreased $32.1 million or 33.9 percent. General fund cash decreased $32.5 million, due to the use of general fund cash to fund capital expenditures during the year. Accounts receivable decreased $0.8 million and operating contingency reserves increased $1.1 million.

Fiscal Year 2013 Compared to Fiscal Year 2012

Current and other assets increased $27.2 million or 40.2 percent. General fund cash increased $22.9 million, due to the use of bond proceeds to fund capital expenditures during the year. In addition, operating contingency reserves increased 3.1 million.

Capital Assets

Fiscal Year 2014 Compared to Fiscal Year 2013

Capital assets increased $24.2 million or 3.9 percent, the result of capital expenditures, net of depreciation. Major capital expenditures during the year included $34 million for major system improvements related to PACE 10 and $3 million for Composite Correction Plan projects, both of which were required under the Consent Decree.

Fiscal Year 2013 Compared to Fiscal Year 2012

Capital assets increased $43.8 million or 7.6 percent, the result of capital expenditures, net of depreciation. Major capital expenditures during the year included $38.4 million for major system improvements related to PACE 10 and $16 million for Composite Correction Plan projects, both of which were required under the Consent Decree.

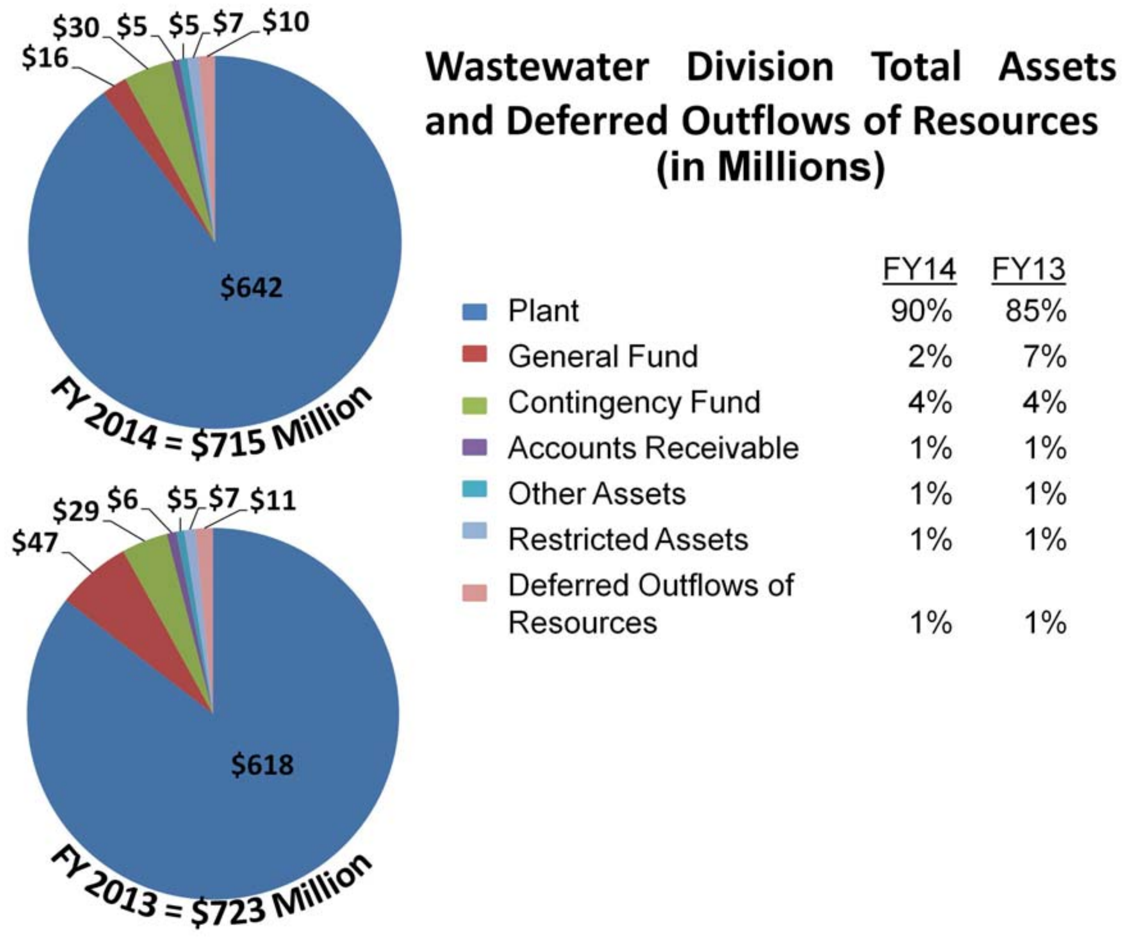
Deferred Outflows of Resources

Fiscal Year 2014 Compared to Fiscal Year 2013

Deferred outflows of resources total $10 million, which was a decline of $0.5 million or 4.5 percent compared to the prior year. This reflects the amortization of deferred losses on bonds refunded in prior periods.

Fiscal Year 2013 Compared to Fiscal Year 2012

Deferred outflows of resources total $10.5 million, which was up $9.9 million compared to the prior year, reflecting $10.1 million of unamortized costs related to additional principal from the March 2013 advance refunding bonds to cover debt service on the bonds to be refunded prior to the call date on the bonds.



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

	FY14	FY13
🟦 Plant	90%	85%
🟥 General Fund	2%	7%
🟩 Contingency Fund	4%	4%
🟪 Accounts Receivable	1%	1%
■ Other Assets	1%	1%
■ Restricted Assets	1%	1%
■ Deferred Outflows of Resources	1%	1%

Current and Other Liabilities

Fiscal Year 2014 Compared to Fiscal Year 2013

Current and other liabilities decreased $5 million, which was the net result of a $5.6 million decline in accounts payable and a $0.5 million increase in the current portion of revenue bonds.

Fiscal Year 2013 Compared to Fiscal Year 2012

Current and other liabilities increased $5.5 million, which was the combined result of a $3.3 million rise in accounts payable, a $1.5 million increase in the current portion of bond debt and a $0.4 million increase in the Division's share of liability for pension benefits based on the actuarially determined contribution.

Long-Term Debt

Fiscal Year 2014 Compared to Fiscal Year 2013

The Division's outstanding long-term debt decreased $9 million or 2 percent due to scheduled debt repayments.

Fiscal Year 2013 Compared to Fiscal Year 2012

The Division's outstanding long-term debt increased $66.3 million or 17.3 percent. A $65 million bond issue in December 2012 added to KUB's outstanding debt, while scheduled debt repayments throughout the year reduced the amount outstanding. Refunding bonds issued in March 2013 included additional principal amounts of $9.9 million necessary to cover scheduled interest payments to be made prior to the call date on the bonds.

Deferred Inflows of Resources

Fiscal Year 2014 Compared to Fiscal Year 2013

Deferred inflows of resources were consistent with the prior fiscal year.

Fiscal Year 2013 Compared to Fiscal Year 2012

Deferred inflows of resources were $0.1 million as of June 30, 2013, which reflects premiums incurred as part of the March 2013 debt refunding.

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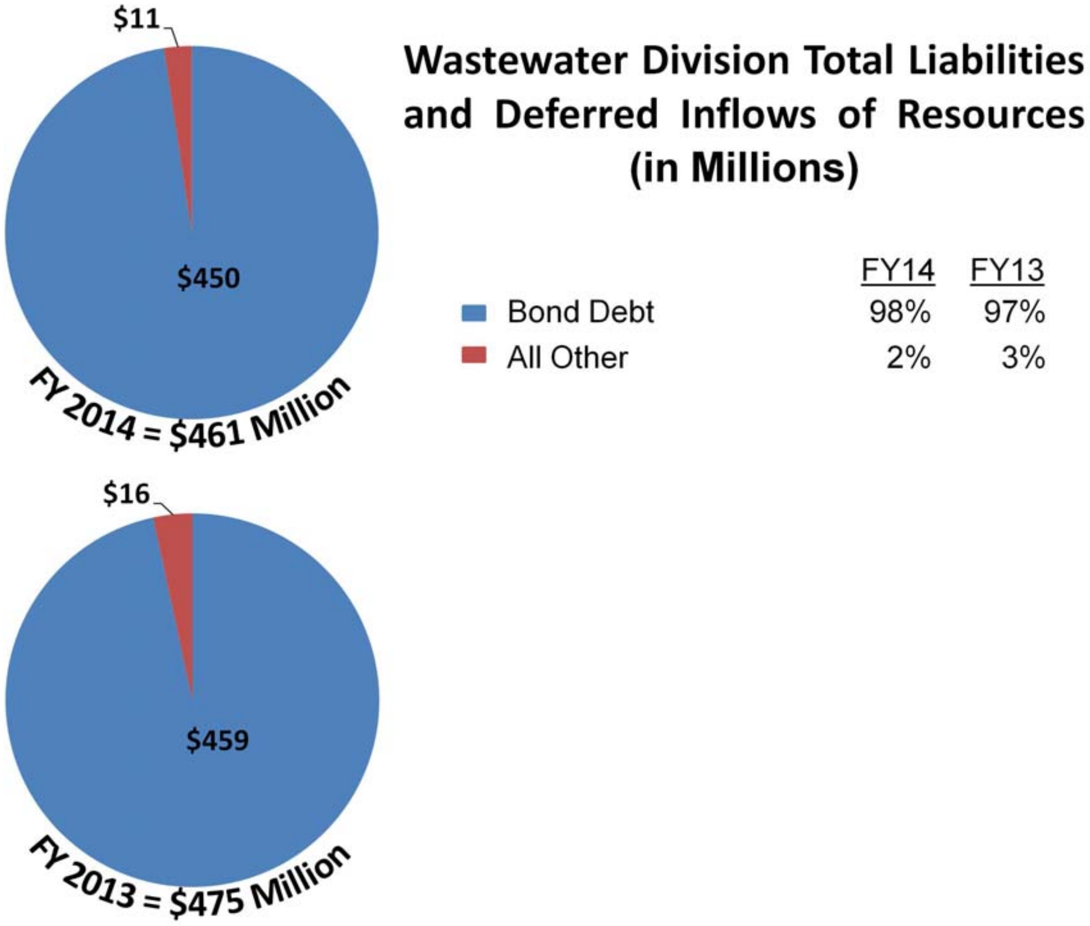


Net Position

Fiscal Year 2014 Compared to Fiscal Year 2013

Net investment in capital assets increased $32.3 million or 19.1 percent. The increase was the result of $24.2 million of net plant additions and a decrease in current and long term debt of $8.5 million. Unrestricted assets decreased $26.8 million primarily due to a $32.5 million decrease in general fund cash compared with the prior year. Restricted net position was $0.1 million higher than the previous fiscal year, based on increases in debt service.

Fiscal Year 2013 Compared to Fiscal Year 2012

Net investment in capital assets decreased by $14.3 million or 7.8 percent. The decrease was the result of $43.7 million of net plant additions offset by an increase in current and long term debt of $58 million. Unrestricted assets increased $22.7 million due to a $22.9 million increase in general fund cash compared with the prior year. Restricted net position was $0.4 million higher than the previous fiscal year, based on increases in the bond fund.

Statement of Revenues, Expenses and Changes in Net Position

The following table reflects the condensed Statement of Revenues, Expenses and Changes in Net Position for the Wastewater Division compared to the prior year and the year preceding the prior year.

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

(in thousands of dollars)	**2014**	**2013**	**2012**
Operating revenues	$ 75,042	$ 74,579	$ 70,502
Operating expenses			
Treatment	10,769	10,402	9,256
Collection	7,795	7,266	7,441
Customer service	2,605	2,458	1,945
Administrative and general	8,484	7,697	6,278
Depreciation and amortization	16,086	14,455	12,911
Taxes and tax equivalents	4,092	3,856	3,625
Total operating expenses	49,831	46,134	41,456
Operating income	25,211	28,445	29,046
Interest income	292	373	562
Interest expense	(19,264)	(19,841)	(19,314)
Other income/(expense)	(837)	(351)	(202)
Change in net position before capital contributions	5,402	8,626	10,092
Capital contributions	272	144	1,867
Change in net position	$ 5,674	$ 8,770	$ 11,959

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

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

- Operating revenue is primarily determined by the amount of water usage billed during the fiscal year. The Division has certain commercial and industrial customers whose wastewater usage is metered separately from their water usage. Any change (increase/decrease) in wastewater rates would also cause a change in operating revenue.

- Operating expenses (treatment, collection system expense, customer service, administrative and general) are normally impacted by changes in areas including, but not limited to, labor cost (staffing, wage rates), active employee and retiree health insurance costs, chemicals, and wastewater system maintenance.

- Depreciation expense is impacted by plant additions and retirements during the fiscal year.

- Taxes & tax equivalents are impacted by plant additions/retirements and changes in property tax rates.

- Interest income is impacted by the level of interest rates and investments.

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

- Other income/(expense) is impacted by miscellaneous non-operating revenues and expenses.

- Capital contributions are impacted by a donation of facilities/infrastructure to KUB by developers and governmental agencies. The contributions are recognized as revenue and recorded as plant in service based on the fair market value of the asset(s).

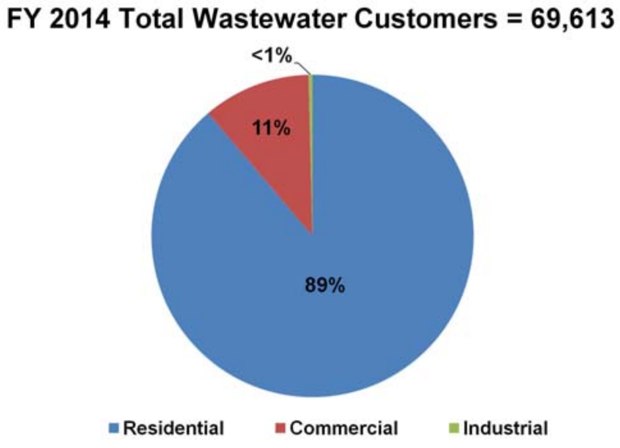
Impacts and Analysis

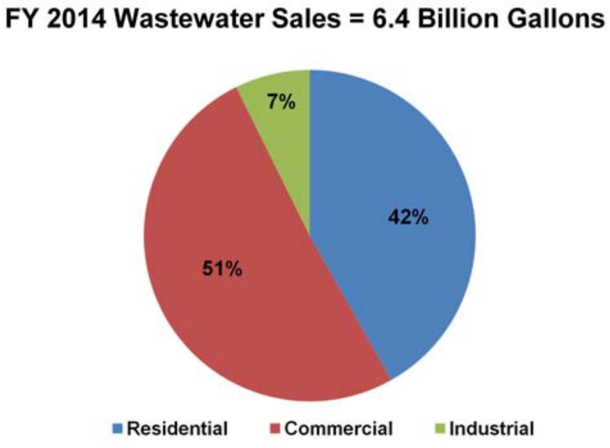
Margin from Sales

Fiscal Year 2014 Compared to Fiscal Year 2013

The Division’s net position increased $5.7 million this fiscal year compared to earnings of $8.8 million in fiscal year 2013.

Operating revenue increased $0.5 million or 0.6 percent for the fiscal year ending June 30, 2014, the net result of additional revenue generated during the fiscal year from the 12 percent rate increase effective on October 2012 customer bills and a 1.9 percent decline in wastewater billed sales volumes. Rebates on bond interest payments from the federal government for federally taxable Build America Bonds (BABs) are reported as revenue in accordance with GASB. KUB recognized $1.8 million in revenue for BABs rebates in fiscal year 2014.


FY 2014 Total Wastewater Customers = 69,613


FY 2014 Wastewater Sales = 6.4 Billion Gallons

Residential customers accounted for 89 percent of wastewater customers and 42 percent of total billed sales for the year. Commercial customers accounted for the largest portion of total sales for the year.

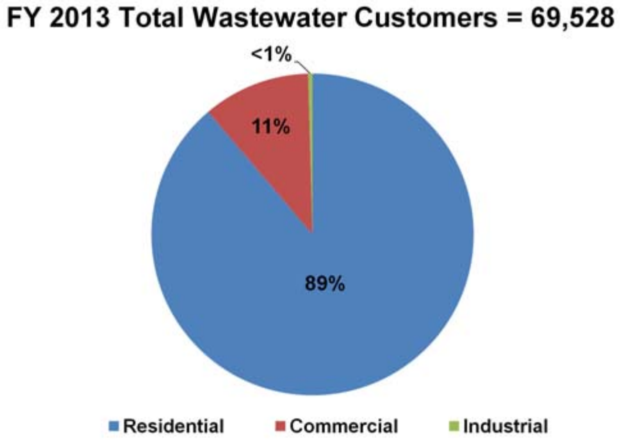
KUB’s ten largest wastewater customers accounted for 8.9 percent of KUB’s billed wastewater volumes. Those ten customers represent five industrial and five commercial customers, including four governmental customers.

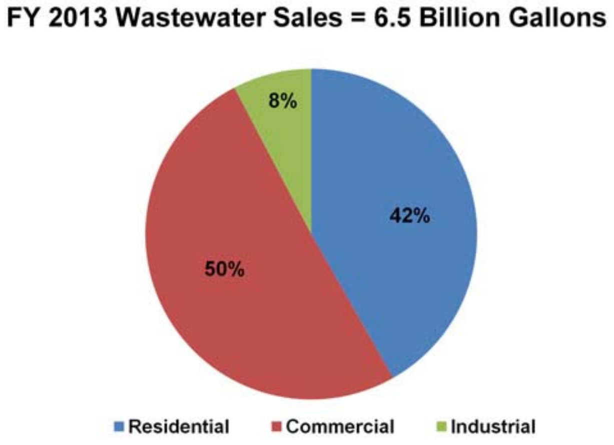
The Division has added 875 customers over the past three years, representing annual growth of less than 1 percent. Billed wastewater sales have declined steadily over the past three years, reflecting declining water usage due to more efficient appliances and conservation efforts.

Fiscal Year 2013 Compared to Fiscal Year 2012

The Division's net position increased $8.8 million this fiscal year compared to earnings of $12 million in fiscal year 2012.

Operating revenue increased $4.1 million or 5.8 percent for the fiscal year ending June 30, 2013, reflecting additional revenue from the 12 percent October 2012 rate increase.





Residential customers accounted for 89 percent of wastewater customers and 42 percent of total billed sales for the year. Commercial customers accounted for the largest portion of total sales for the year.

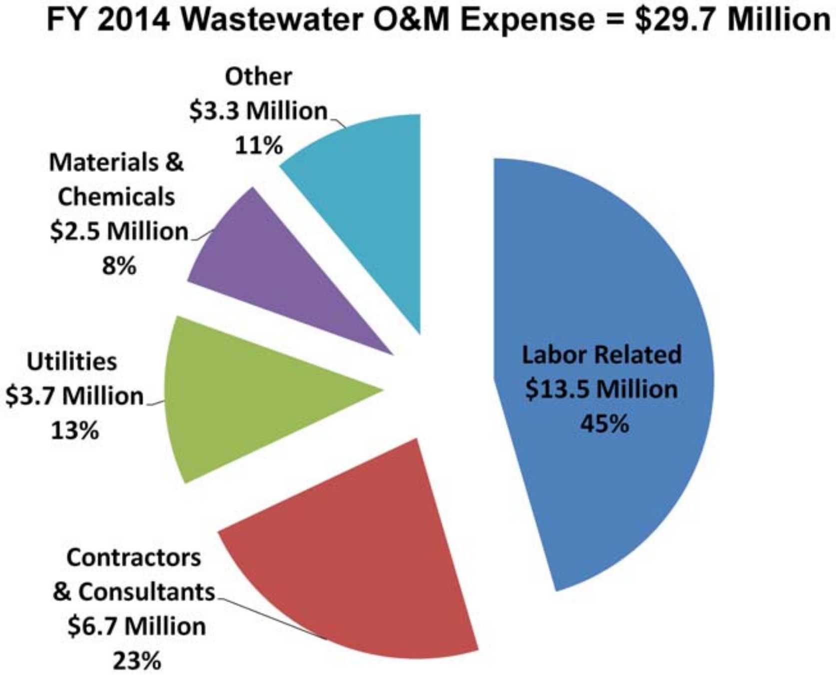
KUB's ten largest wastewater customers accounted for 6.2 percent of KUB's billed wastewater volumes. Those ten customers represent nine industrial customers and one governmental customer.

Operating Expenses

Fiscal Year 2014 Compared to Fiscal Year 2013

Operating expenses increased $3.7 million or 8 percent compared to fiscal year 2013. Operating expenses are categorized as treatment (O&M), collection (O&M), customer service (O&M), administrative and general (O&M), depreciation or taxes and tax equivalents:

- Treatment expenses were up $0.4 million, the result of higher labor-related expenses.
- Collection system expenses increased $0.5 million, driven by outside contractor expense and utility service.
- Customer service expenses increased $0.1 million, reflecting the Division's share of meter reading, telephone, software, and labor-related expenses.
- Administrative and general expenses were up $0.8 million, due to the allocation of shared costs.



- Depreciation expense increased $1.6 million or 11.3 percent, the result of a full year of depreciation on $61 million of wastewater system assets placed in service during fiscal year 2013, and a partial year of depreciation on $72.3 million placed in service during fiscal year 2014. The Division also retired $14.3 million of assets during the fiscal year.

- Taxes and tax equivalents increased $0.2 million, due to increased plant values.

Fiscal Year 2013 Compared to Fiscal Year 2012

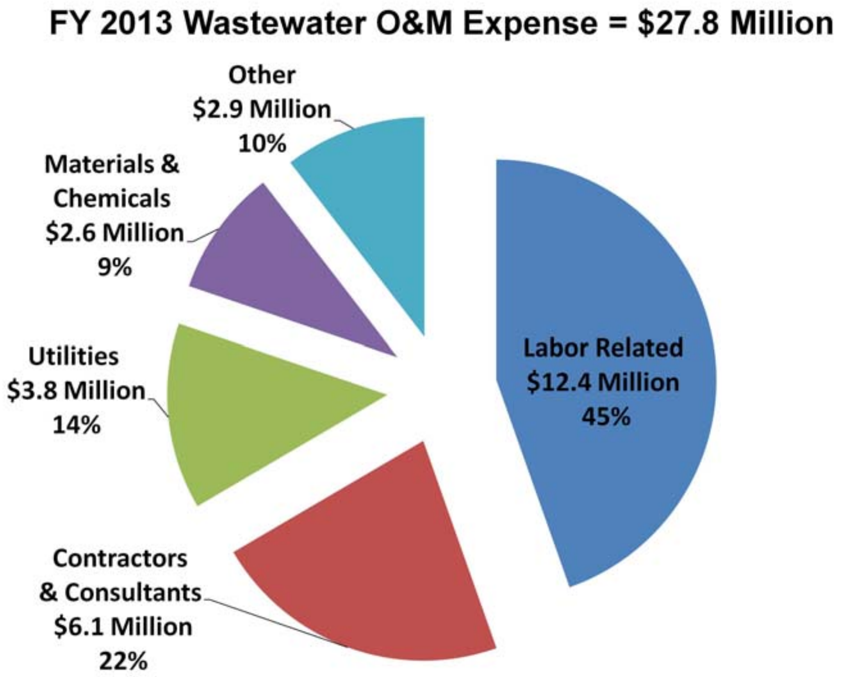
Operating expenses increased $4.7 million or 11.3 percent compared to fiscal year 2012. Operating expenses are categorized as treatment (O&M), collection (O&M), customer service (O&M), administrative and general (O&M), depreciation or taxes and tax equivalents:

- Treatment expenses were up $1.1 million, the result of higher labor related expenses and utility expenses.

- Collection system expenses decreased $0.2 million, driven by a $0.1 million reduction in labor related expenses.

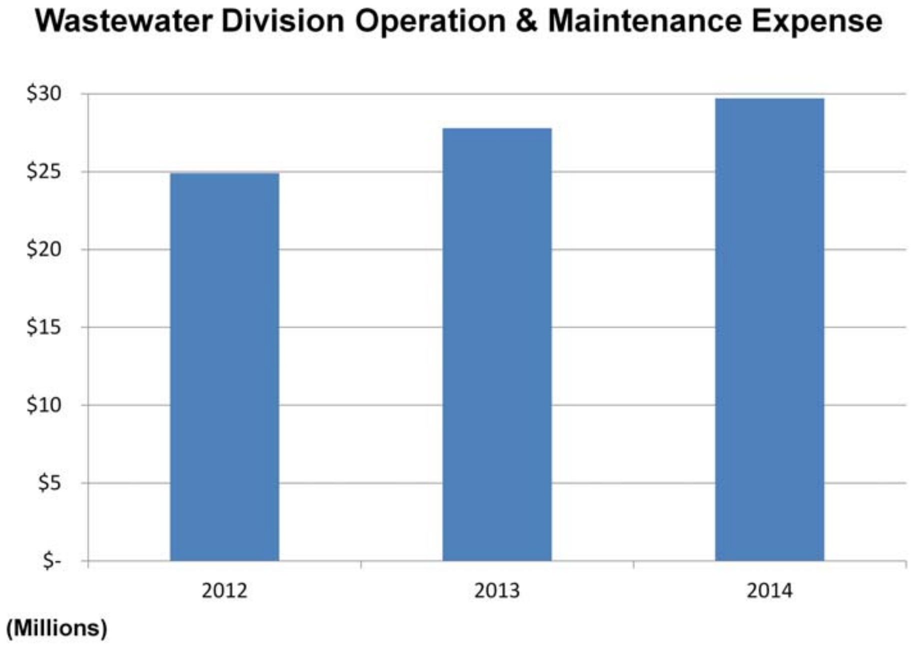
- Customer service expenses increased $0.5 million, reflecting the Division’s share of meter reading, telephone, software, and labor related expenses.

- Administrative and general expenses were up $1.4 million, due to approximately $1.4 million of additional expense resulting from a four percent increase to the Division’s allocation of shared costs effective July 1, 2012.



- Depreciation expense increased $1.5 million or 12 percent, the result of a full year of depreciation on $62 million of wastewater system assets placed in service during fiscal year 2012, and a partial year of depreciation on $61 million placed in service during fiscal year 2013. The Division also retired $8.2 million of assets during the fiscal year.

- Taxes and tax equivalents increased $0.2 million, due to increased plant values.



Other Income and Expense

Fiscal Year 2014 Compared to Fiscal Year 2013

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

Interest expense decreased $0.6 million or 2.9 percent, the net effect of the March 2013 revenue bond refunding and a $65 million revenue bond issuance in the prior fiscal year.

Other income (net) was $0.5 million lower primarily due to a $0.3 million increase in loss on disposition of property and $0.3 million increase in amortization of debt.

Capital contributions increased $0.1 million compared to last fiscal year as a result of additional assets received from developers and other governmental entities.

Fiscal Year 2013 Compared to Fiscal Year 2012

Interest income decreased $0.2 million, the result of lower long-term interest rates.

Interest expense increased $0.5 million or 2.7 percent, the net result of additional interest on $65 million of bonds issued during the fiscal year and debt service savings results from the refunding of outstanding bonds in 2012 and 2013.

Other income (net) was $0.1 million lower than the prior year.

Capital contributions decreased $1.7 million compared to last fiscal year as a result of fewer assets received from developers and other governmental entities.

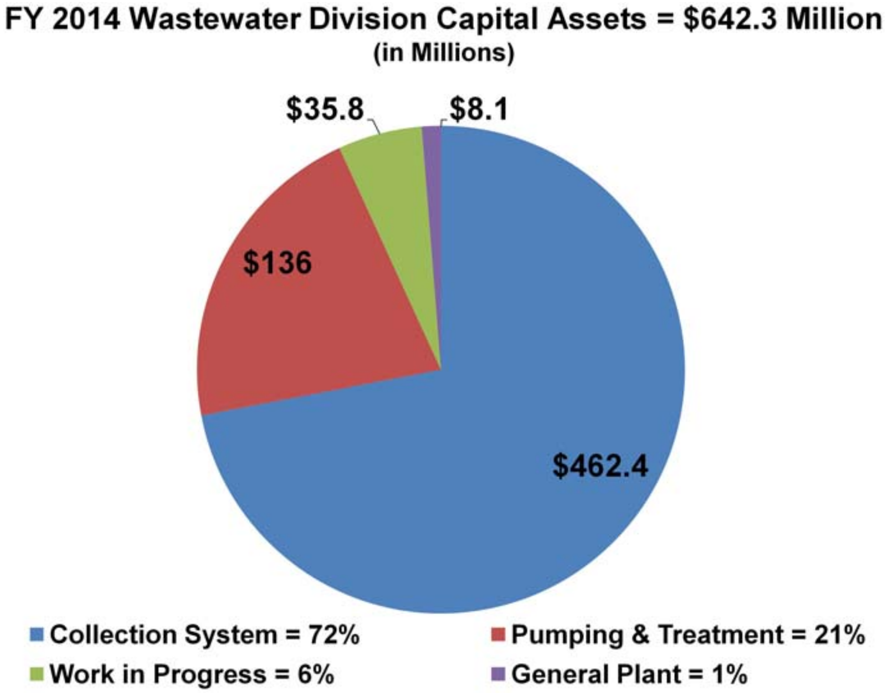
Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

(in thousands of dollars)	**2014**	**2013**	**2012**
Pumping and treatment plant	$ 136,055	$ 112,438	$ 104,955
Collection plant:			
Mains	389,515	359,166	328,495
Others	72,884	70,857	67,000
Total collection plant	462,399	430,023	395,495
General plant	8,070	7,853	7,619
Total plant	606,524	550,314	508,069
Work in progress	35,778	67,820	66,315
Total net plant	$ 642,302	$ 618,134	$ 574,384

Fiscal Year 2014 Compared to Fiscal Year 2013

As of June 30, 2014, the Division had $642.3 million invested in a variety of capital assets, as reflected in the schedule of Capital Assets, which represents a net increase (including additions, retirements, and depreciation) of $24.2 million or 3.9 percent over the end of the last fiscal year.

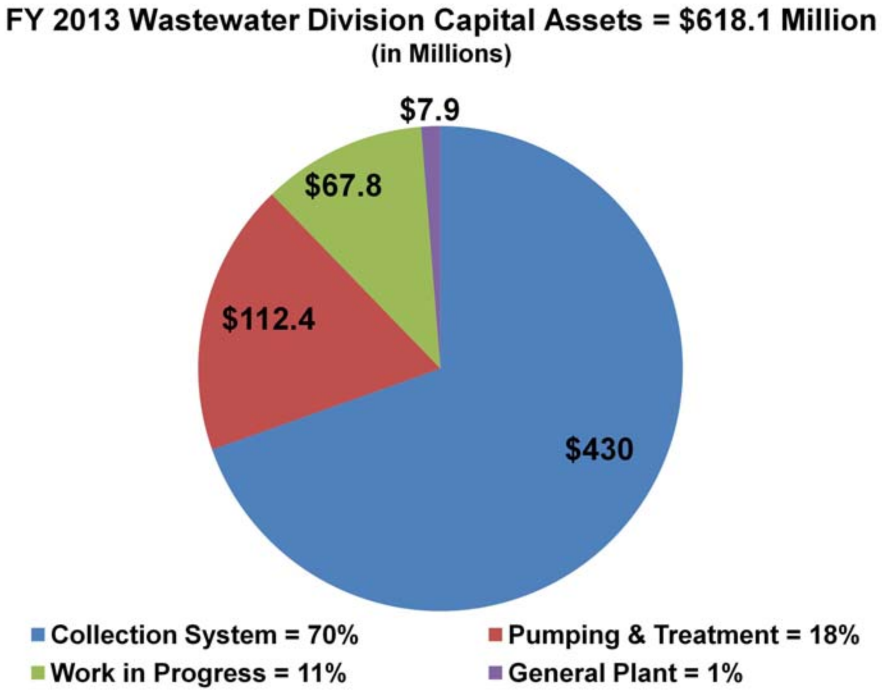


Major capital asset expenditures during the year were as follows:

- $34 million related to PACE 10 projects.
  - $26 million for sewer mini-basin rehabilitation and replacement
  - $3.7 million for pump station design and construction
  - $2.2 million for sewer trunk line replacement and rehabilitation
- $3 million for Composite Correction Plan projects.

Fiscal Year 2013 Compared to Fiscal Year 2012

As of June 30, 2013, the Division had $618.1 million invested in a variety of capital assets, as reflected in the schedule of Capital Assets, which represents a net increase (including additions, retirements, and depreciation) of $43.8 million or 7.6 percent over the end of the last fiscal year.



FY 2013 Wastewater Division Capital Assets = $618.1 Million
(in Millions)

Major capital asset expenditures during the year were as follows:

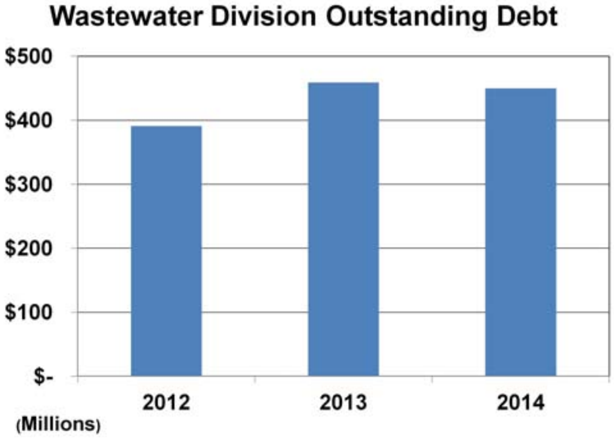
- $38.4 million related to PACE 10 projects.
  - $15.1 million for sewer mini-basin rehabilitation and replacement
  - $11.8 million for sewer trunk line replacement and rehabilitation
  - $5.6 million for pump station design and construction
  - $5.5 million for collection system improvements
- $16 million for Composite Correction Plan projects.
  - $3.1 million for upgrades to the Kuwahee Wastewater Treatment Plant
  - $12.9 million for upgrades at the Fourth Creek Wastewater Treatment Plant

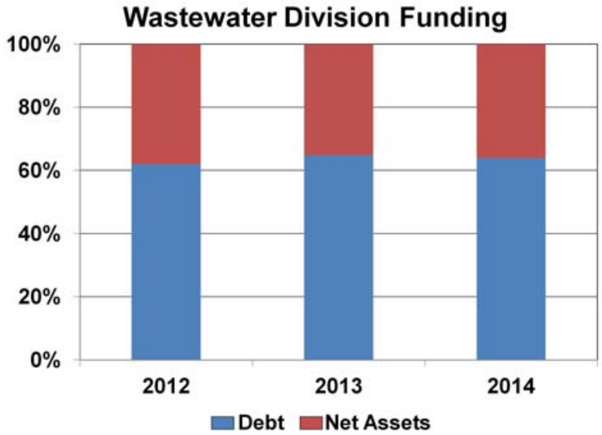
Debt Administration

The Division's outstanding debt peaked in fiscal year 2013 at $458.6 million. Scheduled repayments of debt decreased the amount outstanding as of June 30, 2014 to $450.1 million. The majority of the bond proceeds have been used to fund capital requirements under the Consent Decree. Debt as a percentage of capitalization represented 63.9 percent in 2014, 64.9 percent in 2013 and 62 percent at the end of fiscal year 2012.

Outstanding Debt
As of June 30

(in thousands of dollars)	**2014**	**2013**	**2012**
Revenue bonds	$ 450,050	$ 458,595	$ 390,745
Total outstanding debt	$ 450,050	$ 458,595	$ 390,745





The Division will pay $110.3 million in principal payments over the next ten years, representing 24.5 percent of the outstanding bonds. KUB's Debt Management Policy requires a minimum of 20 percent of wastewater debt principal be repaid over the next ten years.

Fiscal Year 2014 Compared to Fiscal Year 2013

As of June 30, 2014, the Division had $450.1 million in outstanding debt (including the current portion of revenue bonds), compared to $458.6 million last year, representing a decrease of $8.5 million or 1.9 percent. The Division's weighted average cost of debt as of June 30, 2014 was 4.23 percent.

The decrease in debt was attributable to the scheduled repayment of bond debt during the fiscal year.

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2014, the Division's revenue bonds were rated AA+ by Standard & Poor's and Aa2 by Moody's Investors Service.

Fiscal Year 2013 Compared to Fiscal Year 2012

As of June 30, 2013, the Division had $458.6 million in outstanding debt (including the current portion of revenue bonds), compared to $390.7 million last year, representing an increase of $67.9 million or 17.4 percent. The Division's weighted average cost of debt as of June 30, 2013 was 4.22 percent.

The increase in debt is attributable to the scheduled repayment of bond debt during the fiscal year, a $65 million December 2012 bond issue to fund wastewater system capital improvements, and the March 2013 refunding of outstanding bonds.

KUB sold $113.3 million in revenue refunding bonds to retire bonds issued in 2005 at lower interest rates. The proceeds of the bonds were placed in an irrevocable escrow and will be used to refund $103.5 million in outstanding bonds in 2015 and pay debt service on the outstanding bonds prior to the 2015 call date.

The Division will realize a total debt service savings of $20.5 million over the life of the bonds ($14.4 million on a net present value basis).

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2013, the Division's revenue bonds were rated AA+ by Standard & Poor's and Aa2 by Moody's Investors Service.

Impacts on Future Financial Position

KUB anticipates adding 325 wastewater customers in fiscal year 2015.

In June 2014, the KUB Board adopted three years of rate increases for all four systems to help fund the ongoing Century II infrastructure programs for each system. The wastewater rate increases will be effective October 2014, October 2015, and October 2016, respectively. Annually, the wastewater rate increases will provide additional revenue of $4.7 million, on average.

KUB sold $30 million in wastewater system revenue bonds in August 2014 for the purpose of funding wastewater system capital improvements in fiscal year 2015. The true interest cost of the bonds, which were sold through a competitive bidding process was 3.604 percent.

KUB debt portfolio includes $96.9 million of Wastewater Division 2010 Build America Bonds (BABs) in which the U.S. Treasury provides a rebate to KUB for a portion of the interest. The interest rebates were subject to federal sequestration during the fiscal year and were reduced by 7.2 percent. Any future actions by Congress may also affect the anticipated rebates for future fiscal years.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, is effective for periods beginning after June 15, 2013. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68,* are effective for periods beginning after June 15, 2014. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on the Division's financial position or results of operations during fiscal year 2014.

Financial Contact

The Division's financial statements are designed to present users (citizens, customers, investors, and creditors) with a general overview of the Division's financial position and results of operations for the fiscal years ending June 30, 2014 and 2013. If you have questions about the statements or need additional financial information, contact KUB's Chief Financial Officer at 445 South Gay Street, Knoxville, Tennessee 37902.

Knoxville Utilities Board Wastewater Division
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	$ 15,413,919	$ 32,911,366
Short-term investments	-	15,000,000
Short-term contingency fund investments	13,875,114	12,955,337
Other current assets	61,432	7,405
Accrued interest receivable	2,866	22,592
Accounts receivable, less allowance of uncollectible accounts of $89,248 in 2014 and $113,372 in 2013	8,200,763	8,977,425
Inventories	200,763	174,479
Prepaid expenses	75,673	74,415
Total current assets	37,830,530	70,123,019
Restricted assets:		
Wastewater bond fund	7,014,496	7,130,242
Other funds	9,213	11,302
Unused bond proceeds	-	206
Total restricted assets	7,023,709	7,141,750
Wastewater plant in service	758,132,261	700,133,805
Less accumulated depreciation	(151,608,595)	(149,819,959)
	606,523,666	550,313,846
Retirement in progress	194,255	122,152
Construction in progress	35,583,696	67,697,621
Net plant in service	642,301,617	618,133,619
Other assets:		
Long-term contingency fund investments	16,523,370	16,380,326
Other	1,326,201	1,155,509
Total other assets	17,849,571	17,535,835
Total assets	705,005,427	712,934,223
Deferred outflows of resources:		
Unamortized bond refunding costs	10,064,386	10,532,610
Total deferred outflows of resources	10,064,386	10,532,610
Total assets and deferred outflows of resources	$ 715,069,813	$ 723,466,833

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

Knoxville Utilities Board Wastewater Division
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Liabilities, Deferred Inflows, and Capitalization		
Current liabilities:		
Current portion of revenue bonds	$ 9,015,000	$ 8,545,000
Accounts payable	1,303,779	6,898,846
Accrued expenses	1,842,381	1,829,334
Customer deposits plus accrued interest	1,018,250	967,329
Accrued interest on revenue bonds	4,760,646	4,993,892
Total current liabilities	17,940,056	23,234,401
Other liabilities:		
Accrued compensated absences	1,643,542	1,385,951
Customer advances for construction	312,000	321,000
Other	83,376	25,331
Total other liabilities	2,038,918	1,732,282
Long-term debt:		
Wastewater revenue bonds	441,035,000	450,050,000
Total long-term debt	441,035,000	450,050,000
Total liabilities	461,013,974	475,016,683
Deferred inflows of resources:		
Unamortized costs	56,509	124,830
Total deferred inflows of resources	56,509	124,830
Total liabilities and deferred inflows of resources	461,070,483	475,141,513
Net position		
Net investment in capital assets	201,947,494	169,625,399
Restricted for:		
Debt service	2,253,850	2,136,350
Other	9,213	11,302
Unrestricted	49,788,773	76,552,269
Total net position	253,999,330	248,325,320
Total liabilities, deferred inflows, and net position	$ 715,069,813	$ 723,466,833

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

Knoxville Utilities Board Wastewater Division
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues	$ 75,041,645	$ 74,579,313
Operating expenses		
Treatment	10,768,467	10,402,381
Collection	7,794,582	7,265,544
Customer service	2,605,271	2,457,565
Administrative and general	8,483,808	7,697,218
Provision for depreciation and amortization	16,086,344	14,454,762
Taxes and tax equivalents	4,092,366	3,856,206
Total operating expenses	49,830,838	46,133,676
Operating income	25,210,807	28,445,637
Non-operating revenues (expenses)		
Contributions in aid of construction	916,996	225,764
Interest and dividend income	291,711	372,644
Interest expense	(19,263,722)	(19,841,107)
Write-down of plant for costs recovered through contributions	(916,996)	(225,764)
Other	(836,436)	(350,663)
Total non-operating revenues (expenses)	(19,808,447)	(19,819,126)
Change in net position before capital contributions	5,402,360	8,626,511
Capital contributions	271,650	143,980
Change in net position	5,674,010	8,770,491
Net position, beginning of year	248,325,320	239,554,829
Net position, end of year	$ 253,999,330	$ 248,325,320

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

Knoxville Utilities Board Wastewater Division
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash receipts from customers	$ 73,613,445	$ 71,576,107
Cash (payments to) receipts from other operations	1,500,788	2,408,922
Cash payments to suppliers of goods or services	(24,746,416)	(15,430,777)
Cash payments to employees for services	(10,158,275)	(9,080,474)
Payment in lieu of taxes	(3,373,076)	(3,182,147)
Net cash provided by operating activities	36,836,466	46,291,631
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	-	65,053,835
Principal paid on revenue bonds and notes payable	(8,545,000)	(7,040,000)
(Increase) decrease in unused bond proceeds	206	(206)
Interest paid on revenue bonds and notes payable	(19,496,968)	(19,576,517)
Acquisition and construction of wastewater plant	(41,385,195)	(58,642,874)
Changes in wastewater bond fund, restricted	115,746	(645,613)
Customer advances for construction	(9,000)	(21,000)
Proceeds received on disposal of plant	4,848	4,502
Cash received from developers and individuals for capital purposes	916,996	225,764
Net cash used in capital and related financing activities	(68,398,367)	(20,642,109)
Cash flows from investing activities:		
Purchase of investment securities	(1,294,156)	(8,262,656)
Maturities of investment securities	15,231,335	305,788
Interest received	311,437	380,969
Other property and investments	(184,162)	(159,448)
Net cash provided by (used in) investing activities	14,064,454	(7,735,347)
Net (decrease) increase in cash and cash equivalents	(17,497,447)	17,914,175
Cash and cash equivalents, beginning of year	32,911,366	14,997,191
Cash and cash equivalents, end of year	$ 15,413,919	$ 32,911,366
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 25,210,807	$ 28,445,637
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expenses	16,314,629	14,710,927
Changes in operating assets and liabilities:		
Accounts receivable	776,663	(382,717)
Inventories	(26,285)	(53,471)
Prepaid expenses	(1,257)	(31,141)
Other assets	(222,628)	(196,396)
Accounts payable and accrued expenses	(5,324,427)	3,615,032
Customer deposits plus accrued interest	50,920	233,746
Other liabilities	58,044	(49,986)
Net cash provided by operating activities	$ 36,836,466	$ 46,291,631
Noncash capital activities:		
Acquisition of plant assets through developer contributions	$ 271,650	$ 143,980

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

1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners governs KUB. The Board has all powers to construct, acquire, expand, or operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions including setting rates. The Wastewater Division (Division) provides services to certain customers in Knox County and in two surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners (NARUC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Wastewater Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2014 and 2013, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

2. Significant Accounting Policies

Basis of Accounting

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.* Statement No. 34 established standards for external financial reporting for all state and local governmental entities.

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

Recently Adopted New Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62 (Statement No. 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for KUB's fiscal year beginning July 1, 2012. The objective of this Statement is to incorporate into the GASB's authoritative literature certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants' (AICPA) accounting and financial reporting guidance issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

Statement No. 62 supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election to apply FASB statements, related interpretations, Accounting Principles Board opinions and accounting research bulletins issued post-November 30, 1989 that do not conflict with Governmental Accounting Standards. However, FASB pronouncements issued post-November 30, 1989 that do not conflict with or contradict Governmental Accounting Standards can continue to apply as other accounting literature.

In June 2011, the GASB issued Statement No. 63 (Statement No. 63), (*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position,* effective for KUB's fiscal year beginning July 1, 2012. Statement No. 63 amends the net asset reporting requirements in Statement No. 34 and other pronouncements. Under these new standards, financial statements include deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities, and will report *net position* instead of net assets. Statement No. 63 requires the classification of net position into three components – net investment in capital assets; net position-restricted; and net position-unrestricted.

These classifications are defined as follows:

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

- Net position-restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

- Net position-unrestricted – This component of net position consists of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Implementation of Statement No. 63 had no effect on KUB's net position or changes in net position.

In March 2012, the GASB issued Statement No. 65 (Statement No. 65), *Items Previously Reported as Assets and Liabilities*, effective for KUB's fiscal year beginning July 1, 2013; however, KUB early adopted Statement No. 65 effective for the fiscal year beginning July 1, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities. Implementation of Statement No. 65 had no effect on KUB's net position or changes in net position.

Wastewater Plant

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

The provision for depreciation of wastewater plant in service is based on the estimated useful lives of the assets, which range from three to fifty years, and is computed using the straight-line method. Pursuant to NARUC, the caption "Provision for depreciation" in the statements of revenue, expenses and change in net position does not include depreciation for transportation equipment of $228,285 in fiscal year 2014 and $256,165 in fiscal year 2013. Interest costs are expensed as incurred.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of the KUB Wastewater Division. Operating revenue is recorded when the service is rendered, on a cycle basis, and includes an estimate of unbilled revenue. Revenues are reported net of bad debt expense of $209,288 in fiscal year 2014 and $235,922 in fiscal year 2013.

Non-operating Revenue

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

Expense

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

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

Pension Plan

The Division’s employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 10). The Division’s policy is to fund pension cost accrued. As required by GASB Statement No. 27, KUB measures and discloses the annual pension cost on the accrual basis of accounting. At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

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, provision for doubtful accounts, depreciable lives of plant assets, unbilled revenue volumes, pension trust valuations, OPEB trust valuations, insurance liability reserves, and potential losses from contingencies and litigation. Actual results could differ from those estimates.

Restricted and Designated Assets

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

Cash Equivalents

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

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are items previously reported as assets 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 previously reported as liabilities related to the acquisition of assets or related debt which are amortized over the life of the asset or debt. In accordance with Statement No. 62, KUB records debt issuance costs, including discounts and premiums as a deferred outflow or inflow. Likewise, 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.

Compensated Absences

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

Subsequent Events

KUB has evaluated events and transactions through October 24, 2014, the date these financial statements were issued, for items that should potentially be recognized or disclosed.

Reclassifications

Certain reclassifications have been made to fiscal year 2013 balances to conform to fiscal year 2014 presentation.

Recently Issued Accounting Pronouncements

In June 2012, the GASB issued two related Statements that affect accounting and financial reporting of pensions by state and local governments. GASB Statement No. 67 (Statement No. 67), *Financial Reporting for Pension Plans*, is intended to improve financial reporting for state and local government pension plans. GASB Statement No. 68 (Statement No. 68), *Accounting and*

Financial Reporting for Pensions, establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. Statements No. 67 and 68 supersede existing guidance on financial reporting for defined pension plans found in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The objective of this statement is to clarify accounting and financial reporting for pensions. This statement requires governments to recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date of the beginning net pension liability calculated under Statement No. 68.

Statement No. 67 is effective for periods beginning after June 15, 2013 and Statements No. 68 and 71 are effective for periods beginning after June 15, 2014. 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’s investment policy provides the framework for the administration and investment of cash deposits. The investment policy follows 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. KUB’s Agency Bond investments are rated Aaa by Moody’s Investors Service.

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

Classification of deposits and investments per statement of net position:

	2014	**2013**
Current assets		
Cash and cash equivalents	$ 15,413,919	$ 32,911,366
Short-term investments	-	15,000,000
Short-term contingency fund investments	13,875,114	12,955,337
Other assets		
Long-term contingency fund investments	16,432,478	16,307,425
Restricted assets		
Unused bond proceeds	-	206
Wastewater bond fund	7,014,496	7,130,242
Other funds	9,213	11,302
	$ 52,745,220	$ 84,315,878

The above amounts do not include accrued interest of $90,892 in fiscal year 2014 and $72,901 in fiscal year 2013. Interest income is recorded on an accrual basis.

Investments and maturities of KUB's deposits and investments:

	Deposit and Investment Maturities (in Years)		
	Fair Value	**Less Than 1**	**1-5**
Supersweep NOW and Other Deposits	$ 18,394,803	$ 18,394,803	$ -
State Treasurer's Investment Pool	4,945	4,945	-
Agency Bonds	23,149,419	6,721,885	16,427,534
Certificates of Deposits	14,167,724	14,167,724	-
	$ 55,716,891	$ 39,289,357	$ 16,427,534

4. Accounts Receivable

Accounts receivable consists of the following:

	2014	**2013**
Wholesale and retail customers		
Billed services	$ 4,383,501	$ 5,061,661
Unbilled services	3,166,391	3,311,565
Other	740,119	717,571
Allowance for uncollectible accounts	(89,248)	(113,372)
	$ 8,200,763	$ 8,977,425

5. Accounts Payable and Accruals

Accounts payable and accruals were composed of the following:

	2014	2013
Trade accounts	$ 1,303,779	$ 6,898,846
Salaries and wages	186,069	160,257
Self-insurance liabilities	330,289	360,281
Other current liabilities	1,326,023	1,308,796
	$ 3,146,160	$ 8,728,180

6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2013	Additions	Payments	Balance June 30, 2014	Amounts Due Within One Year
2005 A - 4.0 - 5.0%	$ 36,550,000	$ -	$ -	$ 36,550,000	$ -
2005 B - 3.0 - 5.0%	18,680,000	-	1,285,000	17,395,000	1,350,000
2007 - 4.0 - 5.0%	75,000,000	-	-	75,000,000	-
2008 - 4.0 - 6.0%	35,100,000	-	4,125,000	30,975,000	4,300,000
2010 - 6.3 - 6.5%	30,000,000	-	-	30,000,000	-
2010C - 1.18 - 6.1%	67,925,000	-	1,075,000	66,850,000	1,100,000
2012A - 2.0 - 4.0%	17,000,000	-	785,000	16,215,000	800,000
2012B - 1.25 - 5.0%	65,000,000	-	850,000	64,150,000	875,000
2013A - 2.0 - 4.0%	113,340,000	-	425,000	112,915,000	590,000
Total debt	$ 458,595,000	$ -	$ 8,545,000	$ 450,050,000	$ 9,015,000

Other liabilities consist of the following:

	Balance June 30, 2013	Increase	Decrease	Balance June 30, 2014	Amounts Due Within One Year
Accrued compensated absences	$ 1,385,951	$ 3,038,346	$ (2,780,755)	$ 1,643,542	$ 500,000
Customer advances for construction	321,000	-	(9,000)	312,000	-
Other	25,331	282,512	(224,467)	83,376	15,000
	$ 1,732,282	$ 3,320,858	$ (3,014,222)	$ 2,038,918	$ 515,000

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

Fiscal Year	Principal	Total Interest	Grand Total
2015	$ 9,015,000	$ 19,042,584	$ 28,057,584
2016	9,465,000	18,635,744	28,100,744
2017	9,905,000	18,266,269	28,171,269
2018	10,320,000	17,879,661	28,199,661
2019	10,750,000	17,484,385	28,234,385
2020-2024	60,835,000	80,238,372	141,073,372
2025-2029	64,795,000	66,779,665	131,574,665
2030-2034	76,190,000	53,623,366	129,813,366
2035-2039	93,725,000	37,473,419	131,198,419
2040-2044	84,700,000	16,456,525	101,156,525
2045-2047	20,350,000	1,260,000	21,610,000
Total	$ 450,050,000	$ 347,139,990	$ 797,189,990

The Division has pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet bond principal and interest payments when due. The bond covenants relating to the Wastewater Revenue Bonds require the establishment of a Wastewater Bond Fund for the payment of principal and interest requirements. As of June 30, 2014, those bond covenants had been satisfied.

During fiscal year 2006, KUB's Wastewater Division issued Series 2005A bonds for the purpose of funding wastewater system capital improvements and to pay off a previously issued revenue anticipation note (line of credit), which was used to fund capital improvements to the wastewater system. KUB's Wastewater Division also issued Series 2005B bonds in part to retire certain existing debt and fund wastewater system capital improvements. Concurrent with the issuance of these bonds, KUB transferred funds to an irrevocable trust to pay a portion of the Series 1998 bonds and Series 2001A bonds, as such amounts mature.

During fiscal year 2008, KUB's Wastewater Division issued Series 2007 bonds in part to pay off the outstanding balance on a previously issued revenue anticipation note (line of credit), and to fund wastewater system capital improvements.

During fiscal year 2009, KUB's Wastewater Division issued Series 2008 bonds to fund wastewater system capital improvements.

During fiscal year 2010, KUB's Wastewater Division issued Series 2010 bonds to fund capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change. KUB's Wastewater Division also issued Series 2010B bonds to retire Series 2001 bonds.

During fiscal year 2011, KUB's Wastewater Division issued Series 2010C bonds to fund wastewater system capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration.

The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change.

During fiscal year 2012, KUB's Wastewater Division issued Series 2012A bonds to retire Series 2004A bonds.

During fiscal year 2013, KUB's Wastewater Division issued Series 2012B bonds to fund wastewater system capital improvements. KUB's Wastewater Division also issued Series 2013A bonds to retire a portion of outstanding Series 2005A bonds.

In prior years, certain wastewater revenue bonds were defeased by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the liability for the defeased bonds, $120.8 million at June 30, 2014, and the trust account assets are not included in the financial statements.

7. Lease Commitments

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

2015	$ 11,961
2016	4,314
2017	450
Total operating minimum lease payments	$ 16,725

8. Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning 6/30/2013	Increase	Decrease	Ending 06/30/2014
Pumping & Treatment Plant	$ 176,026,267	$ 28,044,422	$ (1,192,936)	$ 202,877,753
Collection Plant				
Mains and Metering	424,450,701	38,900,383	(12,812,176)	450,538,908
Other Accounts	77,035,027	3,397,197	(20,500)	80,411,724
Total Collection Plant	$ 501,485,728	$ 42,297,580	$ (12,832,676)	$ 530,950,632
Total General Plant	22,621,810	1,986,923	(304,857)	24,303,876
Total Wastewater Plant	$ 700,133,805	$ 72,328,925	$ (14,330,469)	$ 758,132,261
Less accumulated depreciation	(149,819,959)	(15,995,754)	14,207,118	(151,608,595)
Net Plant Assets	$ 550,313,846	$ 56,333,171	$ (123,351)	$ 606,523,666
Work In Progress	67,819,773	40,309,184	(72,351,006)	35,777,951
Total Net Plant	$ 618,133,619	$ 96,642,355	$ (72,474,357)	$ 642,301,617

9. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. At June 30, 2014, the amount of these liabilities was $330,289 resulting from the following changes:

	2014	**2013**
Balance, beginning of year	$ 360,281	$ 341,126
Current year claims and changes in estimates	2,524,750	2,612,176
Claims payments	(2,554,742)	(2,593,021)
Balance, end of year	$ 330,289	$ 360,281

10. Pension Plan

Description of Plan

The Plan is a single-employer contributory, defined benefit pension plan established by Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville § 1107(J). The Plan is designed to provide retirement, disability and death benefits. The Plan is a governmental plan as defined by the Employee Retirement Income Security Act of 1974, is not subject to any of the provisions of the Act, and was revised January 1, 2014 to include all prior approved amendments.

At December 31, 2013, the Plan had approximately 639 retirees and beneficiaries currently receiving benefits and 49 terminated employees entitled to benefits but not yet receiving them. Of the approximately 778 current employees in the Plan, 743 were fully vested at December 31, 2013. 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 froze the Plan such that persons employed or re-employed by KUB on or after January 1, 2011, shall not be 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 Plan.

The Plan provides three different benefit arrangements for KUB participants, retirees, and beneficiaries, as follows:

Career Equity Program (CEP)

CEP is for eligible employees hired on or after January 1, 1999, and for eligible former City Division Plan A members who elected CEP coverage as of July 1, 1999. CEP is a closed plan.

All eligible employees became participants on the date of his/her KUB employment. Participants are covered by Social Security. Participation in CEP does not require or permit employee contributions.

Plan A
Plan A benefits are for former City Division Plan A active employees, vested terminated employees, retirees, and beneficiaries. Plan A is a closed plan.

All employees participating in the City Division Plan A as of June 30, 1999 were eligible to participate in KUB's Plan A or the CEP program. Participants of Plan A are covered by Social Security. Plan A is a closed plan and is not available to KUB employees hired after July 1999. Participation in Plan A requires employee contributions of 3 percent of the first $4,800 of annual earnings and 5 percent of annual earnings in excess of $4,800. Plan A provides for early retirement benefits with 25 years of service and normal retirement benefits at age 62 or older.

Plan B
Plan B benefits are for former City Division Plan B active employees, vested terminated employees, retirees, and beneficiaries. Plan B is a closed plan.

All employees participating in the City Division Plan B as of June 30, 1999, are eligible to participate in KUB's Plan B. Plan B is now a closed plan and no participants can be added. Participants of Plan B are not covered by Social Security. Participation in Plan B requires employee contributions of 4 percent of annual earnings. Plan B provides for retirement benefits after 25 years of service and the attainment of age 50.

Funding Policy

For the Plan year ended December 31, 2013, a contribution of $6,314,399 will be made in the Plan sponsor's fiscal year ending June 30, 2015. The Wastewater Division's portion of this contribution is $1,326,024. The contribution was determined as part of the January 1, 2013 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. For the Plan year ended December 31, 2013, the Plan's actuarial funded ratio was 89.3 percent.

At the time the funding method is introduced, there is a liability, which represents the contributions that would have been accumulated if this method of funding had always been used. The excess, if any, of this liability over the actuarial value of the assets held in the fund, is the unfunded actuarial accrued liability, which is typically funded over a chosen period in accordance with an amortization schedule.

Significant actuarial assumptions used in the valuation include (a) rate of return of investments of 8 percent, (b) the RP2000 Mortality Table, (c) annual projected salary increases based on participants' ages ranging from age 25 to age 65 with salary increases from 2.58 percent to 7.92 percent, and (d) cost of living adjustment of 2.8 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period.

As of the actuarial report for the Plan year ended December 31, 2013, contributions of $6,314,399 and $5,502,677 for 2013 and 2012, respectively, will be made during the Plan sponsor's fiscal years ending June 30, 2015 and 2014, respectively. Of these amounts, $1,326,024 and $1,155,562 are attributable to the Wastewater Division.

Subsequent to June 30, 2014, the actuarial valuation for the Plan year ending December 31, 2014 was completed. The actuarial valuation resulted in an actuarially determined contribution of $5,669,380 for the fiscal year ending June 30, 2016, based on the Plan's current funding policy. The Wastewater Division's portion of this contribution is $1,190,570. For the Plan year ending

December 31, 2014, the Plan's actuarial funded ratio was 94.6 percent. See Required Supplementary Information for Pension Schedule of Funding Progress.

11. Defined Contribution Plan

KUB has a defined contribution 401(k) employee retirement savings plan covering eligible KUB employees. Employees hired prior to January 1, 2011 may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. Employees hired on or after January 1, 2011 have an enhanced 401(k) Plan due to the closure of the Defined Benefit Pension Plan. They may participate and receive a matching contribution of 50 percent of their own contribution up to a maximum match of 3 percent. They also receive a nonelective KUB contribution of from 3 percent to 6 percent, depending on years of service, whether they contribute or not.

Since July 1, 2000, 401(k) matching contributions for employees eligible to participate in the KUB Pension Plan have been funded by the Pension Plan. These funds are held by the Pension trustee until eligible for distribution. IRS rules permit the funding of 401(k) matching contributions from excess pension assets for employees covered under the Pension Plan. Given the current funding level of the Pension Plan, effective July 1, 2011, KUB began to reimburse the Pension Plan for the current matching contributions. The match and nonelective contributions for employees hired on or after January 1, 2011 are paid directly by KUB.

12. Other Post-Employment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) established new standards for the measurement, recognition, and reporting of other post-employment benefits (OPEB). OPEB includes post-employment benefits other than pension, which, for KUB, is presently limited to post-employment health care. GASB Statement No. 45 (Statement No. 45) requires the recognition of the accrued OPEB liability for the respective year, plus the disclosure of the total unfunded liability. Statement No. 45 was effective for KUB for the fiscal year beginning July 1, 2007.

KUB currently provides post-employment health care benefits to 604 former employees and 619 covered dependents. The cost of coverage is shared with retirees and beneficiaries. KUB recognizes its share of the cost of post-employment health care benefits as an expense as claims are paid.

In anticipation of Statement No. 45, KUB amended its Group Health Plan in 1999, eliminating post-employment health care benefits for all employees hired on or after July 1, 1999. As of June 30, 2014, 399 active employees were eligible for individual and dependent coverage at separation. To qualify, the employee must meet the Rule of 80 (age plus years of service) with a minimum of 20 years of service, and be enrolled in medical coverage on their last day.

In May 2006, the state of Tennessee adopted Tennessee Code Annotated, Title 8, Chapter 50, Part 12 authorizing governmental entities to establish Trusts for the purpose of pre-funding their respective OPEB liabilities.

Although Statement No. 45 does not require pre-funding of the liability, KUB has determined that it is in the long-term economic interest of KUB and its ratepayers to establish a Trust to pre-fund KUB's OPEB liability.

In October 2007, the KUB Board authorized the establishment of an OPEB Trust. 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.

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.

The general administration and responsibility for the proper operation of the Trust is governed by a Board of Trustees, appointed by KUB's President & CEO. 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.

Total contributions to the OPEB Trust for the fiscal year ended June 30, 2014 were $4,057,091 (Division's share $851,989). The contribution to the Trust exceeded the annual actuarially determined contribution, as determined by the Postretirement Benefit Plan's actuarial valuation for the year ended December 31, 2012, which was $3,327,412 (Division's share $698,756). As of June 30, 2014, the employer's OPEB obligation has been exceeded by $177,322 (Division's share $37,238).

The actuarially determined contribution for the fiscal year ending June 30, 2015, as determined by the Plan's actuarial valuation for the year ended December 31, 2013 is $3,497,372 (Division's share $734,448).

The actuarial valuation for the Plan for the year ending December 31, 2014 has been completed. The valuation determined that the Plan's actuarial accrued liability was $46,889,808 (Division's share $9,846,860). The actuarial value of the Plan's assets was $43,409,955 (Division's share $9,116,091). As a result, the Plan's unfunded actuarial accrued liability was $3,479,853 (Division's share $730,769). The Plan's actuarial funded ratio was 93 percent. The valuation also determined that the employer's actuarially determined contribution is $953,221 for the fiscal year ending June 30, 2016 (Division's share $200,176). See Required Supplementary Information for OPEB Schedule of Funding Progress.

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13. Related Party Transactions

The Division, in the normal course of operations, is involved in transactions with the City of Knoxville and with other divisions of KUB. Such transactions for the years ended June 30, 2014 and 2013 are summarized as follows:

	2014	**2013**
City of Knoxville		
Amounts billed by the Division for utilities and related services	$ 816,084	$ 799,852
Payments by the Division in lieu of property tax	3,373,076	3,182,147
Payments by the Division for services provided	1,024,176	216,857
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	365,806	318,800
Interdivisional rental expense	283,101	166,589
Interdivisional rental income	86,602	110,666
Amounts billed to the Division by other divisions for utilities services provided	3,125,483	3,173,199

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

	2014	**2013**
Accounts receivable	$ 40,190	$ 64,001

14. Other Commitments and Contingencies

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

In February 2005, a Consent Decree was entered into federal court regarding the operation of KUB’s wastewater system. Under the terms of the Consent Decree, the remediation of identified sanitary sewer overflows (“SSOs”) on KUB’s wastewater system must be completed by June 30, 2016. Through its PACE 10 program, KUB is addressing the terms of the Consent Decree. PACE 10 is an accelerated ten-year program to help improve Knoxville’s waterways, the quality of life, and the economic well being of the community. The Consent Decree also required KUB to perform an evaluation of the wet-weather performance and capacity of its wastewater treatment plants.

In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB’s Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent

Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provides for a biologically enhanced high-rate clarification (the "BEHRC") secondary treatment system to be installed at the Fourth Creek treatment plant by June 30, 2018, and at the Kuwahee treatment plant by June 30, 2021. The total cost of such improvements is estimated to be approximately $120 million.

KUB's funding plan for the Consent Decree includes long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2014, the Wastewater Division had issued $425 million in bonds to fund system capital improvements since the inception of the Consent Decree. The KUB Board of Commissioners approved two 50 percent rate increases, which went into effect in April 2005 and January 2007, respectively. The Board also approved an 8 percent rate increase, which was effective in September 2008, and two 12 percent rate increases, which were effective in April 2011 and October 2012, respectively. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

KUB completed its tenth full year of wastewater operations under the requirements of the federal Consent Decree. All collection system projects required under the federal Consent Decree were completed as of June 30, 2014.

Knoxville Utilities Board Wastewater Division

Required Supplementary Information – Schedule of Funding Progress

June 30, 2014

(Unaudited)

Pension Plan

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
January 1, 2010	$ 203,704,898	$ 190,679,453	$ (13,025,445)	106.8%	$ 48,228,428	(27.01%)
January 1, 2011	195,692,781	187,257,434	(8,435,347)	104.5%	47,405,874	(17.79%)
January 1, 2012	183,980,665	195,536,152	11,555,487	94.1%	48,836,721	23.66%
January 1, 2013	175,936,548	197,049,614	21,113,066	89.3%	47,553,598	44.40%
January 1, 2014	188,770,336	199,515,466	10,745,130	94.6%	47,107,350	22.81%

Other Post-Employment Benefits (OPEB)

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
January 1, 2008	$ -	$ 108,329,141	$ 108,329,141	0%	$ 31,234,509	346.8%
January 1, 2009	14,593,487	100,726,738	86,133,251	14%	31,846,091	270.5%
January 1, 2010	21,275,643	58,475,364	37,199,721	36%	30,069,028	123.7%
January 1, 2011	40,749,815	64,289,254	23,539,439	63%	28,878,791	81.5%
January 1, 2012	37,907,357	61,603,466	23,696,109	62%	28,269,123	83.8%
January 1, 2013	38,571,803	63,341,531	24,769,728	61%	27,566,340	89.9%
January 1, 2014	43,409,955	46,889,808	3,479,853	93%	26,724,154	13.0%

Knoxville Utilities Board Wastewater Division
Supplemental Information –
Schedule of Expenditures of Federal Awards by Grant
June 30, 2014

Schedule 1

KUB was awarded two grants from Tennessee Emergency Management Agency (as a flow through from FEMA) for reimbursement for costs related to storms in 2011. The schedule below shows the activities for the current fiscal year.

Program Name	Federal/State Agency	CFDA Number	Contract Number	Beginning Receivable	Cash Receipts	Expenditures	Adjustments	Ending Receivable
U.S. Department of Homeland Security	Tennessee Emergency Management	97.036	34101-0000009205	$ 71,278	$ -	$ -	$ -	$ 71,278
U.S. Department of Homeland Security	Tennessee Emergency Management	97.036	34101-0000009832	$ 2,167	$ -	$ -	$ -	$ 2,167
		Total Program 97.036		$ 73,445	$ -	$ -	$ -	$ 73,445
		Total Federal Awards		$ 73,445	$ -	$ -	$ -	$ 73,445

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Knoxville Utilities Board and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Knoxville Utilities Board Wastewater Division
Supplemental Information - Schedule of Insurance in Force
June 30, 2014
(Unaudited) Schedule 2

Insurance coverage is for KUB as a consolidated entity.

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

Directors' and Officers' Liability Insurance
Covers KUB personnel appropriately authorized to make decisions on behalf of KUB (including but not limited to Commissioners, President and CEO, Senior Vice Presidents, Vice Presidents, and Directors) for wrongful acts. Limits of coverage - $20,000,000; $1,000,000 corporate deductible, $0 individual deductible.

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

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

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

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

Travel Accident
Covers losses related to employees' business travel. Limits of coverage - $1,500,000 aggregate.

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

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

Employee Health Plan Stop Loss Coverage
KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses in excess of $400,000 per individual participant.

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Debt Maturities by Fiscal Year
June 30, 2014

Schedule 3

Continued on Next Page

	2005A		2005B		2007		2008		2010		
FY	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Rebate*
14-15	$	$ 1,462,000	$ 1,350,000	$ 744,085	$	$ 3,463,013	$ 4,300,000	$ 1,637,938	$	$ 1,910,000	$ 668,500
15-16		1,462,000	1,410,000	676,585		3,463,013	4,450,000	1,379,938		1,910,000	668,500
16-17		1,462,000	1,470,000	620,185		3,463,013	4,600,000	1,157,438		1,910,000	668,500
17-18		1,462,000	1,525,000	561,385	2,725,000	3,463,013	1,950,000	927,438		1,910,000	668,500
18-19		1,462,000	1,595,000	498,860	2,900,000	3,354,012	2,025,000	829,938		1,910,000	668,500
19-20		1,462,000	1,655,000	433,066	3,125,000	3,234,387	2,075,000	723,625		1,910,000	668,500
20-21		1,462,000	1,725,000	363,556	3,175,000	3,101,575	2,150,000	619,875		1,910,000	668,500
21-22		1,462,000	1,800,000	290,244	3,300,000	2,962,669	2,225,000	507,000		1,910,000	668,500
22-23		1,462,000	1,880,000	212,844	3,525,000	2,817,469	2,300,000	395,750		1,910,000	668,500
23-24		1,462,000	695,000	130,594	1,125,000	2,658,843	2,400,000	269,250		1,910,000	668,500
24-25		1,462,000	730,000	100,188	1,175,000	2,608,219	2,500,000	131,250		1,910,000	668,500
25-26		1,462,000	765,000	68,250	1,225,000	2,555,344				1,910,000	668,500
26-27		1,462,000	795,000	34,781	1,300,000	2,498,688				1,910,000	668,500
27-28		1,462,000			1,225,000	2,438,562				1,910,000	668,500
28-29		1,462,000			1,275,000	2,381,906				1,910,000	668,500
29-30		1,462,000			1,300,000	2,322,938				1,910,000	668,500
30-31		1,462,000			1,375,000	2,262,812				1,910,000	668,500
31-32		1,462,000			1,400,000	2,200,938				1,910,000	668,500
32-33		1,462,000			1,475,000	2,137,938				1,910,000	668,500
33-34		1,462,000			1,550,000	2,067,875				1,910,000	668,500
34-35		1,462,000			1,625,000	1,998,125				1,910,000	668,500
35-36		1,462,000			1,700,000	1,925,000				1,910,000	668,500
36-37		1,462,000			1,800,000	1,848,500				1,910,000	668,500
37-38	11,600,000	1,462,000			1,850,000	1,767,500				1,910,000	668,500
38-39	12,175,000	998,000			1,825,000	1,684,250				1,910,000	668,500
39-40	12,775,000	511,000			1,825,000	1,602,125				1,910,000	668,500
40-41					15,200,000	1,520,000				1,910,000	668,500
41-42					16,000,000	760,000				1,910,000	668,500
42-43									10,000,000	1,910,000	668,500
43-44									10,000,000	1,260,000	441,000
44-45									10,000,000	630,000	220,500
45-46											
46-47											
Total	$ 36,550,000	$ 36,597,000	$ 17,395,000	$ 4,734,623	$ 75,000,000	$ 68,561,727	$ 30,975,000	$ 8,579,440	$ 30,000,000	$ 57,280,000	$ 20,048,000

*Series 2010 and 2010c bonds were issued as federally taxable Build America Bonds. KUB will receive a 35 percent interest rebate payment from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change.

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Debt Maturities by Fiscal Year
June 30, 2014

Schedule 3

Continued from Previous Page

	2010C			2012A		2012B		2013A		TOTALS		Grand Total (P + I)	Grand Total (Less Rebates)
FY	**Principal**	**Interest**	**Rebate***	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**		
14-15	$ 1,100,000	$ 3,704,060	$ 1,296,422	$ 800,000	$ 587,925	$ 875,000	$ 1,952,563	$ 590,000	$ 3,581,000	$ 9,015,000	$ 19,042,584	$ 28,057,584	$ 26,092,662
15-16	1,250,000	3,673,920	1,285,872	820,000	571,925	925,000	1,935,063	610,000	3,563,300	9,465,000	18,635,744	28,100,744	26,146,372
16-17	1,400,000	3,634,545	1,272,090	840,000	551,425	975,000	1,916,563	620,000	3,551,100	9,905,000	18,266,269	28,171,269	26,230,679
17-18	1,500,000	3,584,425	1,254,548	985,000	528,325	1,000,000	1,904,375	635,000	3,538,700	10,320,000	17,879,661	28,199,661	26,276,613
18-19	1,550,000	3,525,625	1,233,968	970,000	498,775	1,050,000	1,891,875	660,000	3,513,300	10,750,000	17,484,385	28,234,385	26,331,917
19-20	1,600,000	3,460,990	1,211,346	950,000	467,250	1,100,000	1,878,750	685,000	3,486,900	11,190,000	17,056,968	28,246,968	26,367,122
20-21	1,650,000	3,394,270	1,187,994	1,085,000	434,000	1,150,000	1,862,250	710,000	3,459,500	11,645,000	16,607,026	28,252,026	26,395,532
21-22	1,700,000	3,325,465	1,163,912	1,175,000	390,600	1,200,000	1,804,750	740,000	3,431,100	12,140,000	16,083,828	28,223,828	26,391,416
22-23	1,750,000	3,246,925	1,136,424	1,165,000	343,600	1,250,000	1,744,750	770,000	3,401,500	12,640,000	15,534,838	28,174,838	26,369,914
23-24	1,850,000	3,162,575	1,106,902	1,250,000	297,000	1,300,000	1,694,750	4,600,000	3,370,700	13,220,000	14,955,712	28,175,712	26,400,310
24-25	1,950,000	3,065,450	1,072,908	1,140,000	247,000	1,375,000	1,642,750	4,900,000	3,232,700	13,770,000	14,399,557	28,169,557	26,428,149
25-26	2,375,000	2,961,125	1,036,394	1,190,000	201,400	1,425,000	1,587,750	5,040,000	3,085,700	12,020,000	13,831,569	25,851,569	24,146,675
26-27	2,500,000	2,830,738	990,758	1,235,000	153,800	1,500,000	1,530,750	5,200,000	2,934,500	12,530,000	13,355,257	25,885,257	24,225,999
27-28	2,600,000	2,688,488	940,970	1,280,000	104,400	1,575,000	1,470,750	6,305,000	2,778,500	12,985,000	12,852,700	25,837,700	24,228,230
28-29	2,725,000	2,536,388	887,736	1,330,000	53,200	1,625,000	1,423,500	6,535,000	2,573,588	13,490,000	12,340,582	25,830,582	24,274,346
29-30	2,850,000	2,376,975	831,942			1,700,000	1,374,750	8,315,000	2,377,538	14,165,000	11,824,201	25,989,201	24,488,759
30-31	2,975,000	2,210,250	773,588			1,775,000	1,323,750	8,550,000	2,128,088	14,675,000	11,296,900	25,971,900	24,529,812
31-32	3,100,000	2,031,750	711,112			1,875,000	1,270,500	8,840,000	1,871,588	15,215,000	10,746,776	25,961,776	24,582,164
32-33	3,250,000	1,845,750	646,012			1,950,000	1,214,250	9,120,000	1,606,388	15,795,000	10,176,326	25,971,326	24,656,814
33-34	3,375,000	1,650,750	577,762			2,025,000	1,155,750	9,390,000	1,332,788	16,340,000	9,579,163	25,919,163	24,672,901
34-35	3,550,000	1,448,250	506,882			2,125,000	1,095,000	9,705,000	1,015,875	17,005,000	8,929,250	25,934,250	24,758,868
35-36	3,700,000	1,235,250	432,338			2,225,000	1,031,250	10,025,000	688,331	17,650,000	8,251,831	25,901,831	24,800,993
36-37	3,875,000	1,009,550	353,342			2,325,000	964,500	10,370,000	349,988	18,370,000	7,544,538	25,914,538	24,892,696
37-38	4,050,000	773,175	270,612			2,425,000	894,750			19,925,000	6,807,425	26,732,425	25,793,313
38-39	4,225,000	526,125	184,144			2,550,000	822,000			20,775,000	5,940,375	26,715,375	25,862,731
39-40	4,400,000	268,400	93,940			2,650,000	745,500			21,650,000	5,037,025	26,687,025	25,924,585
40-41						2,775,000	666,000			17,975,000	4,096,000	22,071,000	21,402,500
41-42						2,900,000	582,750			18,900,000	3,252,750	22,152,750	21,484,250
42-43						3,025,000	495,750			13,025,000	2,405,750	15,430,750	14,762,250
43-44						3,150,000	405,000			13,150,000	1,665,000	14,815,000	14,374,000
44-45						3,300,000	310,500			13,300,000	940,500	14,240,500	14,020,000
45-46						3,450,000	211,500			3,450,000	211,500	3,661,500	3,661,500
46-47						3,600,000	108,000			3,600,000	108,000	3,708,000	3,708,000
Total	$ 66,850,000	$ 64,171,214	$ 22,459,918	$ 16,215,000	$ 5,430,625	$ 64,150,000	$ 40,912,689	$ 112,915,000	$ 60,872,672	$ 450,050,000	$ 347,139,990	$ 797,189,990	$ 754,682,072

*Series 2010 and 2010c bonds were issued as federally taxable Build America Bonds. KUB will receive a 35 percent interest rebate payment from the United States Government for each interest payment. Effective March 1, 2013 these bonds became subject to a 7.2% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change.

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Current Rates in Force
June 30, 2014
(Unaudited)

Schedule 4

Rate Class	Base Charge	Number of Customers
Residential Inside City rate	For wastewater service furnished to premises entirely within the corporate limits of the City of Knoxville:	54,366

Commodity Charge

First	0 to 2	100 Cubic Feet Per Month at $0.70 Per 100 Cubic Feet
Over	2	100 Cubic Feet Per Month at $8.70 Per 100 Cubic Feet

Additional Monthly Customer Charge

5/8" meter	$ 20.00
1" meter	35.00
1 1/2" meter	47.00
2" meter	67.00

Rate Class	Base Charge	Number of Customers
Non-Residential Inside City rate	For wastewater service furnished to premises entirely within the corporate limits of the City of Knoxville:	8,768

Commodity Charge

First	0 to 2	100 Cubic Feet Per Month at $0.70 Per 100 Cubic Feet
Next	8	100 Cubic Feet Per Month at $9.30 Per 100 Cubic Feet
Next	90	100 Cubic Feet Per Month at $8.30 Per 100 Cubic Feet
Next	300	100 Cubic Feet Per Month at $7.10 Per 100 Cubic Feet
Next	4,600	100 Cubic Feet Per Month at $5.80 Per 100 Cubic Feet
Next	5,000	100 Cubic Feet Per Month at $4.30 Per 100 Cubic Feet

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Current Rates in Force
June 30, 2014
(Unaudited)

Schedule 4

Additional Monthly Customer Charge

5/8" meter	$ 20.00
1" meter	35.00
1 1/2" meter	47.00
2" meter	67.00
3" meter	116.00
4" meter	189.00
6" meter	403.00
8" meter	700.00
10" meter	1,061.00
12" meter	1,564.00

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Current Rates in Force
June 30, 2014
(Unaudited)
Schedule 4

Rate Class	Base Charge	Number of Customers
Residential Outside City rate	For wastewater service furnished to premises entirely or partly outside the corporate limits of the City of Knoxville:	7,432

Commodity Charge

First	0 to 2	100 Cubic Feet Per Month at $0.85 Per 100 Cubic Feet
Over	2	100 Cubic Feet Per Month at $9.30 Per 100 Cubic Feet

Additional Monthly Customer Charge

5/8" meter	$	24.00
1" meter		38.00
1 1/2" meter		55.00
2" meter		75.00

Rate Class	Base Charge	Number of Customers
Non-Residential Outside City rate	For wastewater service furnished to premises entirely or partly outside the corporate limits of the City of Knoxville:	517

Commodity Charge

First	0 to 2	100 Cubic Feet Per Month at $0.85 Per 100 Cubic Feet
Next	8	100 Cubic Feet Per Month at $10.30 Per 100 Cubic Feet
Next	90	100 Cubic Feet Per Month at $9.10 Per 100 Cubic Feet
Next	300	100 Cubic Feet Per Month at $7.80 Per 100 Cubic Feet
Next	4,600	100 Cubic Feet Per Month at $6.50 Per 100 Cubic Feet
Next	5,000	100 Cubic Feet Per Month at $4.80 Per 100 Cubic Feet

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Current Rates in Force
June 30, 2014
(Unaudited)

Schedule 4

Additional Monthly Customer Charge

5/8" meter	$ 24.00
1" meter	38.00
1 1/2" meter	55.00
2" meter	75.00
3" meter	131.00
4" meter	209.00
6" meter	442.00
8" meter	771.00
10" meter	1,164.00
12" meter	1,718.00

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• Business Advisors

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Independent Auditors' 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*

To the Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Knoxville Utilities Board ("KUB", (an independent agency reported as a component unit for financial purposes only) of Knoxville, Tennessee, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements, and have issued our report thereon dated October 24, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered KUB's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
October 24, 2014