



Consolidated

Financial Statements and Supplemental Information June 30, 2022 and 2021

KUB Board of Commissioners

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Knoxville Utilities Board

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Independent Auditor's Report

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Knoxville Utilities Board (KUB), a component unit of the City of Knoxville, Tennessee, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements as listed in the index.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of KUB as of June 30, 2022 and 2021, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective July 1, 2020, KUB adopted new accounting guidance Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 28 and the required supplementary information on pages 75 through 79 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Knoxville Utilities Board
Knoxville, Tennessee

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2022, on our consideration of KUB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KUB's internal control over financial reporting and compliance.

Coulter & Justus, P.C.

Knoxville, Tennessee
October 25, 2022

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2022 and 2021

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

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

The Management Discussion and Analysis (MD&A) focuses on the fiscal year ended June 30, 2022, activities, resulting changes and current known facts, and should be read in conjunction with KUB's consolidated financial statements.

Consolidated Highlights

System Highlights

As KUB returned to normal operations this fiscal year, supply chain issues and workforce shortages continued to impact capital projects. While some projects were delayed, others were held until supplies were more readily available. However, KUB's ability to serve its customers has remained strong throughout.

As of June 30, 2022, KUB served 478,140 customers. KUB added 4,786 new customers in fiscal year 2022, representing growth of one percent.

KUB's electric system had a strong year for reliability with only 1.89 hours of service interruption for the average customer in fiscal year 2022 compared to 1.83 hours in fiscal year 2021. Favorable weather conditions and the deployment of automated technologies, including Fault Location, Isolation, and Service Restoration (FLISR) devices, were both integral to the year's performance.

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

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

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

During fiscal year 2022, KUB sold \$56.8 million in revenue bonds for the purpose of funding system expenditures and sold \$65.3 million in revenue refunding bonds for the purpose of refinancing existing revenue bonds at lower interest rates. KUB will realize a total debt service savings of \$4 million over the life of the bonds (\$2.4 million on a net present value basis).

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2022 and 2021

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

KUB's natural gas system was named to the American Public Gas Association's (APGA) System Operational Achievement Recognition (SOAR) Program in 2018, reflecting KUB's focus on system integrity, continuous improvement, safety, and employee development. KUB is a Gold level winner and remains a member of the program through 2023. KUB was recognized as a Safety Contest Winner for calendar year 2021 by APGA. The 2022 Excellence in Environmental Stewardship Award by APGA was also awarded to KUB.

KUB's treatment plants continue to meet high standards of operation. KUB was awarded the National Association of Clean Water Agencies (NACWA) Peak Performance recognition for all Wastewater Treatment Plants in calendar year 2021. Fourth Creek, Loves Creek, and Eastbridge Wastewater Treatment Plants won silver awards, while Kuwahee won gold.

KUB continued to maintain Platinum certification with the National Biosolids Partnership following a rigorous review process and independent audit that was conducted in December 2021. Biosolids are nutrient-rich organic matter produced by wastewater treatment and is a registered fertilizer with the Tennessee Department of Agriculture.

Century II Infrastructure Program

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

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

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

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

In June 2022, the Board approved the next phase of water and wastewater rate increases to support the Century II program. The three approved 5 percent water rate increases are effective July 2022, July 2023, and July 2024, and will generate \$3 million, \$3.2 million, and \$3.4 million in additional annual Water Division revenue, respectively. The three approved 4 percent wastewater rate increases are effective July 2022, July 2023, and July 2024, and will generate \$3.9 million, \$4 million, and \$4.2 million in additional annual Wastewater Division revenue, respectively.

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2022 and 2021

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

For the fiscal year, KUB stayed on track with its overall Century II capital budget and production goals. The electric system replaced 1,360 poles and 6.6 miles of transmission lines. In the natural gas system, 9.1 miles of gas steel main were replaced. In the water system, 4.2 miles of galvanized water main and 5.7 miles of cast iron water main were replaced. In the wastewater system, 8.9 miles of main were rehabilitated or replaced.

Fiber Network

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

After gaining the required approvals from TVA, the State of Tennessee, KUB's Board and City Council, KUB launched its new Fiber Division. Broadband services will be provided by a high-speed fiber optic network that will be owned and maintained by the Electric Division. The Fiber Division will share in the cost to build and operate the Fiber network by paying the Electric Division an annual access fee based on the year end value of those assets and the related expenses. The Fiber Division will also pay the Electric Division an annual utilization fee based on attachments to the network. In addition to providing broadband services, the fiber network will allow KUB to implement new advanced technologies to improve the reliability of its electric system. In August 2021, the Board authorized the first \$10 million loan of a proposed \$35 million loan from the Electric Division to the Fiber Division. The interdivisional loan was approved by TVA and was initiated in October 2021. In fiscal year 2022, KUB began the seven-year buildout on extending fiber infrastructure to make broadband service available to electric customers. The first broadband customers will begin receiving service in fiscal year 2023.

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

Consent Decree

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

The Consent Decree also required KUB to perform an evaluation of the wet weather performance and capacity of its wastewater treatment plants. In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB's Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior

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Management's Discussion and Analysis

June 30, 2022 and 2021

assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provided for a biologically enhanced high-rate clarification (the BEHRC) secondary treatment system to be installed at the Fourth Creek treatment plant and at the Kuwahee treatment plant. KUB successfully completed the installation of the BEHRC system at the Fourth Creek treatment plant in the 2018 fiscal year. The project at the Kuwahee treatment plant was completed this fiscal year. The total cost of the CCP improvements at the Fourth Creek treatment plant and Kuwahee treatment plant was approximately \$120 million.

KUB's funding plan for the Consent Decree included long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all types of wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2022, the Wastewater Division had issued \$594.8 million in bonds to fund wastewater system capital improvements since the inception of the Consent Decree. The Board approved two 50 percent rate increases, which went into effect in April 2005 and January 2007. The Board also approved an 8 percent rate increase, which was effective in September 2008, two 12 percent rate increases, which were effective in April 2011 and October 2012, three 6 percent rate increases, which were effective October 2014, October 2015, and October 2016, three 5 percent rate increases, which were effective July 2017, July 2018, and July 2019, and three 4 percent rate increases, which are effective July 2022, July 2023, and July 2024. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

KUB successfully completed the first cycle of Maintenance Operation Management (MOM) requirements one year before the deadline by inspecting manholes and gravity mains, smoke testing gravity mains, performing required inspections of pump stations and the related force mains, and completing all Corrective Action Plan/Engineering Report (CAP/ER) projects. KUB initiated the second MOM cycle that continues to focus on the prevention of SSOs. As part of the Century II initiative, formally known as the PACE10 program, KUB has installed storage tanks providing 34 million gallons of wastewater storage to control wet weather overflows and rehabilitated or replaced 432 miles of collection system pipe. KUB also continues to maintain a proactive operations and maintenance plan for the wastewater collection system including inspection, grease control, and private lateral enforcement. The result of the PACE10/Century II initiative has been an 80 percent reduction in SSOs.

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

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

Financial Highlights

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

Fiscal Year 2022 Compared to Fiscal Year 2021

KUB's consolidated Change in Net Position increased \$77.8 million in fiscal year 2022. Comparatively, net position increased by \$75.5 million in fiscal year 2021.

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2022 and 2021

Operating revenue increased \$83.5 million as a result of the flow through of higher energy costs in KUB's rates and increased sales volumes across all divisions. Purchased energy expense (power and natural gas) increased \$70 million or 15.8 percent, the combined effect of a \$44.1 million increase in purchased power cost and a \$25.9 million increase in purchased gas cost. Margin from sales (operating revenue less purchased energy expense) increased \$13.4 million or 3.5 percent compared with the prior fiscal year.

Operating expenses (excluding purchased power and purchased gas expense) increased \$14.6 million. Operating and maintenance (O&M) expenses were \$17.3 million higher than the previous year due to higher labor related expenses and vegetation management expenses. Depreciation and amortization expense decreased \$3.2 million or 3.5 percent. Taxes and tax equivalents increased \$0.5 million or 1.4 percent.

Interest income was \$0.3 million higher than the prior fiscal year. Interest expense decreased \$1.8 million or 4.2 percent, reflecting the net impact of interest expense from new revenue bonds sold during fiscal year 2022 and savings on refunding of outstanding bonds.

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

Total plant assets (net) increased \$64.1 million or 2.9 percent over the last fiscal year.

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

Fiscal Year 2021 Compared to Fiscal Year 2020

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

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

Operating expenses (excluding purchased power and purchased gas expense) increased \$8 million. Operating and maintenance (O&M) expenses were \$11.2 million lower than the previous year due to lower pension expenses. Depreciation and amortization expense increased \$17.7 million or 24.3 percent, reflecting the completion of several large capital projects. Due to the adoption of GASB No. 87 in fiscal year 2022 and the required prior year restatement, amortization of leased assets increased \$0.4 million. Taxes and tax equivalents increased \$1.6 million or 4.4 percent.

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

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

Total plant assets (net) increased \$53.4 million or 2.4 percent over the last fiscal year.

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

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2022 and 2021

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

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, plant in service, intangible, or other assets.

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

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

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

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

Statement of Revenues, Expenses and Changes in Net Position

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

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

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

Statement of Cash Flows

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

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

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

Knoxville Utilities Board
Management's Discussion and Analysis
June 30, 2022 and 2021

Condensed Financial Statements

Statement of Net Position

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

Statements of Net Position
As of June 30

<i>(in thousands of dollars)</i>	2022	2021 as restated	2020
Current, restricted, intangible, and other assets	\$ 502,268	\$ 435,426	\$ 395,224
Capital assets, net	2,253,225	2,189,154	2,135,780
Deferred outflows of resources	<u>27,740</u>	<u>24,006</u>	<u>33,237</u>
Total assets and deferred outflows of resources	<u>2,783,233</u>	<u>2,648,586</u>	<u>2,564,241</u>
Current and other liabilities	249,376	202,775	207,464
Long-term debt outstanding	1,124,918	1,112,346	1,126,089
Deferred inflows of resources	<u>45,474</u>	<u>47,820</u>	<u>20,569</u>
Total liabilities and deferred inflows of resources	<u>1,419,768</u>	<u>1,362,941</u>	<u>1,354,122</u>
Net position			
Net investment in capital assets	1,098,927	1,049,324	990,228
Restricted	22,343	21,755	22,186
Unrestricted	<u>242,195</u>	<u>214,566</u>	<u>197,705</u>
Total net position	<u>\$ 1,363,465</u>	<u>\$ 1,285,645</u>	<u>\$ 1,210,119</u>

Normal Impacts on Statement of Net Position

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

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

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2022 and 2021

Impacts and Analysis

Current, Restricted, Intangible, and Other Assets

Fiscal Year 2022 Compared to Fiscal Year 2021

Current, restricted, intangible, and other assets increased \$66.8 million or 15.4 percent, due to an increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) of \$27.4 million, an increase in the actuarially determined net pension asset of \$19 million, an increase in accounts receivable of \$9.2 million, an increase of \$3.8 million in inventories, a \$3.4 million increase in net intangible right of use assets, and a \$3.4 million increase in gas storage. KUB under recovered \$2.4 million in wholesale power costs from its customers in fiscal year 2022. This under recovery of costs will be charged to KUB's electric customers during the next fiscal year through adjustments to rates via the Purchased Power Adjustment.

Fiscal Year 2021 Compared to Fiscal Year 2020

Current, restricted, intangible, and other assets increased \$40.2 million or 10.2 percent, due to an increase in the actuarially determined net pension asset of \$26 million, an increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) of \$7.4 million, an increase in the actuarially determined net OPEB asset of \$5.9 million, and an increase in accounts receivable of \$3.1 million. KUB under recovered \$1.4 million in wholesale gas costs from its customers in fiscal year 2021. This under recovery of costs will be charged to KUB's gas customers during the next fiscal year through adjustments to rates via the Purchased Gas Adjustment.

Capital Assets

Fiscal Year 2022 Compared to Fiscal Year 2021

Capital assets (net) increased \$64.1 million or 2.9 percent. Major capital expenditures (reflected in both plant additions and work in progress) in fiscal year 2022 included \$37.7 million related to wastewater Century II projects, \$25.4 million for various electric distribution system improvements, \$17.2 million for Grid Modernization and advanced metering including Supervisory Control and Data Acquisition (SCADA) system upgrades, \$8.7 million for the construction of gas mains, \$6.9 million for pole replacements for the electric system, \$6.8 million for water main replacements, and \$6.5 million for building improvements. System assets of \$32.6 million were retired during fiscal year 2022.

Fiscal Year 2021 Compared to Fiscal Year 2020

Capital assets (net) increased \$53.4 million or 2.4 percent. Spending was slowed this year to allow for better financial liquidity in response to the pandemic. Major capital expenditures (reflected in both plant additions and work in progress) in fiscal year 2021 included \$35.2 million related to wastewater Century II projects, \$23.9 million for various electric distribution system improvements, \$10.3 million for water main replacements, \$6.9 million for building improvements, \$6.5 million for the construction of gas mains, \$6.1 million for Grid Modernization and advanced metering including Supervisory Control and Data Acquisition (SCADA) system upgrades, and \$5.6 million for pole replacements for the electric system. System assets of \$42.5 million were retired during fiscal year 2021.

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Deferred Outflows of Resources

Fiscal Year 2022 Compared to Fiscal Year 2021

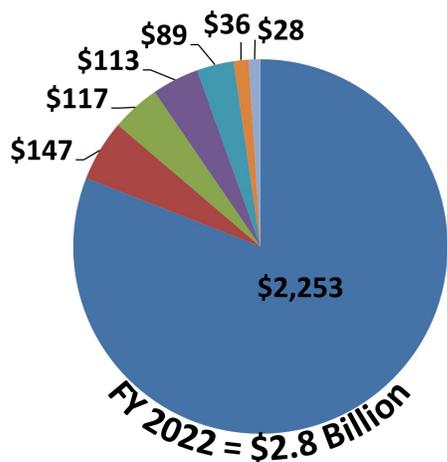
Deferred outflows of resources increased \$3.7 million compared to the prior year, reflecting a \$5.2 million increase in OPEB outflow offset by a decrease in unamortized bond refunding costs of \$1 million and a decrease in pension outflow of \$0.4 million when compared to the prior fiscal year.

Fiscal Year 2021 Compared to Fiscal Year 2020

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

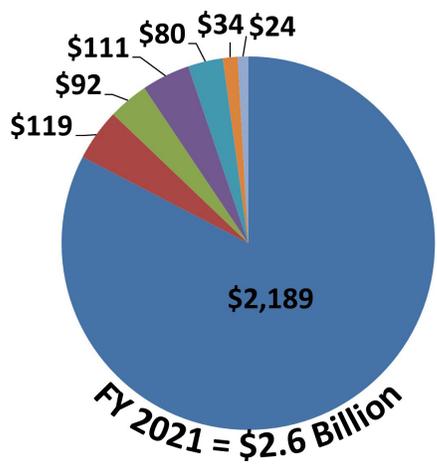
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Consolidated Total Assets and Deferred Outflows of Resources
(in Millions)

	<u>FY22</u>	<u>FY21</u>
Plant	81%	83%
General Fund	5%	5%
Other Assets	4%	3%
Contingency Fund	4%	4%
Accounts Receivable	3%	3%
Restricted Assets	2%	1%
Deferred Outflows of Resources	1%	1%



Current and Other Liabilities

Fiscal Year 2022 Compared to Fiscal Year 2021

Current and other liabilities increased \$46.6 million or 23 percent compared to the prior fiscal year. This reflects an increase of \$18.2 million in payables, an increase of \$11.2 million in the net OPEB liability, an increase of \$6.5 million in accrued expenses, an increase of \$3.6 million in current and long-term lease liability, and an increase of \$2.1 million in customer deposits. KUB over recovered \$4.2 million in wholesale gas costs from its customers in fiscal year 2022, as compared to a \$1.4 million under recovery in fiscal year 2021. This over recovery of costs will be flowed back to KUB's gas customers during the next fiscal year through adjustments to rates via the Purchased Gas Adjustment.

Fiscal Year 2021 Compared to Fiscal Year 2020

Current and other liabilities decreased \$4.7 million or 2.3 percent compared to the prior fiscal year. This reflects a decrease of \$7.6 million in the net OPEB liability, a decrease of \$2 million in accrued interest on revenue bonds, and a decrease of \$1.4 million in over recovered purchased power cost offset by an increase of \$4.3 million in accounts payable. KUB over recovered \$0.4 million in wholesale power costs from its customers in fiscal year 2021, as compared to a \$1.8 million over recovery in fiscal year 2020. This

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over recovery of costs will be flowed back to KUB's electric customers during the next fiscal year through adjustments to rates via the Purchased Power Adjustment.

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

Long-term Debt

Fiscal Year 2022 Compared to Fiscal Year 2021

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

Fiscal Year 2021 Compared to Fiscal Year 2020

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

Deferred Inflows of Resources

Fiscal Year 2022 Compared to Fiscal Year 2021

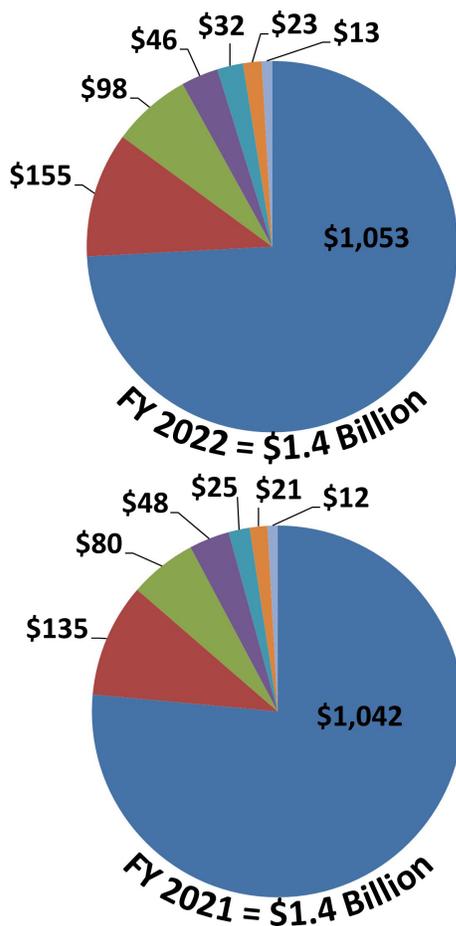
Deferred inflows decreased \$2.3 million compared to the prior fiscal year due to an \$8 million decrease in OPEB inflow offset by a \$3.3 million increase in pension inflow, a \$1.4 million increase in unamortized bond refunding costs, and a \$0.9 million increase in lease inflow.

Fiscal Year 2021 Compared to Fiscal Year 2020

Deferred inflows increased \$27.3 million compared to the prior fiscal year due to a \$15.6 million increase in pension inflow, an \$8 million increase in OPEB inflow, and a \$3.5 million increase in lease inflow.

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

	<u>FY22</u>	<u>FY21</u>
■ Bond Debt	74%	76%
■ Other Liabilities	11%	10%
■ Payables	7%	6%
■ Deferred Inflows of Resources	3%	4%
■ Misc Current	2%	2%
■ Customer Deposits	2%	1%
■ Interest Accrued	1%	1%

Net Position

Fiscal Year 2022 Compared to Fiscal Year 2021

Total net position increased \$77.8 million or 6.1 percent. Unrestricted net position increased \$27.6 million or 12.9 percent compared to the previous fiscal year, primarily due to a \$27.4 million increase in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments). Net investment in capital assets increased \$49.6 million or 4.7 percent, the result of an increase of \$64.1 million in net plant additions and an increase of \$3.4 million in net intangible right of use assets offset by an \$11 million increase in the current portion of revenue bonds and total long-term debt and a \$3.6 million increase in lease liabilities. Restricted net position increased \$0.6 million compared to the prior year.

Fiscal Year 2021 Compared to Fiscal Year 2020

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

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Statement of Revenues, Expenses and Changes in Net Position

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

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

<i>(in thousands of dollars)</i>	2022	2021 as restated	2020
Operating revenues	\$ 905,770	\$ 822,290	\$ 803,751
Less: Purchased energy expense	<u>512,342</u>	<u>442,299</u>	<u>436,236</u>
Margin from sales	<u>393,428</u>	<u>379,991</u>	<u>367,515</u>
Operating expenses			
Treatment	18,999	17,098	16,306
Fiber products and promotions	910	-	-
Distribution and collection	77,355	69,388	70,822
Customer service	15,200	14,033	14,007
Administrative and general	36,438	31,086	41,668
Depreciation and amortization	87,288	90,488	72,826
Taxes and tax equivalents	<u>37,964</u>	<u>37,448</u>	<u>35,863</u>
Total operating expenses	<u>274,154</u>	<u>259,541</u>	<u>251,492</u>
Operating income	119,274	120,450	116,023
Interest income	1,107	837	4,740
Interest expense	(40,058)	(41,827)	(43,127)
Other income/(expense)	<u>(4,141)</u>	<u>(4,917)</u>	<u>(52)</u>
Change in net position before capital contributions	<u>76,182</u>	<u>74,543</u>	<u>77,584</u>
Capital contributions	<u>1,638</u>	<u>983</u>	<u>417</u>
Change in net position	<u>\$ 77,820</u>	<u>\$ 75,526</u>	<u>\$ 78,001</u>

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

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

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

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- Depreciation and amortization expense is impacted by intangible assets, 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/(expense) is impacted by miscellaneous non-operating revenues and expenses.
- Capital contributions are impacted by a donation of facilities/infrastructure to KUB by developers and governmental agencies. The contributions are recognized as revenue and recorded as plant in service based on the fair market value of the asset(s).

Impacts and Analysis

Change in Net Position

Fiscal Year 2022 Compared to Fiscal Year 2021

KUB's consolidated Change in Net Position increased \$77.8 million in fiscal year 2022. Comparatively, net position increased \$75.5 million in fiscal year 2021.

Fiscal Year 2021 Compared to Fiscal Year 2020

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

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Margin from Sales

Fiscal Year 2022 Compared to Fiscal Year 2021

Operating revenue was \$83.5 million higher than the previous fiscal year. Both electric and natural gas experienced significant increases in wholesale energy prices. Electric Division operating revenue increased \$51.9 million due to the net result of a 3 percent increase in sales volumes, additional revenue from the April 2022 rate increase, higher wholesale energy costs, and the flow through of prior year over recovered purchased power costs to electric customers. Gas Division revenue increased \$26.5 million for the fiscal year, the result of a 2.2 percent increase in billed sales and higher natural gas prices. Water Division revenue increased \$2.6 million, reflecting a 2.3 percent increase in billed sales volumes. Wastewater Division revenue was \$2.4 million higher than the previous year, reflecting a 2.2 percent increase in billable wastewater flows.

Wholesale energy expense increased \$70 million or 15.8 percent. Purchased power expense increased \$44.1 million compared to last year, reflecting the combined effect of 3 percent higher customer demand and flow through of higher wholesale power costs. KUB received \$9.3 million in wholesale power rate credits during the fiscal year as part of KUB's long-term Partnership Agreement with TVA, which decreased power expenses in the current fiscal year. Purchased gas expense was \$25.9 million higher, reflecting significantly higher natural gas prices and slightly higher customer demand for the fiscal year.

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

Fiscal Year 2021 Compared to Fiscal Year 2020

Operating revenue was \$18.5 million higher than the previous fiscal year. Both electric and natural gas sales benefited from colder winter temperatures than the previous fiscal year. Electric Division operating revenue increased \$6.2 million due to the net result of a 6.8 percent increase in sales volumes and the flow through of prior year over recovered purchased power costs to electric customers. Gas Division revenue increased \$12.8 million for the fiscal year, the result of an 8.7 percent increase in billed sales. Water Division revenue decreased \$0.7 million, reflecting an increase in billed sales of \$0.2 million and a decrease in other operating revenue of \$0.4 million. Wastewater Division revenue was \$1 million lower than the previous year, reflecting an increase in billed sales of \$0.8 million and a decrease in other operating revenue of \$1.2 million. Billable wastewater flows increased 1.2 percent.

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

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

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

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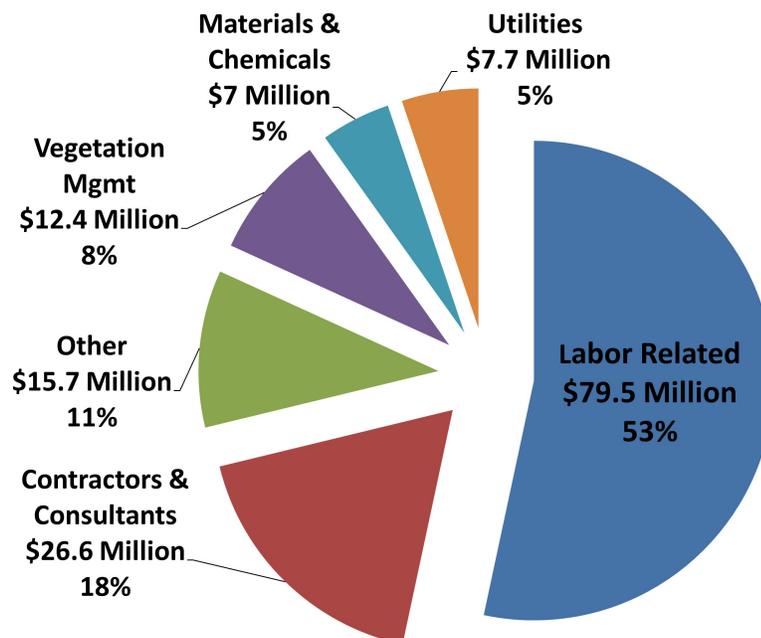
Operating Expenses

Fiscal Year 2022 Compared to Fiscal Year 2021

Operating expenses (excluding wholesale purchased energy expense) increased \$14.6 million compared to fiscal year 2021. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as treatment, fiber products and promotions, distribution and collection, customer service, and administrative and general.

- Treatment expenses increased \$1.9 million, primarily due to higher labor related expenses.
- Fiber products and promotions increased \$0.9 million, primarily due to corporate advertising expense as well as telephone and television programming expenses.
- Distribution and collection expenses increased \$8 million or 11.5 percent, primarily due to the catch up from the pandemic related timing delay on vegetation management circuit work and labor related expenses.
- Customer service expenses increased \$1.2 million, primarily due to payment processing fees and labor related expenses.
- Administrative and general expenses increased \$5.4 million, primarily due to an increase in labor related expenses, including higher OPEB expenses related to the introduction of the Health Reimbursement Arrangement.

FY 2022 Consolidated O&M Expense = \$148.9 Million



- Depreciation and amortization expense decreased \$3.2 million or 3.5 percent. KUB added \$182.8 million in assets during fiscal year 2022. A partial year of depreciation expense was

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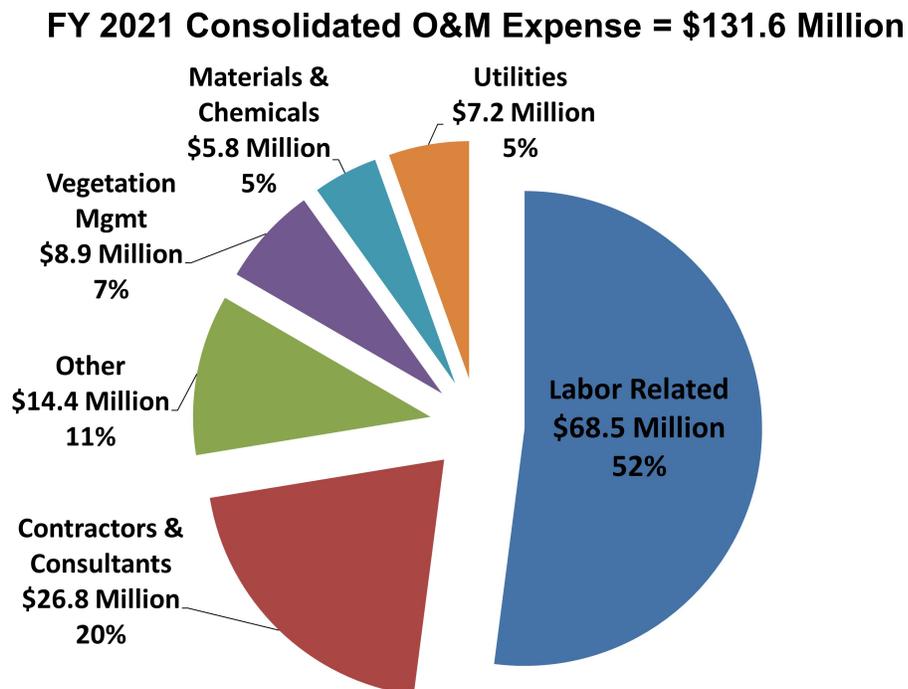
recorded on these capital investments and a full year of depreciation expense was incurred on \$207.1 million in assets placed in service during fiscal year 2021. In addition, \$32.6 million of assets were retired during fiscal year 2022.

- Taxes and tax equivalents increased \$0.5 million or 1.4 percent, primarily due to increased employer Federal Insurance Contributions Act (FICA) taxes. Tax equivalent payments to taxing jurisdictions in which KUB’s utility systems are located were flat this fiscal year.

Fiscal Year 2021 Compared to Fiscal Year 2020

Operating expenses (excluding wholesale purchased energy expense) increased \$8 million compared to fiscal year 2020. Operating expenses include operations and maintenance (O&M) expense, depreciation/amortization, and taxes/tax equivalents. O&M expenses can be further classified as treatment, distribution and collection, customer service, and administrative and general.

- Treatment expenses increased \$0.8 million, primarily due to higher outside contractor and consultant costs.
- Distribution and collection expenses decreased \$1.4 million or 2 percent, primarily due to timing delay in vegetation management circuit work due to the pandemic.
- Customer service expenses were consistent with the prior fiscal year.
- Administrative and general expenses decreased \$10.6 million, primarily due to a decrease in labor related expenses, including lower pension and OPEB expenses.



- Depreciation and amortization expense increased \$17.7 million or 24.3 percent. KUB added \$207.1 million in assets during fiscal year 2021, including \$27.4 million of multi-year projects being held in Construction Work in Progress. A partial year of depreciation expense was

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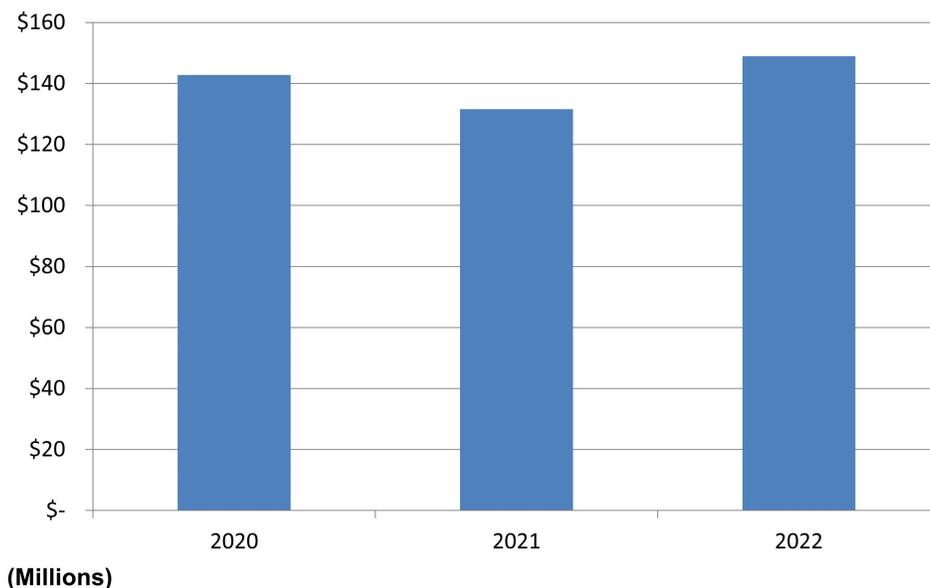
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recorded on these capital investments and a full year of depreciation expense was incurred on \$161.1 million in assets placed in service during fiscal year 2020. In addition, \$42.5 million of assets were retired during fiscal year 2021.

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

Consolidated Operation & Maintenance Expense



Other Income and Expense

Fiscal Year 2022 Compared to Fiscal Year 2021

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

Interest expense decreased \$1.8 million or 4.2 percent, reflecting the net impact of interest expense from new revenue bonds sold during the fiscal year and savings on refunding of outstanding bonds.

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

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

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Fiscal Year 2021 Compared to Fiscal Year 2020

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

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

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

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

Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

<i>(in thousands of dollars)</i>	2022	2021	2020
Production Plant (Intakes)	\$ 6	\$ 7	\$ 7
Pumping and Treatment Plant	271,764	220,317	216,136
Distribution and Collection Plant			
Mains and metering	\$ 926,287	\$ 904,584	\$ 865,744
Services and meters	163,738	164,537	168,800
Electric station equipment	61,180	62,704	57,564
Poles, towers and fixtures	161,519	157,575	140,424
Overhead conductors	143,776	133,419	110,865
Line transformers	61,351	61,575	61,725
Other accounts	190,393	194,011	191,009
Total Distribution & Collection Plant	<u>\$ 1,708,244</u>	<u>\$ 1,678,405</u>	<u>\$ 1,596,131</u>
General Plant	111,458	100,917	75,934
Total Plant Assets	<u>\$ 2,091,472</u>	<u>\$ 1,999,646</u>	<u>\$ 1,888,208</u>
Work In Progress	161,753	189,508	247,572
Total Net Plant	<u><u>\$ 2,253,225</u></u>	<u><u>\$ 2,189,154</u></u>	<u><u>\$ 2,135,780</u></u>

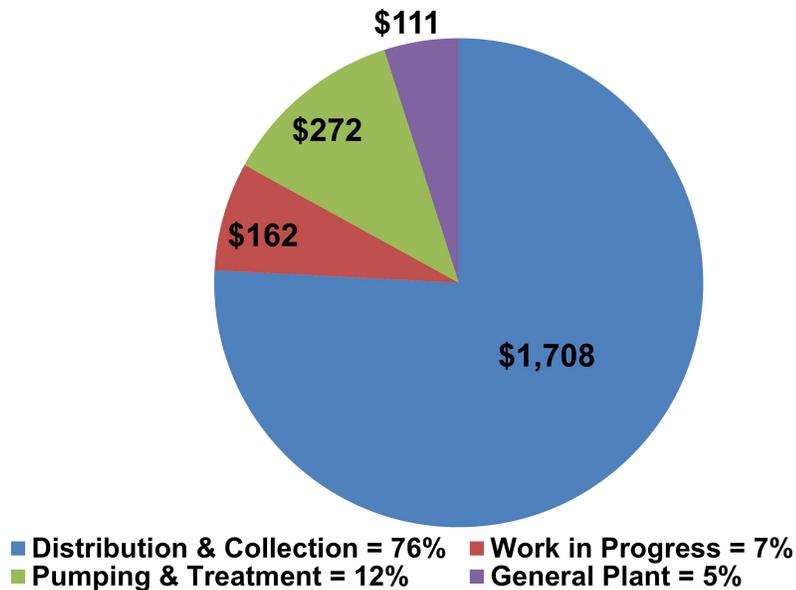
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Fiscal Year 2022 Compared to Fiscal Year 2021

As of June 30, 2022, KUB had \$2.3 billion invested in capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of \$64.1 million or 2.9 percent over the end of the last fiscal year.

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



Major capital asset additions during the year were as follows:

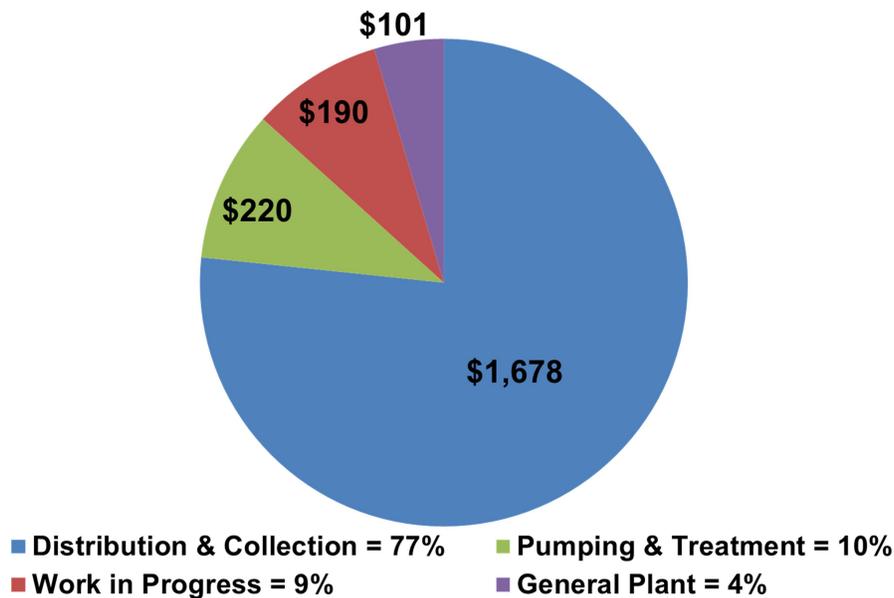
- \$37.7 million related to wastewater Century II projects
 - \$19.7 million for wastewater treatment plant upgrades
 - \$8.1 million for pump station construction and improvements
 - \$4.1 million for sewer mini-basin rehabilitation and replacement
 - \$3.8 million for short line projects
 - \$2 million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

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Fiscal Year 2021 Compared to Fiscal Year 2020

As of June 30, 2021, KUB had \$2.2 billion invested in capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of \$53.4 million or 2.4 percent over the end of the last fiscal year. Spending on capital assets was slowed this year to allow for better financial liquidity in response to the pandemic.

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



Major capital asset additions during the year were as follows:

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

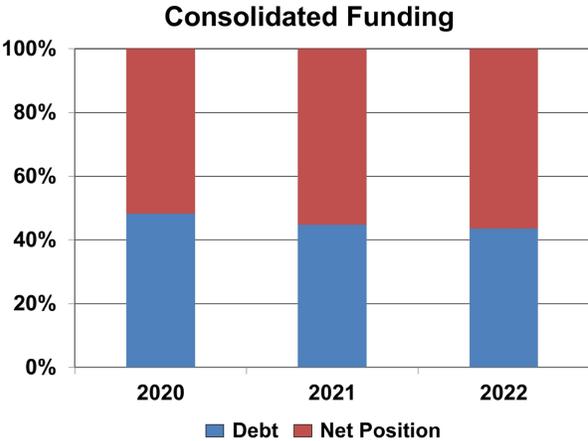
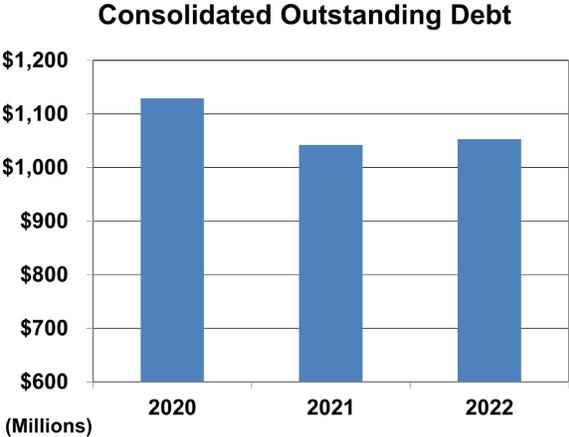
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Debt Administration

KUB’s outstanding debt was \$1.05 billion as of June 30, 2022. Debt as a percentage of capital structure was 43.6 percent in 2022, 44.8 percent in 2021, and 48.3 percent at the end of fiscal year 2020.

**Outstanding Debt
As of June 30**

<i>(in thousands of dollars)</i>	2022	2021	2020
Revenue bonds	\$ <u>1,053,280</u>	\$ <u>1,042,270</u>	\$ <u>1,128,795</u>
Total outstanding debt	\$ <u>1,053,280</u>	\$ <u>1,042,270</u>	\$ <u>1,128,795</u>



KUB will pay \$442.9 million in principal payments over the next ten years, representing 42 percent of outstanding bonds.

Fiscal Year 2022 Compared to Fiscal Year 2021

As of June 30, 2022, KUB had \$1.05 billion in outstanding debt (including the current portion of revenue bonds) compared to \$1.04 billion last fiscal year, an increase of \$11 million. As of June 30, 2022, KUB’s weighted average cost of debt was 3.89 percent (3.85 percent including the impact of Build America Bonds rebates).

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

KUB sold \$27.2 million in electric system revenue refunding bonds in April 2022 for the purpose of refinancing existing electric system revenue bonds. KUB will realize a total debt service savings of \$2 million over the life of the bonds (\$1.3 million on a net present value basis). The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.55 percent. The bonds have a final maturity in fiscal year 2046.

KUB sold \$14.9 million in water system revenue refunding bonds in April 2022 for the purpose of refinancing existing water system revenue bonds. KUB will realize a total debt service savings of \$0.7 million over the

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life of the bonds (\$0.4 million on a net present value basis). The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.52 percent. The bonds have a final maturity in fiscal year 2045.

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

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

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

Fiscal Year 2021 Compared to Fiscal Year 2020

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

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

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

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

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

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2022 and 2021

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

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

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

Impacts on Future Financial Position

KUB anticipates an increase of 14,325 customers, including 10,500 fiber system customers, during fiscal year 2023.

In May 2022, the Board approved the issuance of electric system revenue bonds to not exceed \$79 million, water system revenue bonds to not exceed \$11 million, and wastewater system revenue bonds to not exceed \$13 million, for the purpose of funding electric, water, and wastewater system capital improvements, respectively. The bonds will be sold through a competitive bidding process during fiscal year 2023.

In March 2020, KUB executed a new Long-Term Partnership Agreement with TVA, extending the term of its five-year evergreen power supply contract with TVA to a 20-year evergreen contract. In return for signing the longer-term agreement with TVA, KUB will receive an annual partnership credit of 3.1% on TVA's wholesale base rates, estimated to be around \$9.3 million per year. Among other things, the new partnership agreement also provides KUB with the flexibility to self-generate up to five percent of its annual power supply through renewable sources.

During the period of October 2021 to September 2022, TVA is providing a Pandemic Recovery Credit to local power companies. KUB has excluded the Standard Service portion of this credit from the Purchased Power Adjustment in order to provide \$6.3 million of emergency utility bill assistance for residential and small business customers and \$1 million for home weatherization programs.

As a component of the Fiber Division's start up financing plan, the Electric Division will provide \$35 million of interdivisional loans. The first \$10 million was provided in October 2021.

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

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

Knoxville Utilities Board

Management's Discussion and Analysis

June 30, 2022 and 2021

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

The Pension Plan actuarial valuation resulted in an actuarially determined contribution of \$2,624,373 for the fiscal year ending June 30, 2023, based on the Plan's current funding policy. Subsequent to June 30, 2022, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$1,108,147 for the fiscal year ending June 30, 2024, based on the Plan's current funding policy. For the Plan year beginning January 1, 2022, the Plan's actuarial funded ratio is 112.01 percent, and the market value funded ratio is 128.08 percent.

The OPEB Plan actuarial valuation resulted in an actuarially determined contribution of \$1,413,392 for the fiscal year ending June 30, 2023, based on the Plan's current funding policy. Subsequent to June 30, 2022, an actuarial valuation was completed and resulted in an actuarially determined contribution of \$1,187,768 for the fiscal year ending June 30, 2024, based on the Plan's current funding policy. The Plan's actuarial funded ratio is 94.75 percent, and the market value funded ratio is 103.07 percent.

GASB Statement No. 91, *Conduit Debt Obligations*, is effective for fiscal years beginning after December 15, 2021. GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 99, *Omnibus 2022*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB No. 62*, is effective for fiscal years beginning after June 15, 2023. GASB Statement No. 101, *Compensated Absences*, is effective for fiscal years beginning after December 15, 2023. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on KUB's financial position or results of operations during fiscal year 2022.

Financial Contact

KUB's financial statements are designed to present users (citizens, customers, investors, and creditors) with a general overview of KUB's financial position and results of operations for the fiscal years ended June 30, 2022, and 2021. 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, 2022 and 2021

	2022	2021 as restated
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	\$ 146,776,546	\$ 119,377,875
Short-term contingency fund investments	20,236,852	75,997,614
Other current assets	1,593,637	1,299,611
Accrued interest receivable	33,990	6,782
Accounts receivable, less allowance of uncollectible accounts of \$773,791 in 2022 and \$684,529 in 2021	89,053,689	79,806,900
Current portion of lease receivable	516,649	341,368
Inventories	19,032,578	15,194,524
Prepaid expenses	1,085,686	919,217
Gas storage	9,867,611	6,459,730
Total current assets	<u>288,197,238</u>	<u>299,403,621</u>
Restricted assets:		
Bond funds	35,073,534	33,585,649
Other funds	1,515	1,515
Unused bond proceeds	1,298,143	-
Total restricted assets	<u>36,373,192</u>	<u>33,587,164</u>
Plant in service	3,149,275,765	2,999,084,673
Less accumulated depreciation	<u>(1,057,804,184)</u>	<u>(999,438,900)</u>
	2,091,471,581	1,999,645,773
Retirement in progress	2,363,210	3,370,207
Construction in progress	159,390,109	186,137,702
Net plant in service	<u>2,253,224,900</u>	<u>2,189,153,682</u>
Intangible assets:		
Intangible right of use asset	4,587,687	891,905
Less accumulated amortization	<u>(689,074)</u>	<u>(421,047)</u>
Net intangible assets	<u>3,898,613</u>	<u>470,858</u>
Other assets:		
Net pension asset	64,137,714	45,099,288
Net OPEB asset	-	5,931,828
Long-term contingency fund investments	92,549,625	35,024,905
Long-term lease receivable	3,972,652	3,183,336
TVA conservation program receivable	575,535	1,103,185
Under recovered purchased power cost	2,382,423	-
Under recovered purchased gas cost	-	1,371,776
Other	10,181,850	10,250,096
Total other assets	<u>173,799,799</u>	<u>101,964,414</u>
Total assets	<u>2,755,493,742</u>	<u>2,624,579,740</u>
Deferred outflows of resources:		
Pension outflow	7,842,910	8,251,618
OPEB outflow	5,209,694	21,401
Unamortized bond refunding costs	14,687,019	15,733,160
Total deferred outflows of resources	<u>27,739,623</u>	<u>24,006,179</u>
Total assets and deferred outflows of resources	<u>\$ 2,783,233,365</u>	<u>\$ 2,648,585,919</u>

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

Knoxville Utilities Board
Consolidated Statements of Net Position
June 30, 2022 and 2021

	2022	2021 as restated
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	\$ 42,765,000	\$ 42,545,000
Current portion of lease liability	844,904	377,192
Sales tax collections payable	1,552,467	1,393,779
Accounts payable	96,628,151	78,611,167
Accrued expenses	30,689,445	24,220,522
Customer deposits plus accrued interest	23,259,401	21,157,409
Accrued interest on revenue bonds	12,731,785	11,831,762
Total current liabilities	<u>208,471,153</u>	<u>180,136,831</u>
Other liabilities:		
TVA conservation program	613,757	1,158,556
Accrued compensated absences	10,759,104	10,341,485
Customer advances for construction	10,681,887	10,373,106
Lease liability	3,215,556	93,666
Net pension liability	-	18,714
Net OPEB liability	11,202,507	-
Over recovered purchased power cost	-	427,351
Over recovered purchased gas cost	4,188,264	-
Other	244,656	225,278
Total other liabilities	<u>40,905,731</u>	<u>22,638,156</u>
Long-term debt:		
Revenue bonds	1,010,515,000	999,725,000
Unamortized premiums/discounts	114,402,894	112,620,811
Total long-term debt	<u>1,124,917,894</u>	<u>1,112,345,811</u>
Total liabilities	<u>1,374,294,778</u>	<u>1,315,120,798</u>
Deferred inflows of resources:		
Pension inflow	39,528,961	36,182,182
Unamortized bond refunding costs	1,531,357	154,540
OPEB inflow	-	7,958,606
Lease inflow	4,413,743	3,524,704
Total deferred inflows of resources	<u>45,474,061</u>	<u>47,820,032</u>
Total liabilities and deferred inflows of resources	<u>1,419,768,839</u>	<u>1,362,940,831</u>
Net position		
Net investment in capital assets	1,098,926,697	1,049,323,580
Restricted for:		
Debt service	22,341,750	21,753,887
Other	1,515	1,515
Unrestricted	242,194,564	214,566,106
Total net position	<u>1,363,464,526</u>	<u>1,285,645,088</u>
Total liabilities, deferred inflows, and net position	<u>\$ 2,783,233,365</u>	<u>\$ 2,648,585,919</u>

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

Knoxville Utilities Board
Consolidated Statements of Revenues, Expenses and Changes in Net Position
June 30, 2022 and 2021

	2022	2021 as restated
Operating revenues		
Electric	\$ 598,122,439	\$ 546,203,686
Gas	141,525,161	115,048,002
Water	63,819,881	61,180,163
Wastewater	102,302,391	99,858,521
Total operating revenues	<u>905,769,872</u>	<u>822,290,371</u>
Operating expenses		
Purchased power	434,366,317	390,194,970
Purchased gas	77,975,231	52,104,072
Treatment	18,999,493	17,097,542
Fiber products and promotions	909,955	-
Distribution and collection	77,354,703	69,388,270
Customer service	15,200,264	14,033,361
Administrative and general	36,438,188	31,085,812
Depreciation and amortization	87,288,047	90,487,696
Taxes and tax equivalents	37,964,437	37,447,961
Total operating expenses	<u>786,496,635</u>	<u>701,839,684</u>
Operating income	<u>119,273,237</u>	<u>120,450,687</u>
Non-operating revenues (expenses)		
Contributions in aid of construction	5,753,345	5,092,513
Interest income	1,107,621	837,185
Interest expense	(40,058,015)	(41,826,881)
Amortization of debt costs	4,183,347	1,346,562
Write-down of plant for costs recovered through contributions	(5,753,345)	(5,092,513)
Other	(8,324,453)	(6,264,127)
Total non-operating revenues (expenses)	<u>(43,091,500)</u>	<u>(45,907,262)</u>
Change in net position before capital contributions	76,181,737	74,543,426
Capital contributions	1,637,701	982,990
Change in net position	77,819,438	75,526,416
Net position, beginning of year	1,285,645,088	1,210,118,672
Net position, end of year	<u>\$ 1,363,464,526</u>	<u>\$ 1,285,645,088</u>

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

Knoxville Utilities Board

Consolidated Statements of Cash Flows

June 30, 2022 and 2021

	2022	2021 as restated
Cash flows from operating activities:		
Cash receipts from customers	\$ 894,545,730	\$ 815,275,412
Cash receipts from other operations	11,513,747	14,289,365
Cash payments to suppliers of goods or services	(596,545,327)	(527,450,829)
Cash payments to employees for services	(65,895,305)	(65,242,719)
Payment in lieu of taxes	(32,447,067)	(32,469,103)
Cash receipts from collections of TVA conservation loan program participants	581,728	917,979
Cash payments for TVA Conservation loan program	(598,877)	(952,757)
Net cash provided by operating activities	<u>211,154,629</u>	<u>204,367,348</u>
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	62,023,967	39,682,480
Principal paid on revenue bonds	(42,545,000)	(43,885,000)
Increase in unused bond proceeds	(1,298,143)	-
Interest paid on revenue bonds and lease liabilities	(39,157,992)	(44,690,800)
Acquisition and construction of plant	(163,237,990)	(157,774,379)
Changes in bond funds, restricted	(1,487,885)	2,405,906
Customer advances for construction	843,152	957,757
Proceeds received on disposal of plant	388,899	519,515
Principal paid on lease liabilities	(604,425)	(421,047)
Cash received from developers and individuals for capital purposes	5,753,345	5,092,513
Net cash used in capital and related financing activities	<u>(179,322,072)</u>	<u>(198,113,055)</u>
Cash flows from investing activities:		
Purchase of investment securities	(81,164,257)	(50,151,769)
Maturities of investment securities	75,680,769	62,155,073
Interest received	1,047,141	1,099,825
Other property and investments	2,461	574,933
Net cash (used in) provided by investing activities	<u>(4,433,886)</u>	<u>13,678,062</u>
Net increase in cash and cash equivalents	27,398,671	19,932,355
Cash and cash equivalents, beginning of year	<u>119,377,875</u>	<u>99,445,520</u>
Cash and cash equivalents, end of year	<u>\$ 146,776,546</u>	<u>\$ 119,377,875</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 119,273,237	\$ 120,450,687
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	90,320,015	93,650,430
Changes in operating assets and liabilities:		
Accounts receivable	(9,246,789)	(3,111,967)
Lease receivable	(964,597)	(3,524,705)
Inventories	(3,838,054)	155,432
Prepaid expenses	(3,574,350)	(215,202)
TVA conservation program receivable	527,650	830,613
Other assets	(306,358)	92,796
Sales tax collections payable	158,688	18,455
Accounts payable and accrued expenses	14,478,351	(1,263,020)
TVA conservation program payable	(544,799)	(865,392)
Unrecovered purchased power cost	(2,809,774)	(1,421,279)
Underrecovered gas costs	5,560,040	141,658
Customer deposits plus accrued interest	2,101,992	(533,047)
Other liabilities	19,377	(38,111)
Net cash provided by operating activities	<u>\$ 211,154,629</u>	<u>\$ 204,367,348</u>
Noncash capital activities:		
Acquisition of plant assets through developer contributions	\$ 1,637,701	\$ 982,990
Record intangible right of use asset and lease liability	\$ 4,194,029	\$ 891,905

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

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

1. Description of Business

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

2. Significant Accounting Policies

Basis of Accounting

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

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

Recently Adopted New Accounting Pronouncements

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

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

In June 2018, the GASB issued GASB Statement No. 89 (Statement No. 89), *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and to simplify accounting for interest cost incurred before the end of a construction period. Statement No. 89 is effective for fiscal years beginning after December 15, 2020. Adoption of this Statement did not have a significant impact on KUB's financial statements.

In January 2020, the GASB issued GASB Statement No. 92 (Statement No. 92), *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain provisions of Statement No. 92 were effective immediately. Paragraphs 6, 7, 8, 9, and 12 are effective for fiscal years beginning after June 15, 2021. Adoption of this Statement did not have a significant impact on KUB's financial statements.

In March 2020, the GASB issued GASB Statement No. 93 (Statement No. 93), *Replacement of Interbank Offered Rates*. This Statement establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. Statement No. 93 is effective for fiscal years beginning after June 15, 2021. Adoption of this Statement did not have a significant impact on KUB's financial statements.

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

In October 2021, the GASB issued GASB Statement No. 98 (Statement No.98), *The Annual Comprehensive Financial Report*. This Statement replaces the term *comprehensive annual financial report* with *annual comprehensive financial report*. Statement No. 98 is effective for fiscal years ending after December 15, 2021. Adoption of this Statement did not have a significant impact on KUB's financial statements.

Principles of Consolidation

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

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

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Plant

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

The provision for depreciation of plants in service is based on the estimated useful lives of the assets, which range from three to sixty-seven years, and is computed using the straight-line method. Pursuant to FERC/NARUC, the caption "Depreciation and amortization" in the consolidated Statements of Revenues, Expenses and Changes in Net Position does not include depreciation for transportation equipment of \$3,031,968 in fiscal year 2022 and \$3,162,734 in fiscal year 2021.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of KUB. Operating revenue is recorded when the service is rendered, on a cycle basis, and includes an estimate of unbilled revenue. Revenues are reported net of bad debt expense of \$2,529,796 in fiscal year 2022 and \$2,814,225 in fiscal year 2021.

Non-operating Revenue

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

Expense

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

Net Position

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

These classifications are defined as follows:

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

Knoxville Utilities Board

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

OPEB Trust

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

KUB's policy is to fully fund the annual actuarially determined contributions, which are determined by actuarial valuation. As required by GASB Statement No. 75, KUB measures net OPEB liability as total OPEB liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2022, and 2021, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2022, and 2021, are based on a June 30, 2022, and 2021, measurement date, respectively. The net OPEB liability is \$11,202,507 as of June 30, 2022, and the net OPEB asset was \$5,931,828 as of June 30, 2021.

Pension Plan and Qualified Excess Benefit Arrangement

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 10). KUB's policy is to fully fund the annual actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2022, and 2021, must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2022, and 2021, are based on a December 31, 2021, and 2020, measurement date, respectively. The net pension asset is \$64,137,714 as of June 30, 2022, and \$45,099,288 as of June 30, 2021.

KUB implemented a qualified governmental excess benefit arrangement (QEBA) under IRC section 415(m), which was created by Congress to allow the payment of pension benefits that exceed the IRC section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). The QEBA is a single-employer defined benefit pension plan, administered by KUB (Note 11). As required by GASB Statement No. 73, KUB measures the total pension liability of the QEBA. The amounts reported as of June 30, 2022, and 2021, must be based upon a plan measurement date within the prior twelve

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months. Therefore, KUB's measurements as of June 30, 2022, and 2021, are based on a December 31, 2021, and 2020, measurement date, respectively. Due to the increase in the section 415(d) annual benefit limitation from 2021 to 2022, the pension benefit for the sole participant in the Excess Benefit Arrangement is now fully payable under the KUB Pension Plan and, as such, there is no benefit payable under the Excess Benefit Arrangement as of June 30, 2022. The total pension liability of the QEBA was \$18,714 as of June 30, 2021.

Investments

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

Self-Insurance

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

Estimates

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

Restricted and Designated Assets

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

Cash Equivalents

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

Leases

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

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

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Deferred Outflows and Inflows of Resources

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

Debt Premium/Discount

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

Debt Issuance Costs

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

Deferred Gain/Loss on Refunding of Debt

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

Compensated Absences

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

TVA Conservation Program

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

Restatement for GASB 87

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

As lessee and as a result of adopting GASB 87, as of June 30, 2021, KUB recorded total intangible right of use assets of \$891,905 with accumulated amortization of \$421,047 and recognized total lease liabilities of \$470,858 (\$377,192 current). KUB also reclassified \$64,902 from rent expense shown in customer service expense and \$366,895 from rent expense shown in administrative and general expense to \$421,047 as amortization expense and \$10,750 as interest expense.

Related to lease agreements where KUB is the lessor, as a result of adopting GASB 87, as of June 30, 2021, KUB recognized lease receivables of \$3,524,704 (\$341,368 current) with a corresponding

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deferred inflow of resources of \$3,524,704. KUB also reclassified \$8,398 from rent revenue shown in other operating revenues to interest income.

Additional disclosures, as well as other reclassifications in the statement of cash flows, also resulted from the adoption of GASB 87.

Subsequent Events

As a component of the 2023 fiscal year budget, a \$7 million loan was initiated from the Electric Division to the Fiber Division as the second installment of the proposed \$35 million total loan. The interdivisional loan was approved by TVA and was recorded in August 2022.

Purchased Power Adjustment

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

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

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

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

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

Under the PPA mechanism, KUB tracks the actual over/(under) recovered amount in the Over/(Under) Recovered Purchased Power Cost accounts. These accounts are rolled into the PPA rate adjustments thereby assuring that any over/(under) recovered amounts are promptly passed on to KUB's electric customers. The amount of over/(under) recovered cost was (\$2,382,423) as of June 30, 2022, and \$427,351 as of June 30, 2021.

Purchased Gas Adjustment

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

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

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

Under the PGA mechanism, KUB tracks the actual over/(under) recovered amount in the Over/(Under) Recovered Purchased Gas Cost accounts. These accounts are rolled into the PGA rate adjustment on June 30 of each year thereby ensuring that any over/(under) recovered amounts are passed on to KUB’s gas system customers. The amount of over/(under) recovered cost was \$4,188,264 as of June 30, 2022, and (\$1,371,776) as of June 30, 2021.

Recently Issued Accounting Pronouncements

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

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

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

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

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

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

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

3. Deposits and Investments

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

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

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

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

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

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Classification of deposits and investments per Statement of Net Position:

	2022	2021
Current assets		
Cash and cash equivalents	\$ 146,776,546	\$ 119,377,875
Short-term investments	-	-
Short-term contingency fund investments	20,236,708	75,997,124
Other current assets	-	-
Other assets		
Long-term investments	-	-
Long-term contingency fund investments	92,390,868	34,899,420
Restricted assets		
Unused bond proceeds	1,298,143	-
Bond fund	35,073,534	33,585,649
Other funds	1,515	1,515
	<u>\$ 295,777,314</u>	<u>\$ 263,861,583</u>

The above amounts do not include accrued interest of \$158,901 in fiscal year 2022 and \$125,975 in fiscal year 2021. Interest income is recorded on an accrual basis.

Investments and maturities of KUB's deposits and investments as held by financial institutions as of June 30, 2022:

	Deposit and Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	\$ 172,586,663	\$ 172,586,663	\$ -
State Treasurer's Investment Pool	17,584,151	17,584,151	-
Agency Bonds	<u>112,446,760</u>	<u>20,055,892</u>	<u>92,390,868</u>
	<u>\$ 302,617,574</u>	<u>\$ 210,226,706</u>	<u>\$ 92,390,868</u>

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

KUB has the following recurring fair value measurements as of June 30, 2022:

- U.S. Agency bonds of \$92,390,868, which have a maturity at purchase of greater than one year, are valued using quoted market prices (Level 1 inputs)

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

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4. Accounts Receivable

Accounts receivable consists of the following:

	2022	2021
Wholesale and retail customers		
Billed services	\$ 51,992,050	\$ 48,400,501
Unbilled services	35,838,200	29,315,698
Other	1,997,230	2,775,230
Allowance for uncollectible accounts	<u>(773,791)</u>	<u>(684,529)</u>
	<u>\$ 89,053,689</u>	<u>\$ 79,806,900</u>

5. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

	2022	2021
Trade accounts	\$ 96,628,151	\$ 78,611,167
Salaries and wages	1,296,808	3,960,533
Advances on pole rental	1,393,933	1,379,998
Self-insurance liabilities	2,252,221	1,936,244
Other current liabilities	<u>25,746,483</u>	<u>16,943,747</u>
	<u>\$ 127,317,596</u>	<u>\$ 102,831,689</u>

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6. Long-Term Obligations

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

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

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

Fiscal Year	Principal	Interest	Total
2023	\$ 42,765,000	\$ 39,238,043	\$ 82,003,043
2024	43,970,000	38,538,198	82,508,198
2025	45,130,000	36,670,449	81,800,449
2026	43,515,000	34,870,526	78,385,526
2027	44,815,000	33,065,497	77,880,497
2028-2032	222,685,000	137,471,761	360,156,761
2033-2037	202,315,000	96,000,639	298,315,639
2038-2042	228,930,000	56,142,930	285,072,930
2043-2047	141,985,000	20,152,276	162,137,276
2048-2052	37,170,000	2,673,419	39,843,419
Total	\$ 1,053,280,000	\$ 494,823,738	\$ 1,548,103,738

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, 2022, these requirements have been satisfied.

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

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

During fiscal year 2021, KUB's Gas Division issued Series AA 2021 bonds to retire outstanding Series Q 2012, R 2012, S 2013, and T 2013 bonds. On April 19, 2021, \$41.9 million in revenue refunding bonds with an average interest rate of 4.4 percent were issued to currently refund \$49.1 million of outstanding bonds with an average interest rate of 3.9 percent. The net proceeds of \$49.3 million

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(after payment of \$0.3 million in issuance costs plus premium of \$7.2 million and an additional issuer equity contribution of \$0.5 million) were used to refund the bonds. As a result, the bonds are considered to be refunded and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the life of the debt by \$7.9 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$7.2 million.

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

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

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

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

During fiscal year 2022, KUB's Wastewater Division issued Series 2022A bonds to fund wastewater system capital improvements. KUB's Wastewater Division also issued Series 2022B bonds to retire a portion of outstanding Series 2015B bonds. On May 13, 2022, \$23.2 million in revenue refunding bonds with an average interest rate of 4.2 percent were issued to currently refund \$24.6 million of outstanding bonds with an average interest rate of 4 percent. The net proceeds of \$24.7 million (after payment of \$0.3 million in issuance costs plus premium of \$1.7 million and an additional issuer equity contribution of \$0.1 million) were used to refund the bonds. As a result, the bonds are considered to

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be refunded and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the life of the debt by \$1.3 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$0.7 million.

Other liabilities consist of the following:

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

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

7. Lease Receivables

KUB, as lessor, leases office space, land, and fiber optic cables under non-cancelable lease arrangements. Terms of the leases range from two to fifteen years and contain fixed payment terms. Certain leases contain an option to renew that has been considered in the lease receivable when the lessee is reasonably certain to exercise the renewal option. KUB recognized lease revenue, which is included in other operating revenues, of \$451,074 in 2022 and \$429,151 in 2021. KUB also recognized interest income from leases, which is included in non-operating revenues, totaling \$127,593 in 2022 and \$8,398 in 2021. Total lease receivables were \$4,489,301 (\$516,649 current) and \$3,524,704 (\$341,368 current) as of June 30, 2022, and 2021, respectively, and are included in other assets on the Statement of Net Position.

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8. Lease Liability

Changes in lease liabilities are summarized as follows:

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

	Balance June 30, 2020	Increase	Decrease	Balance June 30, 2021
Total lease liabilities	\$ -	\$ <u>891,905</u>	\$ <u>(421,047)</u>	\$ 470,858
Less current portion	<u>-</u>			<u>(377,192)</u>
Long-term portion	<u>\$ -</u>			<u>\$ 93,666</u>

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

Maturities and future interest requirements related to the balances of lease liabilities outstanding as of June 30, 2022, are summarized as follows:

	Lease Maturities	Interest Requirements
2023	\$ 844,904	\$ 135,482
2024	786,131	105,194
2025	832,194	76,468
2026	874,612	45,124
2027	704,021	11,660
2028-2032	10,266	235
2033-2037	<u>8,332</u>	<u>67</u>
	<u>\$ 4,060,460</u>	<u>\$ 374,230</u>

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Notes to Consolidated Financial Statements
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9. Capital and Intangible Right of Use Assets

Capital and intangible right of use asset activity was as follows:

	Balance June 30, 2021	Increase	Decrease	Balance June 30, 2022
Production Plant (Intakes)	\$ 742,503	\$ -	\$ -	\$ 742,503
Pumping and Treatment Plant	354,812,995	60,466,147	(2,176,972)	413,102,170
Distribution and Collection Plant				
Mains and metering	1,152,024,908	47,031,973	(7,821,651)	1,191,235,230
Services and meters	235,855,917	9,064,223	(1,209,248)	243,710,892
Electric station equipment	182,343,725	6,005,230	(378,781)	187,970,174
Poles, towers and fixtures	219,670,116	10,399,090	(750,586)	229,318,620
Overhead conductors	180,227,318	14,958,175	(5,294,990)	189,890,503
Line transformers	106,735,123	2,395,194	(667,606)	108,462,711
Other accounts	308,765,680	7,007,574	(10,000,392)	305,772,862
Total Distribution & Collection Plant	\$ 2,385,622,787	\$ 96,861,459	\$ (26,123,254)	\$ 2,456,360,992
General Plant	257,906,388	25,486,584	(4,322,872)	279,070,100
Total Plant Assets	\$ 2,999,084,673	\$ 182,814,190	\$ (32,623,098)	\$ 3,149,275,765
Less Accumulated Depreciation	(999,438,900)	(89,664,008)	31,298,724	(1,057,804,184)
Net Plant Assets	\$ 1,999,645,773	\$ 93,150,182	\$ (1,324,374)	\$ 2,091,471,581
Work In Progress	189,507,909	156,312,285	(184,066,875)	161,753,319
Total Net Plant	\$ 2,189,153,682	\$ 249,462,467	\$ (185,391,249)	\$ 2,253,224,900
Intangible Right of Use Assets				
Office space	\$ 645,078	\$ 4,239,246	\$ (522,827)	\$ 4,361,497
Equipment	92,684	27,415	(37,692)	82,407
Other	154,143	52,204	(62,564)	143,783
Total Intangible Right of Use Assets	\$ 891,905	\$ 4,318,865	\$ (623,083)	\$ 4,587,687
Less Accumulated Amortization	(421,047)	(689,074)	421,047	(689,074)
Net Intangible Right of Use Assets	\$ 470,858	\$ 3,629,791	\$ (202,036)	\$ 3,898,613

	Balance June 30, 2020	Increase	Decrease	Balance June 30, 2021
Production Plant (Intakes)	\$ 742,503	\$ -	\$ -	\$ 742,503
Pumping and Treatment Plant	344,536,047	13,417,677	(3,140,729)	354,812,995
Distribution and Collection Plant				
Mains and metering	1,101,692,451	62,950,741	(12,618,284)	1,152,024,908
Services and meters	234,493,396	10,360,509	(8,997,988)	235,855,917
Electric station equipment	172,157,527	11,953,246	(1,767,048)	182,343,725
Poles, towers and fixtures	197,063,098	23,383,197	(776,179)	219,670,116
Overhead conductors	161,568,836	26,461,659	(7,803,177)	180,227,318
Line transformers	105,096,527	2,378,696	(740,100)	106,735,123
Other accounts	302,760,815	11,561,607	(5,556,742)	308,765,680
Total Distribution & Collection Plant	\$ 2,274,832,650	\$ 149,049,655	\$ (38,259,518)	\$ 2,385,622,787
General Plant	214,312,804	44,653,415	(1,059,831)	257,906,388
Total Plant Assets	\$ 2,834,424,004	\$ 207,120,747	\$ (42,460,078)	\$ 2,999,084,673
Less Accumulated Depreciation	(946,215,640)	(97,786,338)	44,563,078	(999,438,900)
Net Plant Assets	\$ 1,888,208,364	\$ 109,334,409	\$ 2,103,000	\$ 1,999,645,773
Work In Progress	247,571,881	151,176,442	(209,240,414)	189,507,909
Total Net Plant	\$ 2,135,780,245	\$ 260,510,851	\$ (207,137,414)	\$ 2,189,153,682
Intangible Right of Use Assets				
Office space	\$ -	\$ 645,078	\$ -	\$ 645,078
Equipment	-	149,799	(57,115)	92,684
Other	-	154,143	-	154,143
Total Intangible Right of Use Assets	\$ -	\$ 949,020	\$ (57,115)	\$ 891,905
Less Accumulated Amortization	-	(421,047)	-	(421,047)
Net Intangible Right of Use Assets	\$ -	\$ 527,973	\$ (57,115)	\$ 470,858

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10. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. On June 30, 2022, and June 30, 2021, the amount of these liabilities was \$2,252,221 and \$1,936,245, respectively, resulting from the following changes:

	2022	2021
Balance, beginning of year	\$ 1,936,245	\$ 1,720,620
Current year claims and changes in estimates	18,435,604	15,519,699
Claims payments	<u>(18,119,629)</u>	<u>(15,304,074)</u>
Balance, end of year	<u>\$ 2,252,221</u>	<u>\$ 1,936,245</u>

11. Pension Plan

Description of Plan

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

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

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

	<u>2021</u>	<u>2020</u>
Inactive plan members:		
Terminated vested participants	12	11
Retirees and beneficiaries	600	593
Active plan members	478	518
Total	<u>1,090</u>	<u>1,122</u>

Retirement Benefits

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

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

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

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

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

Contributions

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

Plan Funding

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

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Investments

The Plan's investments are held by State Street Bank and Trust Company (the "Trustee"). The Plan's policy in regard to the allocation of invested assets is established by the Retirement System Investment Committee and approved by the KUB Board of Commissioners and may only be amended by the KUB Board of Commissioners. It is the policy of the Retirement System Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Plan's adopted asset allocation policy as of December 31, 2021:

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

Contributions of \$3,665,168 and \$3,167,680 for 2020 and 2019, respectively, were made during the Plan sponsor's fiscal years ended June 30, 2022, and 2021, respectively. The fiscal year 2022 contribution was determined as part of the January 1, 2020, valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability, or death.

Net Pension Liability (Asset)

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB 68"), which requires measurement of the net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2022, and 2021, will be based on the December 31, 2021, and 2020, measurement date, respectively.

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

	2021	2020
Total pension liability	\$ 242,201,780	\$ 234,363,021
Plan fiduciary net position	(306,339,494)	(279,462,309)
Plan's net pension liability (asset)	<u>\$ (64,137,714)</u>	<u>\$ (45,099,288)</u>
Plan fiduciary net position as a percentage of the total pension liability	126.48%	119.24%

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

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2020	\$ 234,363,021	\$ 279,462,309	\$ (45,099,288)
Changes for the year:			
Service cost	6,647,220	-	6,647,220
Interest	16,982,226	-	16,982,226
Differences between Expected and Actual Experience	1,935,276	-	1,935,276
Changes of Assumptions	-	-	-
Contributions - employer	-	3,416,428	(3,416,428)
Contributions - rollovers	-	3,936,711	(3,936,711)
Contributions - member	-	2,976	(2,976)
Net investment income	-	37,688,050	(37,688,050)
Benefit payments	(17,725,963)	(17,725,963)	-
Administrative expense	-	(441,017)	441,017
Net changes	7,838,759	26,877,185	(19,038,426)
Balances at December 31, 2021	\$ 242,201,780	\$ 306,339,494	\$ (64,137,714)

Actuarial Assumptions

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

Valuation dates	January 1, 2021, rolled forward to December 31, 2021; January 1, 2020, rolled forward to December 31, 2020
Discount rate	7.25% as of December 31, 2021, and 2020
Salary increases	From 2.50% to 5.65%, based on years of service as of December 31, 2021, and 2020
Mortality	115% and 110% of the PubG-2010 table, for males and females respectively, using the Public Sector General Employee Table for ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of December 31, 2021, and 2020
Inflation	2.5% as of December 31, 2021, and 2020

The actuarial assumptions used in the January 1, 2021, and 2020, valuations were based on an actuarial experience study covering the period January 1, 2014, through December 31, 2018.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2021, and 2020, are summarized in the following table. The real rate of return reported for fixed income is for aggregate fixed income. The Plan has both aggregate and long duration fixed income.

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Asset Class	Long Term Expected Real Rate of Return	
	2021	2020
Domestic equity	5.1%	5.1%
Non-U.S. equity	6.0%	6.4%
Real estate equity	5.4%	5.6%
Debt securities	0.2%	0.9%
Cash and deposits	(0.3)%	0.2%

Discount rate

The discount rate used to measure the total pension liability was 7.25 percent as of December 31, 2021, and 2020. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability (asset) of the Plan as of December 31, 2021, calculated using the discount rate of 7.25 percent, as well as what the Plan's net pension liability (asset) would be if it were calculated using a discount rate that is one percent lower (6.25 percent) or one percent higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Plan's net pension liability (asset)	\$ (42,465,742)	\$ (64,137,714)	\$ (82,832,869)

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

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

The impact of experience gains or losses and assumptions changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2020, this average was 4.00 years. During the measurement year, there was a liability experience loss of \$1,935,276, with approximately \$483,819 of that recognized in the current year and each of the next three years, resulting in a deferred outflow of \$1,451,457. Unrecognized liability experience losses from prior periods were \$1,544,136, of which \$386,034 was recognized as an increase in Pension Expense in the current year and resulted in a deferred outflow of \$1,158,102. The combination of unrecognized liability experience losses this year along with unrecognized liability experience losses from prior periods results in a deferred outflow of \$2,609,559. Unrecognized liability gains from prior periods were \$1,092,163, of which \$549,386 was recognized as a decrease in Pension Expense in the current year and resulted in a deferred inflow of \$542,777.

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

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of \$17,812,070, of which \$3,562,414 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment gains from prior periods were \$34,994,864, of which \$10,275,263 was recognized as a decrease in Pension Expense in the current year. The combination of unrecognized investment gains this year along with unrecognized investment gains from prior periods results in a deferred inflow of \$38,969,257.

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

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

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\$1,832,582 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2023. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2023	\$ (8,113,823)
2024	(13,665,516)
2025	(8,171,458)
2026	(3,562,414)
Thereafter	-

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

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

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

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

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

12. Qualified Excess Benefit Arrangement

Description

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

As of June 30, 2022, there are 446 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the KUB Pension Plan. The KUB Pension Plan was amended to include the provision of QEBA benefits; therefore, amendments to the QEBA require the same authority as amendments to the KUB Pension Plan. As required by federal tax law, the QEBA is unfunded within the meaning of the federal tax laws. KUB may not pre-fund the QEBA to cover future liabilities beyond the current year. KUB has established procedures to pay for these benefits on a pay-as-you-go basis. There are no assets accumulated in a trust that meets the GASB's criteria. Due to the increase in the section 415(d) annual benefit limitation from 2021 to 2022, the pension benefit for the sole participant in the Excess Benefit Arrangement is now fully payable under the KUB Pension Plan and, as such, there is no benefit payable under the Excess Benefit Arrangement as of June 30, 2022.

Total Pension Liability of the QEBA

The below summarizes the disclosures of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"). GASB 73 extends a similar approach of financial reporting to plans meeting specific criteria that are not administered through trusts that GASB 68 established for pension plans. GASB 73 requires measurement of the total pension liability of the QEBA. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2022, and 2021, are based on a December 31, 2021, and 2020, measurement date, respectively. There is no Total Pension Liability as of June 30, 2022. The total pension liability was \$18,714 as of June 30, 2021.

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

	2021	2020
Total pension liability	\$0	\$18,714
Deferred outflows	(11,505)	(33,660)
Deferred inflows	16,927	23,630
Net impact on Statement of Net Position	<u>\$5,422</u>	<u>\$8,684</u>
Covered payroll	\$38,074,863	\$41,524,273
Total pension liability as a % of covered payroll	0.00%	0.05%

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

	<u>Increase (Decrease)</u>
	<u>Total Pension Liability</u>
Balances at December 31, 2020	\$ 18,714
Changes for the year:	
Service cost	-
Interest	268
Changes of Benefits	-
Differences between Expected and Actual Experience	(6,816)
Changes of Assumptions	-
Benefit payments	(12,166)
Net changes	<u>(18,714)</u>
Balances at December 31, 2021	<u>\$ -</u>

Actuarial Assumptions

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

Valuation dates	January 1, 2022 and January 1, 2021
Actuarial cost method	Individual entry age
Salary increase	From 2.50% to 5.65%, based on years of service as of January 1, 2022, and 2021
Mortality	115% and 110% of the Public Sector General Healthy Annuitant Mortality Table (PubG-2010), for males and females, respectively, using the Public Sector General Employee Table for ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of January 1, 2022, and 2021
Inflation	2.5% as of January 1, 2022, and 2021

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

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Discount rate

The QEBA is not funded. In accordance with paragraph 31 of GASB 73, the discount rate is based on the Bond Buyer 20-Bond GO index. This rate was 2.06% on January 1, 2022, and 2.12% on January 1, 2021.

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

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

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2020, this average was 4 years. During the measurement year, there was an experience gain of \$6,816, with \$1,704 recognized in the current year and each of the next three years, resulting in a deferred inflow of \$5,112. There was a deferred inflow at the end of the measurement year of \$7,225 from experience gains in prior years and a deferred outflow of \$6,112 from experience losses in prior years.

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

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

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

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

Year ended June 30:	
2023	\$ (8,793)
2024	3,023
2025	348
2026	-
2027	-
Thereafter	-

For the year ended June 30, 2021, KUB recognized pension expense of \$21,436 for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA (\$22,874), but

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instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [\$8,684 - \$10,122 + \$22,874].

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

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

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

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

13. Defined Contribution Plan

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

KUB funded 401(k) matching contributions and nonelective contributions of \$3,125,903 and \$2,984,314, respectively, for the years ended June 30, 2022, and 2021.

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14. Other Post-Employment Benefits (OPEB)

Description of Trust

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

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

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

	HRA		Retiree Medical Benefit	
	2022	2021	2022	2021
Retirees	4	0	549	538
Dependents of retirees	2	0	612	579
Eligible active employees	15	0	145	160
Total	21	0	1,306	1,277

Benefits

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

Contributions and Funding

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

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

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

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

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

Investments

The Trust holds investments in a balanced fund, which invests in passively managed common trust index funds, managed and sponsored by State Street Global Advisors (SSgA), with an asset allocation mirroring the asset allocation of the Trust and rebalanced monthly. The Trust’s Investment Policy was established and may only be amended by the KUB Board of Commissioners. The Trust’s Investment Policy is to invest in a manner that will provide sufficient investment return to meet current and future retiree health benefits, while conforming to all governing State and Federal statutes. It allows investment of Trust assets in any type of security instrument allowed for in T.C.A 8-50-1203. The following was the Trust’s adopted investment target allocations as set forth in the Trust’s Investment Policy as of June 30, 2022:

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

For the fiscal year ended June 30, 2022, an actuarially determined contribution of \$1,989,066 was made to the OPEB Trust along with an additional \$1,500,000 contribution to help fund the HRA.

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Actuarially determined contributions for the fiscal year ended June 30, 2021, were \$757,226. These were based on the OPEB actuarial valuations as of January 1, 2020, and 2019.

Net OPEB Liability (Asset)

The below summarizes the disclosures of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"), which requires measurement of the net OPEB liability as total OPEB liability less the amount of the Trust's fiduciary net position. The amounts reported as of June 30 are based on the reporting date for the KUB Other Post-Employment Benefits Plan which is June 30. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2022, and 2021, and the Total OPEB Liability as of the valuation date January 1, 2021, updated to June 30, 2022, and January 1, 2020, updated to June 30, 2021, respectively. KUB's total net OPEB liability (asset) was \$11,202,507 as of June 30, 2022, and (\$5,931,828) as of June 30, 2021.

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

	2022	2021
Total OPEB liability	\$ 58,536,280	\$ 51,515,118
Plan fiduciary net position	47,333,773	57,446,946
Net OPEB (asset) liability	<u>\$ 11,202,507</u>	<u>\$ (5,931,828)</u>

Plan fiduciary net position as a percentage of the total OPEB liability	80.86%	111.51%
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Changes in Net OPEB Liability (Asset) are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2021	\$ 51,515,118	\$ 57,446,946	\$ (5,931,828)
Changes for the year:			
Service cost	416,277	-	416,277
Interest	3,858,276	-	3,858,276
Changes of Benefits	6,594,293	-	6,594,293
Differences between Expected and Actual Experience	60,951	-	60,951
Changes of Assumptions	-	-	-
Contributions - employer	-	1,989,066	(1,989,066)
Contributions - member	-	-	-
Net investment income	-	(8,122,417)	8,122,417
Benefit payments	(3,908,635)	(3,908,635)	-
Administrative expense	-	(71,187)	71,187
Net changes	<u>7,021,162</u>	<u>(10,113,173)</u>	<u>17,134,335</u>
Balances at June 30, 2022	<u>\$ 58,536,280</u>	<u>\$ 47,333,773</u>	<u>\$ 11,202,507</u>

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Actuarial assumptions

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

Valuation dates:	January 1, 2021, rolled forward to June 30, 2022; January 1, 2020, rolled forward to June 30, 2021
Discount rate:	7.25% as of January 1, 2021, and 2020
Healthcare cost trend rates:	Pre-Medicare: 6.75% grading down to 4.04% over 20 years as of January 1, 2021, and 2020 Medicare: 6.30% grading down to 4.04% over 20 years as of January 1, 2021, and 2020 Administrative expenses: 3.0% per year
Salary increases:	From 2.50% to 5.65%, based on years of service as of January 1, 2021, and 2020
Mortality:	115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Healthy Annuitant Mortality Table, both projected using scale MP2018 fully generational as of January 1, 2021, and 2020
Inflation:	2.50% as of January 1, 2021, and 2020

The actuarial assumptions used in the January 1, 2021, and January 1, 2020, valuations were based on the results of actuarial experience studies for the periods January 1, 2014, through December 31, 2018.

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

Asset Class	Long Term Expected Real Rate of Return	
	2022	2021
Domestic equity	5.5%	4.9%
International equity	6.5%	5.9%
Emerging Market equity	8.6%	8.4%
Real estate equity	5.7%	5.4%
Debt securities	1.2%	0.5%
Cash and deposits	0.2%	(0.1%)

Discount rate

The discount rate used to measure the total OPEB liability was 7.25 percent as of June 30, 2022, and 2021. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions

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will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the net OPEB liability (asset) of the Trust as of June 30, 2022, calculated using the discount rate of 7.25 percent, as well as what the Trust's net OPEB liability (asset) would be if it were calculated using a discount rate that is one percent lower (6.25 percent) or one percent higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net OPEB liability (asset)	\$16,978,277	\$11,202,507	\$6,333,693

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

The following presents the net OPEB liability (asset) of the Trust as of June 30, 2022, as well as what the Trust's net OPEB liability (asset) would be if it were calculated using a healthcare cost trend rate that is one percent lower or one percent higher than the current rate:

	1% Decrease	Baseline Trends	1% Increase
Net OPEB liability (asset)	\$6,338,599	\$11,202,507	\$16,846,266

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

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

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was 2.0 years. During the measurement year, there was an experience loss of \$60,951, with \$30,476 of that recognized in the current year and the remaining amount will be recognized in the next year, resulting in a deferred outflow of resources of \$30,475. Unrecognized experience losses from prior periods were \$21,401, of which the entire amount is recognized as an increase in OPEB expense in the current year.

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

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment loss of \$12,216,418, of which \$2,443,284 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred outflow of resources of \$9,773,134. Net unrecognized investment gains from prior periods were \$5,905,689, of which \$1,311,774 was recognized as a decrease in OPEB expense in the current year, resulting in a net deferred inflow of \$4,593,915. The combination of unrecognized losses this year along with the net unrecognized investment gains from prior periods results in a deferred outflow of resources of \$5,179,219. The following table summarizes the current balances of deferred outflows and deferred inflows of resources.

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

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

Year ended June 30:	
2023	\$ 1,192,746
2024	1,044,744
2025	528,922
2026	2,443,282
2027	-
Thereafter	-

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

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

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

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

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

15. 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, 2022, and 2021, are summarized as follows:

	2022	2021
City of Knoxville		
Amounts billed by KUB for utilities and related services	\$ 13,087,853	\$ 12,420,849
Payments by KUB in lieu of property tax	21,305,955	21,003,825
Payments by KUB for services provided	2,209,682	3,354,318

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

	2022	2021
Accounts receivable	\$ 838,238	\$ 914,091

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16. Natural Gas Supply Contract Commitments

For fiscal year 2022, the Gas Division hedged 27 percent of its total gas purchases via gas supply contracts. As of June 30, 2022, the Gas Division had hedged the price on approximately 5 percent of its anticipated gas purchases for fiscal year 2023.

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

Firm obligations related to purchased gas – demand

	2023	2024	2025	2026	2027	2028
Transportation						
Tennessee Gas Pipeline	\$ 3,406,776	\$ 3,406,776	\$ 3,406,776	\$ 1,135,592	\$ -	\$ -
East Tennessee Natural Gas	12,582,997	12,582,997	12,582,997	3,435,624	-	-
Texas Eastern	328,500	328,500	328,500	109,500	-	-
Storage						
Tennessee Gas Pipeline	1,530,684	1,530,684	1,530,684	510,228	-	-
East Tennessee Natural Gas	1,081,500	1,081,500	1,081,500	-	-	-
Saltville Natural Gas	2,000,160	2,000,160	1,845,150	1,380,120	1,380,120	1,035,090
Bobcat	54,000	-	-	-	-	-
Demand Total	<u>\$ 20,984,617</u>	<u>\$ 20,930,617</u>	<u>\$ 20,775,607</u>	<u>\$ 6,571,064</u>	<u>\$ 1,380,120</u>	<u>\$ 1,035,090</u>

Firm obligations related to purchased gas – commodity

	2023	2024	2025	2026	2027	2028-2052
Baseload						
Shell Energy	\$ 2,153,180	\$ -	\$ -	\$ -	\$ -	\$ -
Conoco	\$ 2,200,920	\$ 23,985	\$ -	\$ -	\$ -	\$ -
BP	\$ 276,520	\$ -	\$ -	\$ -	\$ -	\$ -
CNX	\$ 7,536,936	\$ 4,738,107	\$ -	\$ -	\$ -	\$ -
Enervest	\$ 5,134,304	\$ 4,043,490	\$ 3,001,698	\$ -	\$ -	\$ -
PrePay Gas	\$ 5,873,688	\$ 4,514,946	\$ 4,313,608	\$ 4,433,183	\$ 4,345,174	\$ 112,935,089
Commodity Total	<u>\$ 23,175,548</u>	<u>\$ 13,320,528</u>	<u>\$ 7,315,306</u>	<u>\$ 4,433,183</u>	<u>\$ 4,345,174</u>	<u>\$ 112,935,089</u>

The total commodity values presented here are based upon firm supply obligations with each individual natural gas supplier. The firm obligations value for BP Energy Company, ConocoPhillips, and Shell Energy North America are based upon firm supply obligations and locked prices with those suppliers. The firm obligations value for CNX and Enervest Operating LLC are based upon firm supply obligations and the applicable NYMEX strip prices on June 30, 2022. The firm obligations value for Tennergy Corporation is based upon a 30 year prepay gas contract valued at the applicable Tennessee Zone 0 strip prices on June 30, 2022.

17. Other Commitments and Contingencies

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

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

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completed all the requirements of the Consent Decree for the collection system two years in advance of the deadline.

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

KUB's funding plan for the Consent Decree included long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all types of wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2022, the Wastewater Division had issued \$594.8 million in bonds to fund wastewater system capital improvements since the inception of the Consent Decree. The Board approved two 50 percent rate increases, which went into effect in April 2005 and January 2007. The Board also approved an 8 percent rate increase, which was effective in September 2008, two 12 percent rate increases, which were effective in April 2011 and October 2012, three 6 percent rate increases, which were effective October 2014, October 2015, and October 2016, three 5 percent rate increases, which were effective July 2017, July 2018, and July 2019, and three 4 percent rate increases, which are effective July 2022, July 2023, and July 2024. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

KUB successfully completed the first cycle of Maintenance Operation Management (MOM) requirements one year before the deadline by inspecting manholes and gravity mains, smoke testing gravity mains, performing required inspections of pump stations and the related force mains, and completing all Corrective Action Plan/Engineering Report (CAP/ER) projects. KUB initiated the second MOM cycle that continues to focus on the prevention of SSOs. As part of the Century II initiative, formally known as the PACE10 program, KUB has installed storage tanks providing 34 million gallons of wastewater storage to control wet weather overflows and rehabilitated or replaced 432 miles of collection system pipe. KUB also continues to maintain a proactive operations and maintenance plan for the wastewater collection system including inspection, grease control, and private lateral enforcement. The result of the PACE10/Century II initiative has been an 80 percent reduction in SSOs.

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

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

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18. Segment Information

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

Condensed Statement of Net Position

	2022				
	Electric	Fiber	Gas	Water	Wastewater
Assets and Deferred Outflows of Resources					
Current assets	\$ 158,820,919	\$ 3,508,355	\$ 48,281,211	\$ 40,660,318	\$ 37,333,853
Restricted assets	20,266,914	-	3,354,168	4,534,404	8,217,706
Net capital assets	712,994,298	4,342,483	329,129,124	375,152,303	831,606,692
Net intangible assets	1,836,297	1,609,984	286,147	61,727	104,460
Other assets	84,355,546	2,761	30,073,394	24,586,111	44,406,984
Total assets	<u>\$ 978,273,974</u>	<u>\$ 9,463,583</u>	<u>\$ 411,124,044</u>	<u>\$ 444,994,863</u>	<u>\$ 921,669,695</u>
Deferred outflows of resources	6,233,902	-	2,518,890	4,558,876	15,166,134
Total assets and deferred outflows of resources	<u>\$ 984,507,876</u>	<u>\$ 9,463,583</u>	<u>\$ 413,642,934</u>	<u>\$ 449,553,739</u>	<u>\$ 936,835,829</u>
Liabilities and Deferred Inflows of Resources					
Current liabilities	\$ 149,360,945	\$ 783,314	\$ 22,885,222	\$ 13,234,512	\$ 22,614,577
Other liabilities	20,582,956	1,483,695	10,609,689	3,692,833	4,536,558
Long-term debt	319,887,437	9,625,000	87,006,291	199,505,672	518,518,494
Total liabilities	<u>\$ 489,831,338</u>	<u>\$ 11,892,009</u>	<u>\$ 120,501,202</u>	<u>\$ 216,433,017</u>	<u>\$ 545,669,629</u>
Deferred inflows of resources	22,151,109	-	8,674,041	7,536,771	7,850,319
Total liabilities and deferred inflows of resources	<u>\$ 511,982,447</u>	<u>\$ 11,892,009</u>	<u>\$ 129,175,243</u>	<u>\$ 223,969,788</u>	<u>\$ 553,519,948</u>
Net position					
Net investment in capital assets	\$ 373,317,161	\$ (70,525)	\$ 234,171,043	\$ 172,829,853	\$ 314,336,681
Restricted	14,040,851	-	2,230,358	2,411,963	3,660,092
Unrestricted	85,167,417	(2,357,901)	48,066,290	50,342,135	65,319,108
Total net position	<u>\$ 472,525,429</u>	<u>\$ (2,428,426)</u>	<u>\$ 284,467,691</u>	<u>\$ 225,583,951</u>	<u>\$ 383,315,881</u>

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Condensed Statement of Net Position

	2021 as restated				
	Electric	Fiber	Gas	Water	Wastewater
Assets and Deferred Outflows of Resources					
Current assets	\$ 137,583,934	\$ -	\$ 51,027,309	\$ 40,303,791	\$ 70,488,587
Restricted assets	18,921,704	-	2,711,802	4,287,800	7,665,859
Net capital assets	691,360,855	-	316,892,582	370,925,234	809,975,010
Net intangible assets	226,011	-	80,046	61,212	103,589
Other assets	39,892,255	-	20,658,213	20,293,906	21,120,043
Total assets	\$ 887,984,759	\$ -	\$ 391,369,951	\$ 435,871,943	\$ 909,353,088
Deferred outflows of resources	3,971,049	-	1,406,413	3,601,619	15,027,097
Total assets and deferred outflows of resources	\$ 891,955,808	\$ -	\$ 392,776,364	\$ 439,473,562	\$ 924,380,185
Liabilities and Deferred Inflows of Resources					
Current liabilities	\$ 124,734,612	\$ -	\$ 18,412,603	\$ 12,797,633	\$ 24,191,982
Other liabilities	14,222,051	-	4,220,744	1,815,393	2,379,968
Long-term debt	286,588,420	-	94,618,667	207,473,371	523,665,353
Total liabilities	\$ 425,545,083	\$ -	\$ 117,252,014	\$ 222,086,397	\$ 550,237,303
Deferred inflows of resources	23,076,437	-	8,152,256	6,162,498	10,428,841
Total liabilities and deferred inflows of resources	\$ 448,621,520	\$ -	\$ 125,404,270	\$ 228,248,895	\$ 560,666,144
Net position					
Net investment in capital assets	\$ 384,825,723	\$ -	\$ 214,218,766	\$ 161,247,461	\$ 289,031,630
Restricted	14,545,852	-	1,733,025	2,145,297	3,331,229
Unrestricted	43,962,713	-	51,420,303	47,831,909	71,351,182
Total net position	\$ 443,334,288	\$ -	\$ 267,372,094	\$ 211,224,667	\$ 363,714,041

Restated per GASB 87, see Footnote 2 for further disclosure.

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Knoxville Utilities Board
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

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

	2022				
	Electric	Fiber	Gas	Water	Wastewater
Operating revenues	\$ 606,335,419	\$ -	\$ 141,949,970	\$ 64,558,346	\$ 102,936,574
Operating expenses	524,550,587	1,968,636	106,481,701	32,604,913	43,613,190
Depreciation and amortization	38,481,239	153,604	15,166,029	11,671,918	21,815,257
Total operating expenses	<u>563,031,826</u>	<u>2,122,240</u>	<u>121,647,730</u>	<u>44,276,831</u>	<u>65,428,447</u>
Operating income (loss)	43,303,593	(2,122,240)	20,302,240	20,281,515	37,508,127
Non-operating expense	(14,112,452)	(306,186)	(3,293,078)	(6,965,888)	(18,413,896)
Change in net position before capital contributions	29,191,141	(2,428,426)	17,009,162	13,315,627	19,094,231
Capital contributions	-	-	86,435	1,043,657	507,609
Change in net position	<u>29,191,141</u>	<u>(2,428,426)</u>	<u>17,095,597</u>	<u>14,359,284</u>	<u>19,601,840</u>
Net position					
Beginning of year	443,334,288	-	267,372,094	211,224,667	363,714,041
End of year	<u>\$ 472,525,429</u>	<u>\$ (2,428,426)</u>	<u>\$ 284,467,691</u>	<u>\$ 225,583,951</u>	<u>\$ 383,315,881</u>

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

	2021 as restated				
	Electric	Fiber	Gas	Water	Wastewater
Operating revenues	\$ 553,897,585	\$ -	\$ 115,414,180	\$ 61,799,439	\$ 100,360,933
Operating expenses	470,296,392	-	79,299,883	30,969,276	39,968,202
Depreciation and amortization	40,385,025	-	15,465,869	11,602,283	23,034,519
Total operating expenses	<u>510,681,417</u>	<u>-</u>	<u>94,765,752</u>	<u>42,571,559</u>	<u>63,002,721</u>
Operating income (loss)	43,216,168	-	20,648,428	19,227,880	37,358,212
Non-operating expense	(11,626,398)	-	(3,434,296)	(10,661,774)	(20,184,792)
Change in net position before capital contributions	31,589,770	-	17,214,132	8,566,106	17,173,420
Capital contributions	-	-	18,582	321,408	643,000
Change in net position	<u>31,589,770</u>	<u>-</u>	<u>17,232,714</u>	<u>8,887,514</u>	<u>17,816,420</u>
Net position					
Beginning of year	411,744,518	-	250,139,380	202,337,153	345,897,621
End of year	<u>\$ 443,334,288</u>	<u>\$ -</u>	<u>\$ 267,372,094</u>	<u>\$ 211,224,667</u>	<u>\$ 363,714,041</u>

Restated per GASB 87, see Footnote 2 for further disclosure.

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Knoxville Utilities Board
Notes to Consolidated Financial Statements
June 30, 2022 and 2021

Condensed Statement of Cash Flows

	2022				
	Electric	Fiber	Gas	Water	Wastewater
Net cash provided by (used in) operating activities	\$ 89,822,159	\$ (2,026,526)	\$ 37,376,663	\$ 30,252,330	\$ 55,730,001
Net cash used in capital and related financing activities	(41,573,698)	(4,425,562)	(38,871,206)	(29,584,468)	(64,841,976)
Net cash provided by noncapital and related financing activities	-	9,715,502	-	-	-
Net cash provided by (used in) investing activities	<u>(14,884,130)</u>	<u>10,729</u>	<u>220,510</u>	<u>175,533</u>	<u>302,808</u>
Net increase (decrease) in cash and cash equivalents	33,364,331	3,274,143	(1,274,033)	843,395	(8,809,167)
Cash and cash equivalents, beginning of year	<u>39,974,435</u>	<u>-</u>	<u>23,998,681</u>	<u>25,024,961</u>	<u>30,379,799</u>
Cash and cash equivalents, end of year	<u>\$ 73,338,766</u>	<u>\$ 3,274,143</u>	<u>\$ 22,724,648</u>	<u>\$ 25,868,356</u>	<u>\$ 21,570,632</u>

Condensed Statement of Cash Flows

	2021 as restated				
	Electric	Fiber	Gas	Water	Wastewater
Net cash provided by operating activities	\$ 78,968,171	\$ -	\$ 34,698,690	\$ 30,117,495	\$ 60,582,992
Net cash used in capital and related financing activities	(83,054,540)	-	(34,498,578)	(28,060,369)	(52,499,567)
Net cash provided by (used in) investing activities	<u>733,633</u>	<u>-</u>	<u>(356,229)</u>	<u>2,732,667</u>	<u>10,567,991</u>
Net increase (decrease) in cash and cash equivalents	(3,352,736)	-	(156,117)	4,789,793	18,651,416
Cash and cash equivalents, beginning of year	<u>43,327,171</u>	<u>-</u>	<u>24,154,798</u>	<u>20,235,168</u>	<u>11,728,383</u>
Cash and cash equivalents, end of year	<u>\$ 39,974,435</u>	<u>\$ -</u>	<u>\$ 23,998,681</u>	<u>\$ 25,024,961</u>	<u>\$ 30,379,799</u>

Restated per GASB 87, see Footnote 2 for further disclosure.

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Knoxville Utilities Board
Required Supplementary Information - Schedule of Changes in Net Pension Liability and Related Ratios
June 30, 2022

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

Notes to Schedule:

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

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board

Required Supplementary Information - Schedule of Employer Pension Contributions

June 30, 2022

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

Notes to Schedule:

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

Valuation Dates: January 1, 2020 and January 1, 2019

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Individual entry age

Asset valuation method: 5-year smoothed market

Amortization method: Level dollar, 30-year closed period with 21 years remaining (22 years as of January 1, 2019), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2020 and 2019, the unfunded liability was negative.

Discount rate: 7.25% as of January 1, 2020; 7.5% as of January 1, 2019

Salary increases: 2.50% to 5.65%, based on years of service

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

Inflation: 2.5%

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board
Required Supplementary Information – Schedule of Changes in Net OPEB Liability and Related Ratios
June 30, 2022

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

Notes to Schedule:

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

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board
Required Supplementary Information – Schedule of Employer OPEB Contributions
June 30, 2022

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

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

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

Notes to Schedule:

Valuation Date: January 1, 2020 and January 1, 2019
Timing: Actuarially determined contribution rates are calculated based on the actuarial valuation completed 18 months before the beginning of the fiscal year.

Key methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age normal
Asset valuation method: 5-year smoothed market
Amortization method: Level dollar, 30-year closed period with 16 years remaining as of January 1, 2020 (17 years as of January 1, 2019), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2019 and 2020, the unfunded liability was positive
Discount rate: 7.25% as of January 1, 2020; 7.5% as of January 1, 2019
Healthcare cost trend rate: Pre-Medicare: 6.75% grading down to 4.04% over 20 years as of January 1, 2020; 7.83% grading down to 4.50% over 19 years as of January 1, 2019
Medicare: 6.30% grading down to 4.04% over 20 years as of January 1, 2020; 6.88% grading down to 4.50% over 19 years as of January 1, 2019
Administrative expenses: 3.0% per year
Salary increases: From 2.50% to 5.65%, based on years of service
Mortality: 115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), respectively for males and females, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational
Inflation: 2.5%
Investment rate of return: 7.25% as of January 1, 2020; 7.5% as of January 1, 2019
Retirement age: 2% at ages 50-57, grading up to 100% at age 70

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board
Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement
Schedule of Changes in Total Pension Liability and Related Ratios
June 30, 2022

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

Notes to Schedule:

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

See accompanying Independent Auditor's Report

Knoxville Utilities Board
Statistical Information - Schedule of Insurance in Force
June 30, 2022
(Unaudited)

Crime

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

Directors' and Officers' Liability Insurance

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

Employment Practices Liability

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

Fiduciary

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

Pollution Legal Liability

New conditions coverage for losses exceeding specified amount per occurrence (\$1,000,000). Limits of coverage - \$15,000,000.

Property Insurance

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

Travel Accident

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

Excess Insurance for General Liability

As a governmental entity, KUB's liability is limited under the Tennessee Governmental Tort Liability Act (TCA §29-20-403). KUB is self-insured for the first \$700,000 of any accident and has insurance of \$4,300,000 above this retention.

Excess Insurance for Workers' Compensation

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

Employee Health Plan Stop Loss Coverage

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

Cyber Security Liability

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

See accompanying Independent Auditor's Report

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

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the Knoxville Utilities Board (KUB), a component unit of the City of Knoxville, Tennessee, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements, and have issued our report thereon dated October 25, 2022.

Report on Internal Control over Financial Reporting

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

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

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

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Report on Compliance and Other Matters

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

Purpose of this Report

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

Coulter & Justus, P. C.

Knoxville, Tennessee
October 25, 2022

Knoxville Utilities Board
Schedule of Findings and Questioned Costs
June 30, 2022

Section I -- Summary of Auditor's Results

Financial Statements

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

Section II -- Financial Statement Findings

None reported.

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

None reported.

Section IV -- Summary Schedule of Prior Year Audit Findings

Not applicable as there were no prior year findings reported.