Knoxville Utilities Board

Consolidated

Financial Statements and Supplemental Information
June 30, 2020 and 2019

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Operations

Knoxville Utilities Board
Index
June 30, 2020 and 2019

9717 Cogdill Road
Suite 201
Knoxville, TN 37932

C&J Coulter & Justus, P.C.

phone: (865) 637-4161
fax: (865) 524-2952
web: cj-pc.com

Independent Auditor's Report

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

We have audited the accompanying financial statements of the Knoxville Utilities Board (KUB), a component unit of the City of Knoxville, Tennessee, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements as listed in the index.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KUB as of June 30, 2020 and 2019, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 27 and the required supplementary information on pages 74 through 78 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2020, 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 29, 2020

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

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

The Management Discussion and Analysis (MD&A) focuses on the fiscal year ended June 30, 2020 activities, resulting changes and current known facts, and should be read in conjunction with KUB's consolidated financial statements.

Consolidated Highlights

System Highlights

As of June 30, 2020, KUB served 468,033 customers. KUB added 3,396 new customers in fiscal year 2020, representing growth of less than one percent.

For the second year in a row, KUB's system was impacted by excessive rainfall. After record setting levels in 2019, KUB experienced sustained rainfall amounts exceeding Knoxville's ten-year average for eight months of fiscal year 2020. Electric system reliability was affected, resulting in 2.44 hours of service interruption for the average customer. Despite the record rainfall levels, KUB's water and wastewater systems functioned well. The excess rainfall levels resulted in higher costs at KUB's treatment plant, as intake water required additional treatment. The excess wastewater flows were diverted to system storage allowing KUB to level out the impact of events over longer durations of time.

KUB's energy sales in fiscal year 2020 were impacted by a milder winter in Knoxville. Natural gas sales decreased 3.2 percent from the prior year, while electric sales decreased 2.3 percent.

During March 2020, a global pandemic was declared related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). The pandemic has significantly impacted the economic conditions across the nation.

As a result of the pandemic, KUB quickly responded with changes to lessen the economic burden on customers by deferring proposed rate increases and suspending disconnections for nonpayment. To offset the reduced revenues, KUB delayed projects to create more financial liquidity. KUB plans to enroll customers with past due balances in repayment plans and resume disconnects for nonpayment.

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.

The third of three annual rate increases for each Division previously adopted by the KUB Board went into effect in fiscal year 2020. These rate increases provide additional revenue to help fund each system's respective Century II infrastructure program.

KUB sold $68.9 million in revenue refunding bonds in April 2020 for the purpose of refinancing existing revenue bonds at lower interest rates. KUB will realize a total debt service savings of $27 million over the life of the bonds.

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 Silver level winner and remains a member of the program through 2020. KUB was designated a Safety Contest Winner for calendar year 2019 by APGA, indicating the lowest number of recordable injuries per labor-hours worked.

KUB's treatment plants continue to meet high standards of operation. KUB was awarded the National Association of Clean Water Agencies (NACWA) Water Resources Utility of the Future Today recognition under the category of Beneficial Biosolids Use for 2019. The treatment plants additionally won awards based on performance under NACWA's peak performance recognition. Eastbridge and Fourth Creek wastewater treatment plants won silver awards for calendar year 2019.

KUB continued to maintain Platinum certification with the National Biosolids Partnership following a rigorous review process and independent audit that was conducted in December 2019. Biosolids are nutrient-rich organic matter produced by wastewater treatment and is a registered fertilizer with the Tennessee Department of Agriculture.

Century II Infrastructure Program

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

In fiscal year 2015, KUB concluded the smart grid pilot project, of which a portion of the project was funded by a United States Department of Energy Smart Grid Investment Grant (SGIG). This grant was received by KUB in 2009 as part of the American Reinvestment and Recovery Act (ARRA). Based upon the success of that pilot, KUB formed a plan to move forward with a Century II Grid Modernization initiative, which includes advanced metering for all KUB customers, a telecommunication system linking critical KUB infrastructure, and an increased investment in automation technology to help operate KUB's energy and water distribution systems. Over the course of ten years, KUB plans to spend $124.4 million in this effort. The deployment is funded in large part by debt issues and system revenues. In fiscal year 2020, KUB completed the final year of the four-year advanced meter deployment, spending approximately $82.4 million. The project was completed on time and under budget.

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

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

KUB is currently in the process of implementing a Water Plant Redundancy initiative to ensure that high quality, reliable water service will be provided to customers over the long term. KUB maintains a single water treatment plant for its system. In lieu of building a second treatment facility to ensure capacity will be available to meet the needs of current and future water customers, KUB will invest approximately $149 million in various redundant facilities at the site of its existing Mark B. Whitaker Water Treatment Plant over a 15-year period that began in fiscal year 2017. Construction of a new generator building with three 2,500 kW diesel generators and associated switchgear is nearing completion at the Mark B. Whitaker Water Treatment Plant. Startup is scheduled for October 2020.

For the fiscal year, KUB stayed on track with its overall Century II capital budget and production goals. The electric system replaced 1,962 poles and 15.1 miles of transmission lines. In the natural gas system, 8.3 miles of gas steel main were replaced. In the water system, 8.1 miles of galvanized water main and 5.7 miles of cast iron water main were replaced. In the wastewater system, 24.2 miles of main were rehabilitated or replaced.

Consent Decree

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

The Consent Decree also required KUB to perform an evaluation of the wet weather performance and capacity of its wastewater treatment plants. In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB's Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provides for a biologically enhanced high-rate clarification (the BEHRC) secondary treatment system to be installed at the Fourth Creek treatment plant by June 30, 2018 and at the Kuwahee treatment plant by June 30, 2021. KUB successfully completed the installation of the BEHRC system at the Fourth Creek treatment plant ahead of schedule in April 2018. Work is currently ongoing at the Kuwahee treatment plant and remains on schedule for completion before the deadline of June 30, 2021. The total cost of such improvements at the Kuwahee treatment plant is estimated to be approximately $50 million.

KUB's funding plan for the Consent Decree includes long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all types of wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2020, the Wastewater Division had issued $556.2 million in bonds to fund wastewater system capital improvements since the inception of the Consent Decree. The Board approved two 50 percent rate increases, which went into effect in April 2005 and January 2007. The Board also approved an 8 percent rate increase, which was effective in September 2008, two 12 percent rate increases, which were effective in April 2011 and October 2012, three 6 percent rate increases, which were effective October 2014, October 2015, and October 2016, and three 5 percent rate increases, which were effective July 2017, July 2018, and July 2019. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

KUB successfully completed the first cycle of Maintenance Operation Management (MOM) requirements one year before the deadline by inspecting manholes and gravity mains, smoke testing gravity mains, performing required inspections of pump stations and the related force mains, and completing all Corrective Action Plan/Engineering Report (CAP/ER) projects. KUB initiated the second MOM cycle that continues to focus on the prevention of SSOs. As part of the Century II initiative, formally known as the PACE10 program, KUB has installed storage tanks providing 34 million gallons of wastewater storage to control wet weather overflows and rehabilitated or replaced 408 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, 2020, the Wastewater Division had completed its 16th full year under the Consent Decree, spending $559.8 million on capital investments to meet Consent Decree requirements.

Financial Highlights

Fiscal Year 2020 Compared to Fiscal Year 2019

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

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

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

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

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

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

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

Fiscal Year 2019 Compared to Fiscal Year 2018

KUB's consolidated Change in Net Position increased $65.3 million in fiscal year 2019. Comparatively, net position increased by $63.6 million in fiscal year 2018. A restatement to the fiscal year 2018 beginning net position, based on a change in method of accounting for Other Post-Employment Benefits (OPEB), increased the total net position by an additional $4.5 million. The change resulted in a total increase of $68.1 million in KUB's net position.

Operating revenue decreased $0.2 million, the net result of additional revenues from system rate increases and a decline in billed sales volumes. Purchased energy expense (power and natural gas) decreased $14.5 million or 3 percent, the combined effect of an $8.1 million decrease in purchased power cost and a decrease of $6.4 million in purchased gas cost, reflecting lower customer demand. Margin from sales (operating revenue less purchased energy expense) increased $14.3 million or 4.2 percent compared with the prior fiscal year.

Operating expenses (excluding purchased power and purchased gas expense) increased $16.1 million. Operating and maintenance (O&M) expenses were $17.2 million or 13.9 percent higher than the previous year. Depreciation expense decreased $2.9 million or 3.8 percent. Taxes and tax equivalents increased $1.8 million or 5.2 percent, reflecting higher plant in service levels.

Interest income was $2.6 million more than the prior fiscal year. Interest expense increased $1.6 million or 3.9 percent, reflecting the interest costs on new revenue bonds issued during fiscal year 2019 to fund system capital improvements.

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

Total plant assets (net) increased $122.2 million or 6.4 percent over the last fiscal year.

Long-term debt represented 50.2 percent of KUB's consolidated capital structure, compared to 50.8 percent last fiscal year. Capital structure equals long-term debt (including the current and long-term portion of revenue bonds), plus net position.

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Knoxville Utilities Board Consolidated Financial Statements

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

Statement of Net Position

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

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

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

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

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

Statement of Revenues, Expenses and Changes in Net Position

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

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

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

Statement of Cash Flows

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

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

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

Condensed Financial Statements

Statement of Net Position

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

Statements of Net Position
As of June 30

(in thousands of dollars)	**2020**	**2019**	**2018**
Current, restricted and other assets	$ 395,224	$ 389,851	$ 424,562
Capital assets, net	2,135,780	2,020,169	1,897,995
Deferred outflows of resources	33,237	41,209	25,544
Total assets and deferred outflows of resources	2,564,241	2,451,229	2,348,101
Current and other liabilities	207,464	180,241	169,966
Long-term debt outstanding	1,126,089	1,135,027	1,097,096
Deferred inflows of resources	20,569	3,843	14,259
Total liabilities and deferred inflows of resources	1,354,122	1,319,111	1,281,321
Net position			
Net investment in capital assets	990,228	871,180	794,383
Restricted	22,186	21,294	19,436
Unrestricted	197,705	239,644	252,961
Total net position	$ 1,210,119	$ 1,132,118	$ 1,066,780

Normal Impacts on Statement of Net Position

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

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

Impacts and Analysis

Current, Restricted and Other Assets

Fiscal Year 2020 Compared to Fiscal Year 2019

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

Fiscal Year 2019 Compared to Fiscal Year 2018

Current, restricted and other assets decreased $34.7 million or 8.2 percent. This decrease reflects a decrease in the actuarially determined net pension asset of $19.8 million, an $11.6 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments), and a decrease in accounts receivable of $5.4 million. KUB under recovered $1.3 million in wholesale gas costs from its customers in fiscal year 2019. 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 2020 Compared to Fiscal Year 2019

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

Fiscal Year 2019 Compared to Fiscal Year 2018

Capital assets (net) increased $122.2 million or 6.4 percent. Major capital expenditures (reflected in both plant additions and work in progress) in fiscal year 2019 included $42.9 million related to wastewater Century II projects, $29.5 million for various electric distribution system improvements, $16.8 million for building improvements, $14.1 million for Grid Modernization and advanced metering including Supervisory Control and Data Acquisition (SCADA) system upgrades, $11.3 million for water plant and system improvements, $10.3 million for pole replacements for the electric system, and $8.3 million for utility asset replacements and relocations for the gas and water system to accommodate Tennessee Department of Transportation (TDOT) highway improvement projects.

Deferred Outflows of Resources

Fiscal Year 2020 Compared to Fiscal Year 2019

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

Fiscal Year 2019 Compared to Fiscal Year 2018

Deferred outflows of resources increased $15.7 million compared to the prior year, reflecting an increase in pension outflow of $15.3 million and a $1.8 million increase in OPEB outflow offset by a $1.5 million decrease in unamortized bonds refunding costs when compared to the prior fiscal year.

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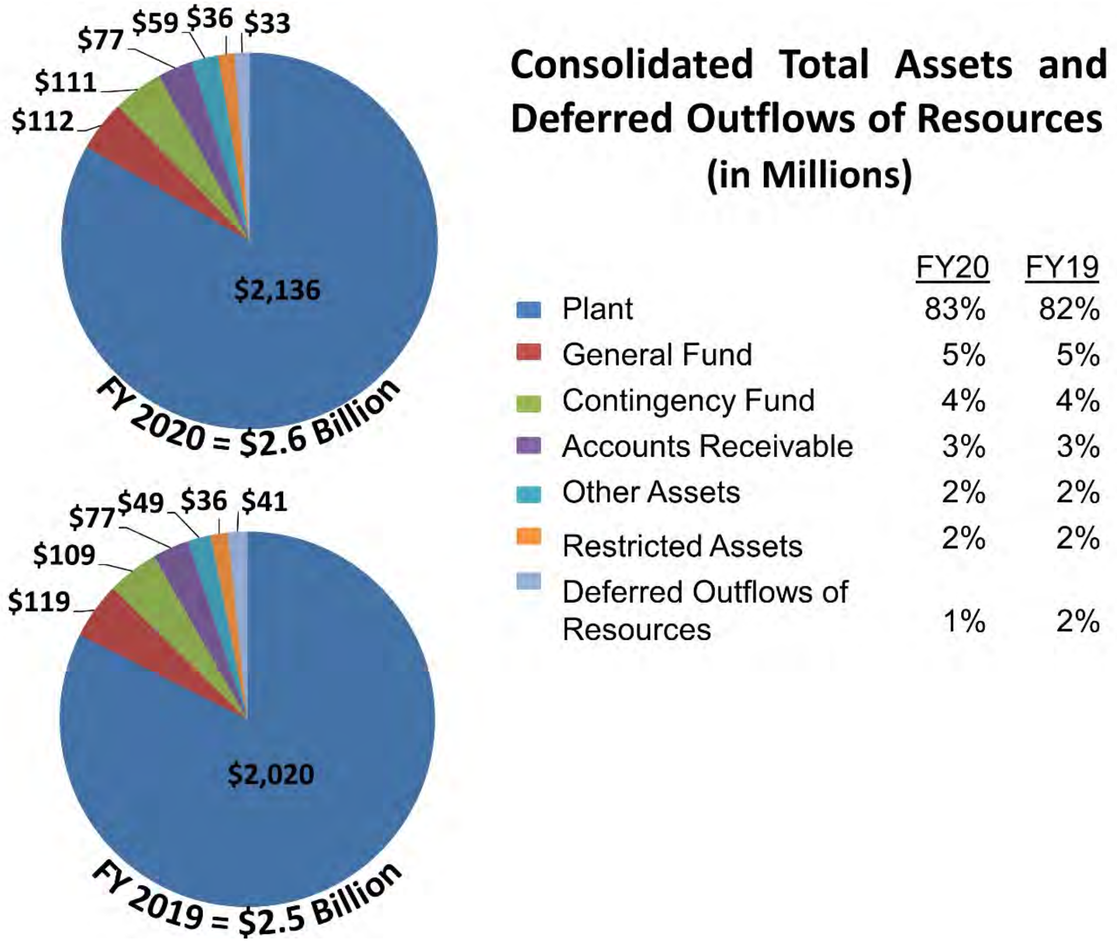

Consolidated Total Assets and Deferred Outflows of Resources (in Millions)

		FY20	FY19
🟦	Plant	83%	82%
🟥	General Fund	5%	5%
🟩	Contingency Fund	4%	4%
🟪	Accounts Receivable	3%	3%
🟦	Other Assets	2%	2%
🟧	Restricted Assets	2%	2%
🟦	Deferred Outflows of Resources	1%	2%

Current and Other Liabilities

Fiscal Year 2020 Compared to Fiscal Year 2019

Current and other liabilities increased $27.2 million or 15.1 percent compared to the prior fiscal year. This reflects an increase of $22.9 million in accounts payable, an increase of $6.1 million in net OPEB liability, an increase in the current portion of revenue bonds of $3.2 million, and an increase of $1.5 million in customer advances for construction offset by a decrease of $6.9 million in net pension liability. KUB over recovered $1.8 million in wholesale power costs from its customers in fiscal year 2020, as compared to a $2.7 million over recovery in fiscal year 2019. This over recovery of costs will be flowed back to KUB's electric customers during the next fiscal year through adjustments to rates via the Purchased Power Adjustment.

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

Fiscal Year 2019 Compared to Fiscal Year 2018

Current and other liabilities increased $10.3 million or 6 percent compared to the prior fiscal year. This reflects an increase of $6.6 million in net pension liability, an increase of $3.2 million in customer advances for construction, and an increase in the current portion of revenue bonds of $3.1 million. KUB over recovered $2.7 million in wholesale power costs from its customers in fiscal year 2019, as compared to a $4.7 million over recovery in fiscal year 2018. This over recovery of costs will be flowed back to KUB's electric customers during the next fiscal year through adjustments to rates via the Purchased Power Adjustment.

The outstanding balance on TVA conservation loans declined by $1.3 million, as KUB ceased issuance of any new loans in fiscal year 2016.

Long-term Debt

Fiscal Year 2020 Compared to Fiscal Year 2019

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

Fiscal Year 2019 Compared to Fiscal Year 2018

Long-term debt increased $37.9 million or 3.5 percent. Revenue bonds totaling $80 million were sold in August 2018 and were offset by the scheduled repayment of debt. During the fiscal year, $37.9 million of bond debt was repaid, which included principal payments from the August 2018 revenue bond issuance.

Deferred Inflows of Resources

Fiscal Year 2020 Compared to Fiscal Year 2019

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

Fiscal Year 2019 Compared to Fiscal Year 2018

Deferred inflows decreased $10.4 million compared to the prior fiscal year due to differences in pension inflows.

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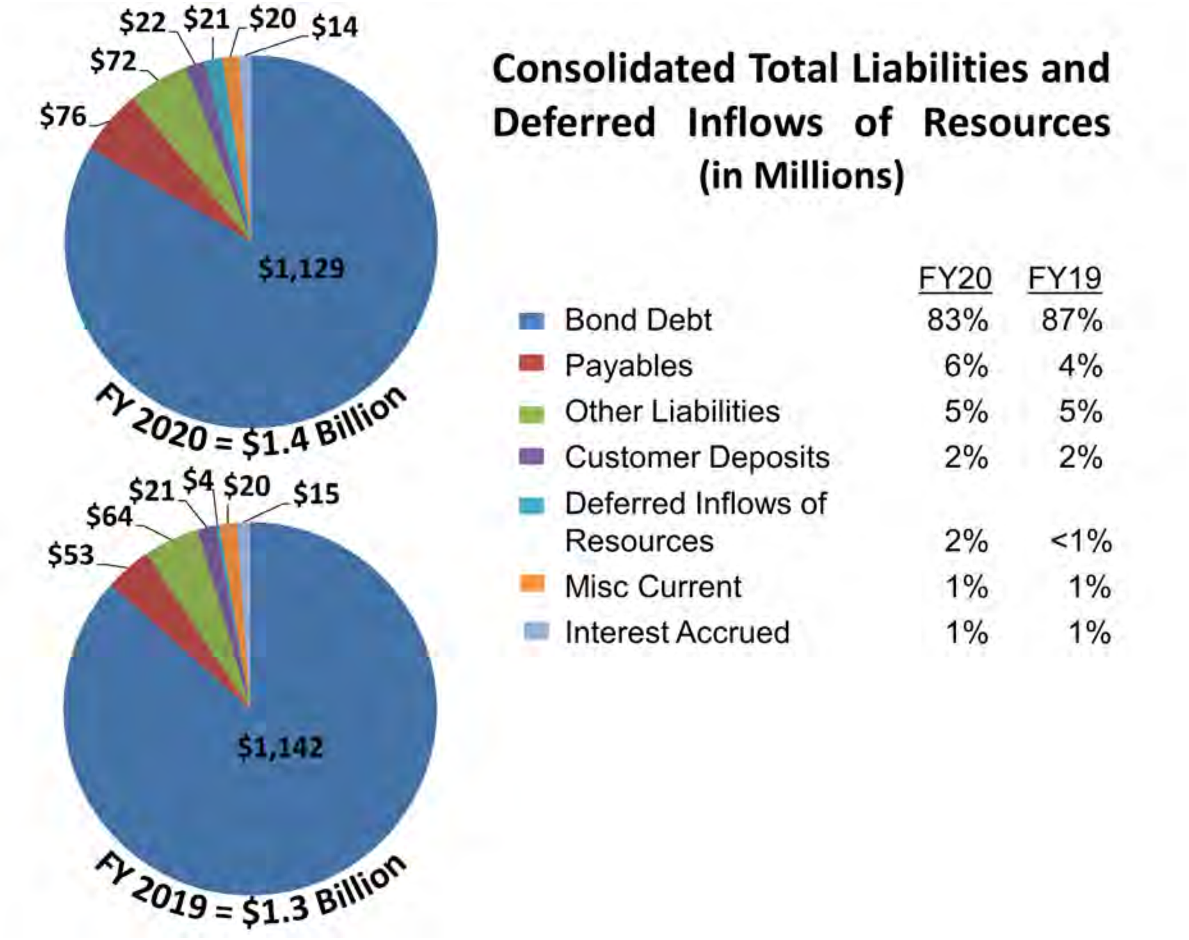

Consolidated Total Liabilities and Deferred Inflows of Resources (in Millions)

	FY20	FY19
Bond Debt	83%	87%
Payables	6%	4%
Other Liabilities	5%	5%
Customer Deposits	2%	2%
Deferred Inflows of Resources	2%	<1%
Misc Current	1%	1%
Interest Accrued	1%	1%

Net Position

Fiscal Year 2020 Compared to Fiscal Year 2019

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

Fiscal Year 2019 Compared to Fiscal Year 2018

Unrestricted net position decreased $13.3 million or 5.3 percent compared to the previous fiscal year, partially due to an $11.6 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments). Net investment in capital assets increased $76.8 million or 9.7 percent, the result of net capital assets increasing $122.2 million and a $41.1 million increase in current portion of revenue bonds and total long-term debt. Restricted net position increased $1.9 million compared to the prior year.

Statement of Revenues, Expenses and Changes in Net Position

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

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

(in thousands of dollars)	**2020**	**2019**	**2018**
Operating revenues	$ 803,751	$ 815,390	$ 815,544
Less: Purchased energy expense	436,236	462,564	477,038
Margin from sales	367,515	352,826	338,506
Operating expenses			
Treatment	16,306	16,355	15,951
Distribution and collection	70,822	66,590	63,868
Customer service	14,007	15,710	13,327
Administrative and general	41,668	42,601	30,891
Depreciation	72,826	74,730	77,666
Taxes and tax equivalents	35,863	36,310	34,504
Total operating expenses	251,492	252,296	236,207
Operating income	116,023	100,530	102,299
Interest income	4,740	6,626	4,063
Interest expense	(43,127)	(43,590)	(41,962)
Other income/(expense)	(52)	668	(1,296)
Change in net position before capital contributions	77,584	64,234	63,104
Capital contributions	417	1,104	467
Change in net position	$ 78,001	$ 65,338	$ 63,571

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

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

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

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

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

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

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

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

- Interest expense on debt is impacted by level of outstanding debt and the interest rate(s) on the outstanding debt.

- Other income/(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 2020 Compared to Fiscal Year 2019

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

Fiscal Year 2019 Compared to Fiscal Year 2018

KUB's consolidated Change in Net Position increased $65.3 million in fiscal year 2019. Comparatively, net position increased $63.6 million in fiscal year 2018. A restatement to the fiscal year 2018 beginning net position, based on a change in method of accounting for OPEB, increased the total net position by an additional $4.5 million. The change resulted in a total increase of $68.1 million in KUB's net position.

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Margin from Sales

Fiscal Year 2020 Compared to Fiscal Year 2019

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

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

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

Fiscal Year 2019 Compared to Fiscal Year 2018

Operating revenue was $0.2 million lower than the previous fiscal year. Both electric and natural gas sales were impacted by a milder winter than the previous fiscal year. Electric Division operating revenue decreased $1.7 million due to the net result of additional revenue from KUB's electric rate increase, lower sales volumes, and the flow through of prior year over recovered purchased power costs to electric customers. Gas Division revenue decreased $6 million for the fiscal year, the net result of a 5.6 percent decrease in billed sales and additional revenue generated from the October 2018 gas rate increase. Water Division revenue increased $3.7 million, the net result of additional revenue from the July 2018 water rate increase and a 1.1 percent decline in billed water sales volumes. Wastewater Division revenue was $3.8 million higher than the previous year due to additional revenue from the July 2018 wastewater rate increase offset by a one percent decrease in billable wastewater volumes.

Wholesale energy expense decreased $14.5 million or 3 percent. Purchased power expense decreased $8.1 million compared to last year, reflecting lower customer demand. Purchased gas expense was $6.4 million lower, reflecting lower customer demand for the fiscal year.

Margin from sales (operating revenue less purchased energy expense) increased $14.3 million compared to the previous year. The increase reflects additional revenue from the electric, natural gas, water, and wastewater rate increases.

Operating Expenses

Fiscal Year 2020 Compared to Fiscal Year 2019

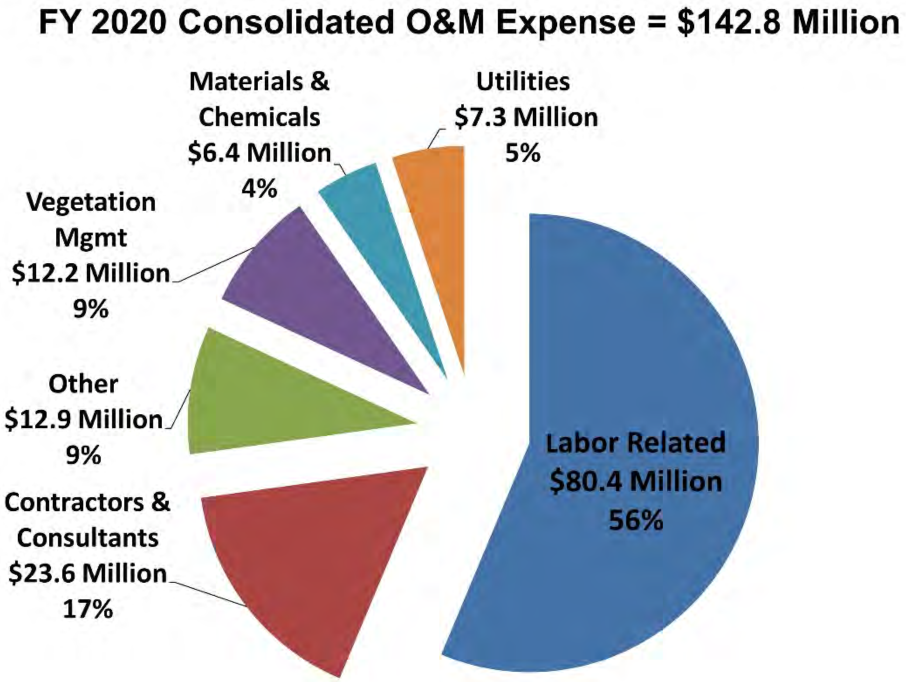
Operating expenses (excluding wholesale purchased energy expense) decreased $0.8 million compared to fiscal year 2019. Operating expenses include operations and maintenance (O&M) expense, depreciation, and taxes/tax equivalents. O&M expenses can be further classified as treatment, distribution and collection,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

- Treatment expenses were consistent with the prior year.

- Distribution and collection expenses increased $4.2 million or 6.4 percent, primarily due to vegetation management costs.

- Customer service expenses decreased $1.7 million, primary due to lower expenses associated with meter reading contractors and technology consultants.

- Administrative and general expenses decreased $0.9 million, primarily due to a decrease in insurance costs.



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

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

Fiscal Year 2019 Compared to Fiscal Year 2018

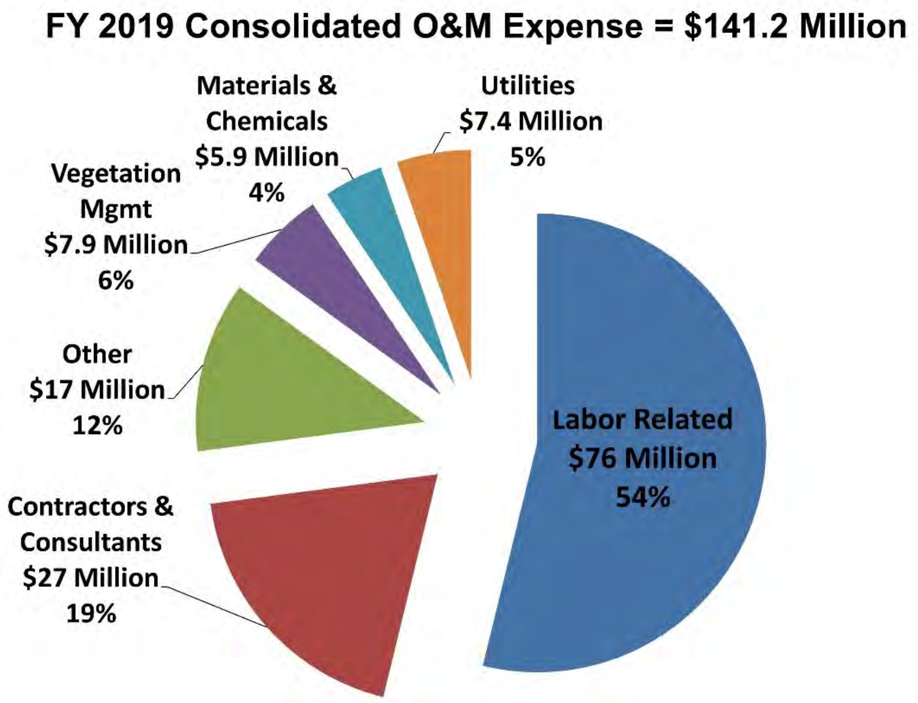
Operating expenses (excluding wholesale purchased energy expense) increased $16.1 million compared to fiscal year 2018. Operating expenses include operations and maintenance (O&M) expense, depreciation, and taxes/tax equivalents. O&M expenses can be further classified as treatment, distribution and collection, customer service, and administrative and general.

- Treatment expenses were $0.4 million higher than the prior year, reflecting higher outside contractor and consultant expenses for the wastewater system offset by lower outside contractor costs and labor related expenses for the water system.

- Distribution and collection expenses increased $2.7 million or 4.3 percent, primarily due to higher utility system contractors, electric line contractors, and higher labor related expenses.

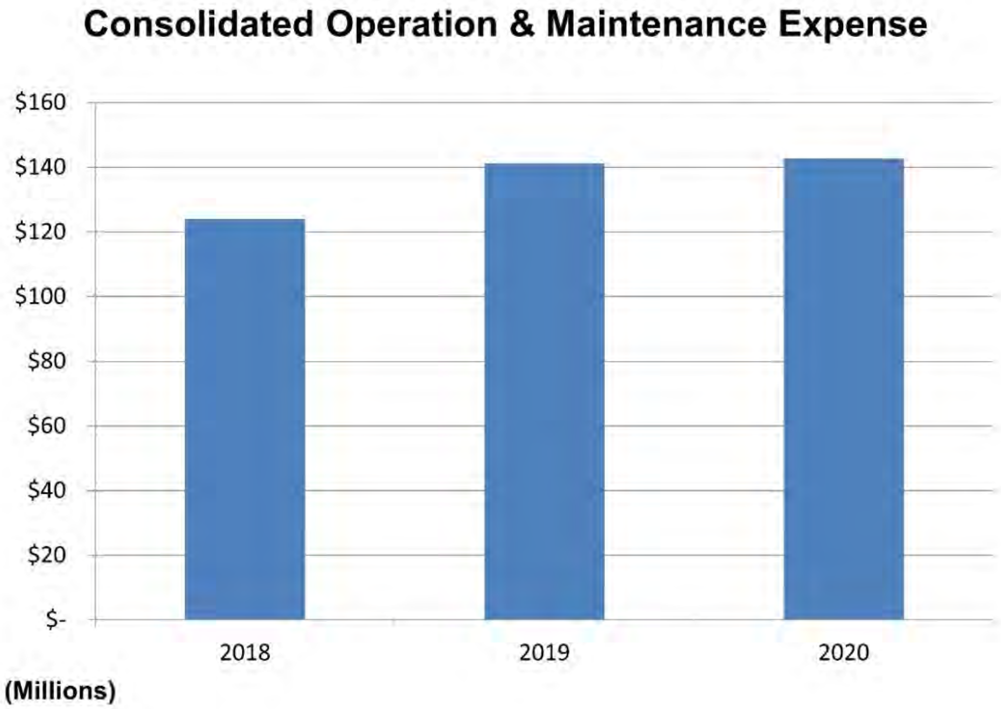
- Customer service expenses increased $2.4 million, primary due to higher expenses associated with meter reading contractors and technology consultants.

- Administrative and general expenses increased $11.7 million, primarily due to an increase in labor related expenses including higher pension expenses, reflecting impact of investment losses on Pension Trust assets in 2018.


FY 2019 Consolidated O&M Expense = $141.2 Million

- Depreciation expense decreased $2.9 million or 3.8 percent, primarily due to the sale of streetlight assets to the City of Knoxville in 2018 and full depreciation of key information technology systems. KUB added $145.3 million in assets during fiscal year 2018. A full year of depreciation expense was recorded on these capital investments and a partial year of depreciation expense was incurred on $135.4 million in assets placed in service during fiscal year 2019.

- Taxes and tax equivalents increased $1.8 million or 5.2 percent due to increased plant in service levels. Tax equivalent payments to taxing jurisdictions in which KUB's utility systems are located are based on a combination of net plant values and margin from energy sales.



Other Income and Expense

Fiscal Year 2020 Compared to Fiscal Year 2019

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

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

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

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

Fiscal Year 2019 Compared to Fiscal Year 2018

Interest income increased $2.6 million compared to the prior fiscal year, reflecting increases in short-term interest rates over the prior fiscal year.

Interest expense increased $1.6 million or 3.9 percent, reflecting the impact of interest expense from new revenue bonds sold during the fiscal year.

Other income (net) increased $2 million, primarily due to mark-to-market adjustments on investments.

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

Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

(in thousands of dollars)	**2020**	**2019**	**2018**
Production Plant (Intakes)	$ 7	$ 7	$ 57
Pumping and Treatment Plant	216,136	209,281	204,756
Distribution and Collection Plant			
Mains and metering	$ 865,744	$ 837,277	$ 825,318
Services and meters	168,800	152,554	129,275
Electric station equipment	57,564	52,974	54,695
Poles, towers and fixtures	140,424	137,804	127,343
Overhead conductors	110,865	108,965	99,761
Line transformers	61,725	61,784	61,446
Other accounts	191,009	187,759	185,945
Total Distribution & Collection Plant	$ 1,596,131	$ 1,539,117	$ 1,483,783
General Plant	75,934	54,690	55,713
Total Plant Assets	$ 1,888,208	$ 1,803,095	$ 1,744,309
Work In Progress	247,572	217,074	153,686
Total Net Plant	$ 2,135,780	$ 2,020,169	$ 1,897,995

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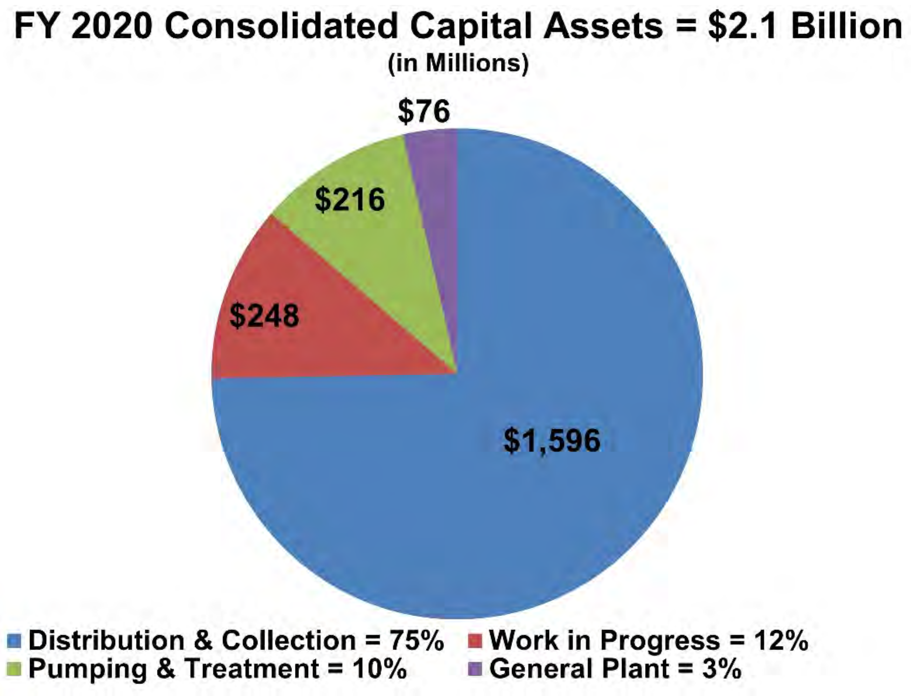
Fiscal Year 2020 Compared to Fiscal Year 2019

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

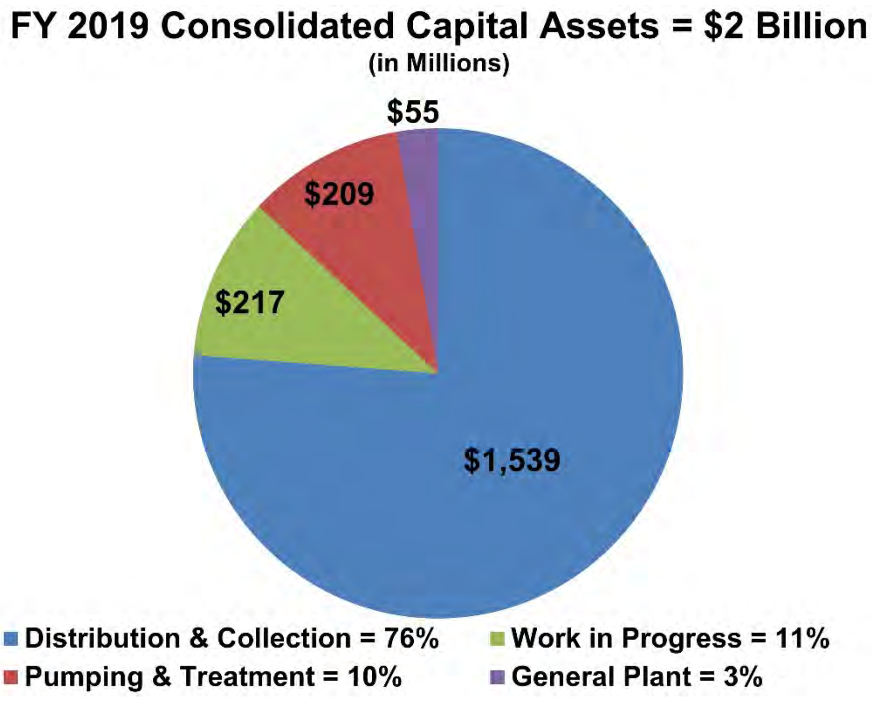

FY 2020 Consolidated Capital Assets = $2.1 Billion
(in Millions)

Major capital asset additions during the year were as follows:

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

Fiscal Year 2019 Compared to Fiscal Year 2018

As of June 30, 2019, KUB had $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 $122.2 million or 6.4 percent over the end of the last fiscal year.



Major capital asset additions during the year were as follows:

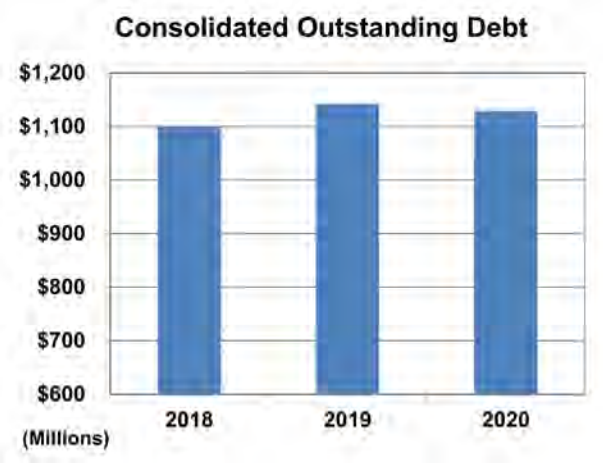
- $42.9 million related to wastewater Century II projects
- $19.1 million for wastewater treatment plant upgrades
- $8.6 million for sewer mini-basin rehabilitation and replacement
- $5.2 million for pump station construction and improvements
- $4.1 million for sewer trunk line rehabilitation and replacement
- $3.1 million for rehabilitation projects
- $2.8 million for short line projects
- $29.5 million for various electric distribution system improvements
- $16.8 million for building improvements
- $14.1 million for Grid Modernization and advanced metering, including SCADA system upgrades, for the electric, gas and water systems
- $11.3 million for water plant and system improvements
- $10.3 million for pole replacements for the electric system
- $8.3 million for replacement and relocation of utility assets for the gas and water system to accommodate TDOT highway improvement projects

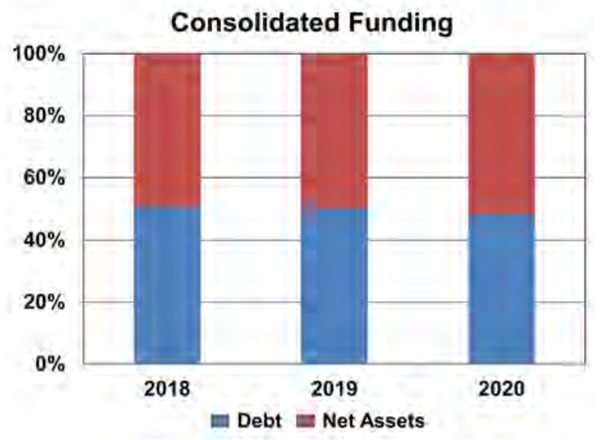
Debt Administration

KUB's outstanding debt was $1.13 billion at June 30, 2020. Debt as a percentage of capital structure was 48.3 percent in 2020, 50.2 percent in 2019, and 50.8 percent at the end of fiscal year 2018.

Outstanding Debt
As of June 30

(in thousands of dollars)	2020	2019	2018
Revenue bonds	$ 1,128,795	$ 1,141,925	$ 1,099,795
Total outstanding debt	$ 1,128,795	$ 1,141,925	$ 1,099,795





KUB will pay $471.7 million in principal payments over the next ten years, representing 42 percent of outstanding bonds.

Fiscal Year 2020 Compared to Fiscal Year 2019

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

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

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

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

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

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

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

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

Fiscal Year 2019 Compared to Fiscal Year 2018

As of June 30, 2019, KUB had $1.14 billion in outstanding debt (including the current portion of revenue bonds) compared to $1.1 billion last year, an increase of $42.1 million. The increase is attributable to new revenue bonds issued during the fiscal year offset by the scheduled repayment of debt. As of June 30, 2019, KUB's weighted average cost of debt was 3.79 percent (3.59 percent including the impact of Build America Bonds rebates).

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

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

KUB sold $20 million in water system revenue bonds in August 2018 for the purpose of funding water system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.46 percent.

KUB sold $12 million in wastewater system revenue bonds in August 2018 for the purpose of funding wastewater system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.49 percent.

KUB's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. In May 2019, KUB received a change in its long-term rating from Standard & Poor's on the electric system. The reduction from

'AA+' to 'AA' reflects a change in methodology in how Standard & Poor's calculates fixed-charge coverage by including the utility's demand component of its purchased power bill to cover its portion of the Tennessee Valley Authority's (TVA) fixed costs, including debt service associated with generating plants. KUB's reduction is consistent with that of other TVA distributors due to the same change in methodology. As of June 30, 2019, Standard & Poor's rated the revenue bonds of the Water Division AAA, the Wastewater Division AA+, and the revenue bonds of the Electric Division and the Gas Division AA. Moody's Investors Service rated the bonds of the Water Division Aa1 and the Electric, Gas, and Wastewater Divisions Aa2.

Impacts on Future Financial Position

KUB anticipates a net increase of 3,730 customers during fiscal year 2021.

During March 2020, a global pandemic was declared related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). While the disruption is currently expected to be temporary, there is uncertainty around its duration and the ultimate future impact, if any, on results of operations, financial position, liquidity or capital resources. In response to the COVID-19 pandemic, the Water Division chose to forego a proposed 5% rate increase and the Wastewater Division chose to forego a proposed 2.25% rate increase for fiscal year 2021 to reduce financial impact on its customers.

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

KUB will be using a portion of the annual partnership credit, around $800,000 annually, to purchase 212MW of solar power to meet the needs of its electric system customers through TVA's Green Invest Program. This first of its kind agreement in the TVA region will provide 465 million kilowatt-hours of solar output and represent about eight percent of KUB's electric system load. The solar developments providing the 212MW of solar energy are due to be completed in fiscal year 2022.

KUB expects to receive reimbursements in fiscal year 2021 from the Federal Emergency Management Agency (FEMA) to partially offset the cost of the 2019 storm and flood event.

KUB sold $9 million in water system revenue bonds on October 7, 2020, with a scheduled closing on October 30, 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 $27.5 million in wastewater system revenue bonds on October 7, 2020, with a scheduled closing on October 30, 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.

Ratings by Standard & Poor's and Moody's Investors Service were reaffirmed for the water and wastewater systems as part of the issuance process for the aforementioned bonds.

KUB long-term debt includes $59.9 million of Build America Bond (BABs). The BABs were sold on a taxable basis with the United States Treasury providing a rebate to KUB for a percentage of the interest cost. The interest rebates were subject to federal sequestration during the fiscal year and were reduced by 5.9 percent. Any future actions by Congress may also affect the anticipated rebates for future fiscal years.

The Pension Plan actuarial valuation for the Plan year beginning January 1, 2019 resulted in an actuarially determined contribution of $3,167,680 for the fiscal year ending June 30, 2021, based on the Plan's current funding policy. Subsequent to June 30, 2020, the actuarial valuation for the Plan year beginning January 1, 2020 was completed. The actuarial valuation resulted in an actuarially determined contribution of $3,665,168 for the fiscal year ending June 30, 2022, based on the Plan's current funding policy. For the Plan year beginning January 1, 2020, the Plan's actuarial funded ratio is 101.61 percent.

The OPEB Plan actuarial valuation as of January 1, 2019 resulted in an actuarially determined contribution of $757,226 for the fiscal year ending June 30, 2021, based on the Plan's current funding policy. Subsequent to June 30, 2020, the actuarial valuation as of January 1, 2020 was completed. The actuarial valuation resulted in an actuarially determined contribution of $489,066 for the fiscal year ending June 30, 2022, based on the Plan's current funding policy. The Plan's actuarial funded ratio is 97.68 percent.

GASB Statement No. 84, *Fiduciary Activities*, is effective for fiscal years beginning after December 15, 2019. GASB Statement No. 87, *Leases*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period,* is effective for fiscal years beginning after December 15, 2020. GASB Statement No. 90, *Major Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, is effective for fiscal years beginning after December 15, 2019. GASB Statement No. 91, *Conduit Debt Obligations*, is effective for fiscal years beginning after December 15, 2021. GASB Statement No. 92, *Omnibus 2020*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 93, *Replacement of Interbank Offered Rates*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, is effective for fiscal years beginning after June 15, 2021. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on KUB's financial position or results of operations during fiscal year 2020.

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, 2020 and 2019. 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, 2020 and 2019

	2020	2019
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	$ 99,445,520	$ 91,639,940
Short-term investments	12,578,300	27,471,225
Short-term contingency fund investments	94,270,579	79,038,925
Other current assets	1,801,954	1,405,053
Accrued interest receivable	49,263	159,019
Accounts receivable, less allowance of uncollectible accounts of $594,422 in 2020 and $589,889 in 2019	76,694,933	76,689,091
Inventories	15,349,955	22,127,455
Prepaid expenses	867,359	874,206
Gas storage	6,296,386	7,251,486
Total current assets	307,354,249	306,656,400
Restricted assets:		
Bond funds	35,991,556	35,948,463
Other funds	1,514	21,482
Total restricted assets	35,993,070	35,969,945
Plant in service	2,834,424,004	2,720,121,544
Less accumulated depreciation	(946,215,640)	(917,026,275)
	1,888,208,364	1,803,095,269
Retirement in progress	4,733,893	3,688,844
Construction in progress	242,837,988	213,384,960
Net plant in service	2,135,780,245	2,020,169,073
Other assets:		
Net pension asset	19,121,375	-
Long-term contingency fund investments	16,935,949	29,934,235
TVA conservation program receivable	1,933,798	2,961,311
Under recovered purchased gas cost	1,513,434	1,339,422
Other	12,371,684	12,989,818
Total other assets	51,876,240	47,224,786
Total assets	2,531,003,804	2,410,020,204
Deferred outflows of resources:		
Pension outflow	8,123,085	17,252,635
OPEB outflow	4,178,710	2,493,180
Unamortized bond refunding costs	20,934,777	21,462,880
Total deferred outflows of resources	33,236,572	41,208,695
Total assets and deferred outflows of resources	$ 2,564,240,376	$ 2,451,228,899

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

Knoxville Utilities Board
Consolidated Statements of Net Position
June 30, 2020 and 2019

	2020	2019
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	$ 43,125,000	$ 39,970,000
Sales tax collections payable	1,375,324	1,422,867
Accounts payable	74,337,079	51,433,305
Accrued expenses	21,443,876	20,412,212
Customer deposits plus accrued interest	21,690,456	20,674,169
Accrued interest on revenue bonds	13,807,353	14,675,955
Total current liabilities	175,779,088	148,588,508
Other liabilities:		
TVA conservation program	2,023,948	3,082,829
Accrued compensated absences	10,280,214	9,184,481
Customer advances for construction	9,658,968	8,144,729
Net pension liability	20,236	6,881,639
Net OPEB liability	7,589,447	1,447,742
Over recovered purchased power cost	1,848,630	2,674,466
Other	263,388	236,604
Total other liabilities	31,684,831	31,652,490
Long-term debt:		
Revenue bonds	1,085,670,000	1,101,955,000
Unamortized premiums/discounts	40,419,199	33,071,871
Total long-term debt	1,126,089,199	1,135,026,871
Total liabilities	1,333,553,118	1,315,267,869
Deferred inflows of resources:		
Pension inflow	20,568,586	3,843,381
Total deferred inflows of resources	20,568,586	3,843,381
Total liabilities and deferred inflows of resources	1,354,121,704	1,319,111,250
Net position		
Net investment in capital assets	990,228,184	871,180,151
Restricted for:		
Debt service	22,184,203	21,272,508
Other	1,514	21,482
Unrestricted	197,704,771	239,643,508
Total net position	1,210,118,672	1,132,117,649
Total liabilities, deferred inflows, and net position	$ 2,564,240,376	$ 2,451,228,899

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, 2020 and 2019

	2020	2019
Operating revenues		
Electric	$ 538,808,337	$ 551,464,042
Gas	102,265,243	108,316,063
Water	61,882,169	57,555,214
Wastewater	100,795,468	98,054,399
Total operating revenues	803,751,217	815,389,718
Operating expenses		
Purchased power	393,246,624	413,008,588
Purchased gas	42,989,092	49,554,956
Treatment	16,305,741	16,355,397
Distribution and collection	70,822,228	66,589,972
Customer service	14,007,340	15,710,333
Administrative and general	41,668,181	42,600,716
Provision for depreciation	72,825,673	74,729,662
Taxes and tax equivalents	35,862,712	36,310,281
Total operating expenses	687,727,591	714,859,905
Operating income	116,023,626	100,529,813
Non-operating revenues (expenses)		
Contributions in aid of construction	4,826,784	4,915,266
Interest income	4,739,605	6,625,915
Interest expense	(43,127,332)	(43,590,141)
Amortization of debt costs	195,502	102,529
Write-down of plant for costs recovered through contributions	(4,826,784)	(4,915,266)
Other	(247,449)	566,668
Total non-operating revenues (expenses)	(38,439,674)	(36,295,029)
Change in net position before capital contributions	77,583,952	64,234,784
Capital contributions	417,071	1,103,607
Change in net position	78,001,023	65,338,391
Net position, beginning of year	1,132,117,649	1,066,779,258
Net position, end of year	$ 1,210,118,672	$ 1,132,117,649

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

Knoxville Utilities Board
Consolidated Statements of Cash Flows
June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash receipts from customers	$ 800,678,418	$ 817,447,076
Cash receipts from other operations	15,674,228	15,864,600
Cash payments to suppliers of goods or services	(499,147,360)	(559,980,615)
Cash payments to employees for services	(57,577,942)	(56,925,927)
Payment in lieu of taxes	(30,924,835)	(31,550,780)
Cash receipts from collections of TVA conservation loan program participants	1,171,803	1,539,808
Cash payments for TVA Conservation loan program	(1,203,172)	(1,548,508)
Net cash provided by operating activities	228,671,140	184,845,654
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	37,863,502	80,122,836
Principal paid on revenue bonds	(42,619,999)	(37,860,000)
Interest paid on revenue bonds	(43,995,934)	(43,006,465)
Acquisition and construction of plant	(196,870,532)	(203,842,819)
Changes in bond funds, restricted	(43,093)	(2,442,009)
Customer advances for construction	1,558,719	3,347,423
Proceeds received on disposal of plant	283,021	342,017
Cash received from developers and individuals for capital purposes	4,826,784	4,915,266
Net cash used in capital and related financing activities	(238,997,532)	(198,423,751)
Cash flows from investing activities:		
Purchase of investment securities	(93,646,469)	(71,745,842)
Maturities of investment securities	106,545,000	42,935,000
Interest received	5,071,875	6,479,650
Other property and investments	161,566	(668,695)
Net cash provided by (used in) investing activities	18,131,972	(22,999,887)
Net increase (decrease) in cash and cash equivalents	7,805,580	(36,577,984)
Cash and cash equivalents, beginning of year	91,639,940	128,217,924
Cash and cash equivalents, end of year	$ 99,445,520	$ 91,639,940
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 116,023,626	$ 100,529,813
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	75,652,541	77,384,125
Changes in operating assets and liabilities:		
Accounts receivable	(5,842)	5,408,188
Inventories	6,777,500	1,064,356
Prepaid expenses	961,947	(221,767)
TVA conservation program receivable	1,027,513	1,339,690
Other assets	(62,267)	1,352,685
Sales tax collections payable	(47,543)	49,434
Accounts payable and accrued expenses	29,359,322	2,610,084
TVA conservation program payable	(1,058,881)	(1,348,390)
Unrecovered purchased power cost	(825,836)	(2,032,249)
Underrecovered gas costs	(174,012)	(2,806,145)
Customer deposits plus accrued interest	1,016,287	1,434,638
Other liabilities	26,785	81,192
Net cash provided by operating activities	$ 228,671,140	$ 184,845,654
Noncash capital activities:		
Acquisition of plant assets through developer contributions	$ 417,071	$ 1,103,607

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

1. Description of Business

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

2. Significant Accounting Policies

Basis of Accounting

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

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

Recently Adopted New Accounting Pronouncements

In May 2020, the GASB issued GASB Statement No. 95 (Statement No. 95), *Postponement of the Effective Dates of Certain Authoritative Guidance.* The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for fiscal years beginning after June 15, 2018. The requirements of this Statement are effective immediately.

Principles of Consolidation

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

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

Plant

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

The provision for depreciation of plants in service is based on the estimated useful lives of the assets, which range from three to sixty-seven years, and is computed using the straight-line method. Pursuant to FERC/NARUC, the caption "Provision for depreciation" in the consolidated Statements of Revenues, Expenses and Changes in Net Position does not include depreciation for transportation equipment of $2,826,868 in fiscal year 2020 and $2,654,463 in fiscal year 2019. Under regulatory accounting, interest costs are expensed as incurred with construction of plant assets.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of KUB. Operating revenue is recorded when the service is rendered, on a cycle basis, and includes an estimate of unbilled revenue. Revenues are reported net of bad debt expense of $1,917,715 in fiscal year 2020 and $1,926,366 in fiscal year 2019.

Non-operating Revenue

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

Expense

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

Net Position

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

These classifications are defined as follows:

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

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

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

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

OPEB Plan

KUB's employees hired prior to July 1, 1999, who are retired and who (prior to retirement) qualified for retiree medical insurance by meeting the Rule of 80 (age plus years of service) with a minimum of 20 years of service and were enrolled in medical coverage on their last day, are eligible for post-employment health care. KUB's OPEB Trust was established by KUB's Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. KUB's policy is to fully fund the annual actuarially determined contributions, which are determined by actuarial valuation. As required by GASB Statement No. 75, KUB measures net OPEB liability as total OPEB liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2020 and 2019 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a June 30, 2020 and 2019 measurement date, respectively. The net OPEB liability is $7,589,447 as of June 30, 2020, and $1,447,742 as of June 30, 2019.

Pension Plan and Qualified Excess Benefit Arrangement

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 10). KUB's policy is to fully fund the annual actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2020 and 2019 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a December 31, 2019 and 2018 measurement date, respectively. The net pension asset is $19,121,375 as of June 30, 2020, and the net pension liability was $6,649,756 as of June 30, 2019.

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, 2020 and 2019 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a December 31, 2019 and 2018 measurement date, respectively. The total pension liability of the QEBA is $20,236 as of June 30, 2020, and $231,883 as of June 30, 2019.

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

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

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

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

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

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

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

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

Deferred Gain/Loss on Refunding of Debt

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

Compensated Absences

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

TVA Conservation Program

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

Subsequent Events

KUB has evaluated events and transactions through October 29, 2020, the date these financial statements were issued, for items that should potentially be recognized or disclosed. KUB sold $9,045,000 in water system revenue bonds on October 7, 2020, with a scheduled closing on October 30, 2020, for the purpose of funding water system capital improvements in fiscal year 2021. The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.36 percent. Annual debt service payments including principal and interest range from $313,539 to $470,050 with final maturity in fiscal year 2050. KUB sold $27,460,000 in wastewater system revenue bonds on October 7, 2020, with a scheduled closing on October 30, 2020, for the purpose of funding wastewater system capital improvements in fiscal year 2021. The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.41 percent. Annual debt service payments including principal and interest range from $919,320 to $1,416,300 with final maturity in fiscal year 2050.

Purchased Power Adjustment

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

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

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

Under the PPA mechanism, KUB tracks the actual over/(under) recovered amount in the Over/(Under) Recovered Purchased Power Cost accounts. These accounts are rolled into the PPA rate adjustments thereby assuring that any over/(under) recovered amounts are promptly passed on to the KUB's electric customers. The amount of over/(under) recovered cost was $1,848,630 at June 30, 2020, and $2,674,466 at June 30, 2019.

Purchased Gas Adjustment

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

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

Under the PGA mechanism, KUB tracks the actual over/(under) recovered amount in the Over/(Under) Recovered Purchased Gas Cost accounts. These accounts are rolled into the PGA rate adjustment on June 30 of each year thereby ensuring that any over/(under) recovered amounts are passed on to KUB’s gas system customers. The amount of over/(under) recovered cost was ($1,513,434) at June 30, 2020, and ($1,339,422) at June 30, 2019.

Recently Issued Accounting Pronouncements

In January 2017, the GASB issued GASB Statement No. 84 (Statement No. 84), *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 is effective for fiscal years beginning after December 15, 2019.

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

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

In August 2018, the GASB issued GASB Statement No. 90 (Statement No. 90), *Major Equity Interests – an amendment of GASB Statements No. 14 and No. 61.* The objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Statement No. 90 is effective for fiscal years beginning after December 15, 2019.

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

In January 2020, the GASB issued GASB Statement No. 92 (Statement No. 92), *Omnibus 2020.* The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain provisions of

Statement No. 92 were effective immediately. Paragraphs 6, 7, 8, 9, and 12 are effective for fiscal years beginning after June 15, 2021.

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

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

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

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

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

3. Deposits and Investments

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

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

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

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

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

Classification of deposits and investments per Statement of Net Position:

	2020	**2019**
Current assets		
Cash and cash equivalents	$ 99,445,520	$ 91,639,940
Short-term investments	12,578,300	27,471,225
Short-term contingency fund investments	94,257,567	79,038,925
Other assets		
Long-term contingency fund investments	16,590,303	29,366,076
Restricted assets		
Bond fund	35,991,556	35,948,463
Other funds	1,514	21,482
	$ 258,864,760	$ 263,486,111

The above amounts do not include accrued interest of $358,658 in fiscal year 2020 and $568,159 in fiscal year 2019. 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, 2020:

	Deposit and Investment Maturities (in Years)		
	Fair Value	**Less Than 1**	**1-5**
Supersweep NOW and Other Deposits	$ 124,850,348	$ 124,850,348	$ -
State Treasurer's Investment Pool	67,936,014	67,936,014	-
Agency Bonds	71,686,171	55,095,868	16,590,304
	$ 264,472,533	$ 247,882,230	$ 16,590,304

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, 2020:

- U.S. Agency bonds of $16,590,304, 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:

	2020	**2019**
Wholesale and retail customers		
Billed services	$ 46,716,972	$ 48,109,474
Unbilled services	28,284,426	26,627,126
Other	2,287,957	2,542,380
Allowance for uncollectible accounts	(594,422)	(589,889)
	$ 76,694,933	$ 76,689,091

5. Accounts Payable and Accruals

Accounts payable and accruals consist of the following:

	2020	**2019**
Trade accounts	$ 74,337,079	$ 51,433,305
Salaries and wages	3,721,785	3,196,798
Advances on pole rental	1,262,510	1,224,209
Self-insurance liabilities	1,720,620	1,911,512
Other current liabilities	14,738,961	14,079,693
	$ 95,780,955	$ 71,845,517

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6. Long-Term Obligations

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

	Balance June 30, 2018	Additions	Payments	Defeased	Balance June 30, 2019	Amounts Due Within One Year
Electric						
Y-2009 - 2.5 - 5.0%	$ 1,850,000	$ -	$ 1,850,000	$ -	$ -	$ -
Z-2010 - 1.45 - 6.35%	21,285,000	-	1,355,000	-	19,930,000	1,390,000
AA-2012 - 3.0 - 5.0%	28,640,000	-	2,805,000	-	25,835,000	2,955,000
BB-2012 - 3.0 - 4.0%	31,850,000	-	725,000	-	31,125,000	750,000
CC-2013 - 3.0 - 4.0%	8,560,000	-	475,000	-	8,085,000	500,000
DD-2014 - 2.0 - 4.0%	37,900,000	-	775,000	-	37,125,000	800,000
EE-2015 - 2.0 - 5.0%	28,125,000	-	150,000	-	27,975,000	2,075,000
FF-2015 - 2.0 - 5.0%	33,625,000	-	725,000	-	32,900,000	750,000
GG-2016 - 2.0 - 5.0%	39,225,000	-	825,000	-	38,400,000	850,000
HH-2017 - 2.5 - 5.0%	23,390,000	-	1,890,000	-	21,500,000	1,990,000
II-2017 - 3.0 - 5.0%	40,000,000	-	700,000	-	39,300,000	765,000
JJ-2018 - 3.0 - 5.0%	-	39,995,000	-	-	39,995,000	775,000
Total bonds	$ 294,450,000	$ 39,995,000	$ 12,275,000	$ -	$ 322,170,000	$ 13,600,000
Unamortized Premium	12,031,042	516,151	873,309	-	11,673,884	-
Total long term debt	$ 306,481,042	$ 40,511,151	$ 13,148,309	$ -	$ 333,843,884	$ 13,600,000
Gas						
P-2010 - 3.3 - 6.2%	$ 10,890,000	$ -	$ 595,000	$ -	$ 10,295,000	$ 620,000
Q-2012 - 2.0 - 4.0%	18,455,000	-	2,190,000	-	16,265,000	2,260,000
R-2012 - 2.0 - 4.0%	8,575,000	-	425,000	-	8,150,000	450,000
S-2013 - 2.0 - 4.0%	10,265,000	-	615,000	-	9,650,000	645,000
T-2013 - 2.0 - 4.6%	23,400,000	-	500,000	-	22,900,000	500,000
U-2015 - 2.0 - 5.0%	10,965,000	-	660,000	-	10,305,000	680,000
V-2016 - 2.125 - 5.0%	11,550,000	-	250,000	-	11,300,000	250,000
W-2017 - 5.0%	7,390,000	-	670,000	-	6,720,000	705,000
X-2017 - 2.0 - 5.0%	11,800,000	-	235,000	-	11,565,000	245,000
Y-2018 - 3.0 - 5.0%	-	8,000,000	210,000	-	7,790,000	155,000
Total bonds	$ 113,290,000	$ 8,000,000	$ 6,350,000	$ -	$ 114,940,000	$ 6,510,000
Unamortized Premium	4,510,823	70,169	387,296	-	4,193,696	-
Total long term debt	$ 117,800,823	$ 8,070,169	$ 6,737,296	$ -	$ 119,133,696	$ 6,510,000
Water						
U-2009 - 3.0 - 4.5%	$ 950,000	$ -	$ 950,000	$ -	$ -	$ -
W-2011 - 2.0 - 5.0%	21,700,000	-	550,000	-	21,150,000	550,000
X-2012 - 3.0 - 5.0%	7,615,000	-	565,000	-	7,050,000	590,000
Y-2013 - 3.0 - 4.0%	8,390,000	-	320,000	-	8,070,000	340,000
Z-2013 - 2.0 - 5.0%	22,675,000	-	525,000	-	22,150,000	550,000
AA-2014 - 2.0 - 4.0%	7,425,000	-	150,000	-	7,275,000	175,000
BB-2015 - 2.0 - 5.0%	21,870,000	-	885,000	-	20,985,000	950,000
CC-2015 - 2.0 - 4.0%	18,875,000	-	425,000	-	18,450,000	425,000
DD-2016 - 3.0 - 5.0%	24,250,000	-	500,000	-	23,750,000	525,000
EE-2016 - 2.0 - 5.0%	20,775,000	-	100,000	-	20,675,000	1,090,000
FF-2017 - 3.0 - 5.0%	4,840,000	-	465,000	-	4,375,000	475,000
GG-2017 - 2.125 - 5.0%	19,800,000	-	380,000	-	19,420,000	395,000
HH-2018 - 3.0 - 5.0%	-	19,995,000	525,000	-	19,470,000	380,000
Total bonds	$ 179,165,000	$ 19,995,000	$ 6,340,000	$ -	$ 192,820,000	$ 6,445,000
Unamortized Premium	5,743,978	467,809	364,462	-	5,847,325	-
Total long term debt	$ 184,908,978	$ 20,462,809	$ 6,704,462	$ -	$ 198,667,325	$ 6,445,000
Wastewater						
2010 - 6.3 - 6.5%	$ 30,000,000	$ -	$ -	$ -	$ 30,000,000	$ -
2010C - 1.18 - 6.1%	61,600,000	-	1,550,000	-	60,050,000	1,600,000
2012A - 2.0 - 4.0%	12,770,000	-	970,000	-	11,800,000	950,000
2012B - 1.25 - 5.0%	60,375,000	-	1,050,000	-	59,325,000	1,100,000
2013A - 2.0 - 4.0%	110,460,000	-	660,000	-	109,800,000	685,000
2014A - 2.0 - 4.0%	28,275,000	-	475,000	-	27,800,000	500,000
2015A - 3.0 - 5.0%	126,400,000	-	5,010,000	-	121,390,000	5,305,000
2015B - 3.0 - 5.0%	28,500,000	-	500,000	-	28,000,000	525,000
2016 - 2.0 - 5.0%	19,200,000	-	450,000	-	18,750,000	475,000
2017A - 3.0 - 5.0%	10,560,000	-	1,460,000	-	9,100,000	1,525,000
2017B - 2.0 - 5.0%	24,750,000	-	490,000	-	24,260,000	515,000
2018 - 3.0 - 5.0%	-	12,000,000	280,000	-	11,720,000	235,000
Total bonds	$ 512,890,000	$ 12,000,000	$ 12,895,000	$ -	$ 511,995,000	$ 13,415,000
Unamortized Premium	11,860,393	101,285	604,712	-	11,356,966	-
Total long term debt	$ 524,750,393	$ 12,101,285	$ 13,499,712	$ -	$ 523,351,966	$ 13,415,000
Consolidated						
Total bonds	$ 1,099,795,000	$ 79,990,000	$ 37,860,000	$ -	$ 1,141,925,000	$ 39,970,000
Total unamortized premium	34,146,236	1,155,414	2,229,779	-	33,071,870	-
Total long term debt	$ 1,133,941,236	$ 81,145,414	$ 40,089,779	$ -	$ 1,174,996,870	$ 39,970,000

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

Fiscal Year	**Principal**	**Interest**	**Total**
2021	$ 43,125,000	$ 40,754,376	$ 83,879,376
2022	44,405,000	38,975,118	83,380,118
2023	46,340,000	36,979,427	83,319,427
2024	48,290,000	34,979,691	83,269,691
2025	49,250,000	33,166,366	82,416,366
2026-2030	240,305,000	139,942,269	380,247,269
2031-2035	210,255,000	100,324,466	310,579,466
2036-2040	215,295,000	63,516,376	278,811,376
2041-2045	171,375,000	25,471,882	196,846,882
2046-2050	60,155,000	3,926,648	64,081,648
Total	$ 1,128,795,000	$ 518,036,619	$ 1,646,831,619

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, 2020, these requirements had been satisfied.

During fiscal year 2011, KUB's Electric Division issued series Z 2010 bonds to fund electric system capital improvements. The bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. These bonds are subject to a reduction in rebate payment amounts which is subject to change based on Congressional action. As of October 1, 2019, the effective reduction in rebate is 5.9 percent. During fiscal year 2019, KUB's Electric Division issued Series JJ 2018 bonds to fund electric system capital improvements. During fiscal year 2020, KUB's Electric Division issued Series KK 2020 bonds to retire a portion of outstanding Series Z 2010 bonds as follows. On May 22, 2020, $14.4 million in revenue refunding bonds with an average interest rate of 5 percent were issued to advance refund $17.1 million of outstanding bonds with an average interest rate of 5.8 percent. The net proceeds of $17.1 million (after payment of $0.2 million in issuance costs plus premium of $2.9 million) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the bonds, with the exception of the July 1, 2020 debt service payment. As a result, the remaining bonds are considered to be refunded and the liability of $17.1 million for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 11 years by $2.4 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $2.2 million.

During fiscal year 2019, KUB's Gas Division issued Series Y 2018 bonds to fund gas system capital improvements. During fiscal year 2020, KUB's Gas Division issued Series Z 2020 bonds to retire a portion of outstanding Series P 2010 bonds as follows. On May 22, 2020, $6.8 million in revenue refunding bonds with an average interest rate of 4.7 percent were issued to currently refund $9.7 million of outstanding bonds with an average interest rate of 6.1 percent. The net proceeds of $9.8 million (after payment of $0.1 million in issuance costs plus premium of $1.1 million and an additional issuer equity contribution of $2 million) were used to refund the bonds. As a result, the bonds are considered to be refunded and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 12 years by $1.8 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $1.3 million.

During fiscal year 2019, KUB's Water Division issued HH 2018 bonds to fund water system capital improvements. During fiscal year 2020, KUB's Water Division issued Series II 2019 bonds to fund water system capital improvements. KUB's Water Division also issued Series JJ 2020 bonds to retire a portion of outstanding Series W 2011 bonds as follows. On May 22, 2020, $19.5 million in revenue refunding bonds with an average interest rate of 3.2 percent were issued to currently refund $20.6 million of outstanding bonds with an average interest rate of 4 percent. The net proceeds of $20.8 million (after payment of $0.2 million in issuance costs plus premium of $1.5 million) were used to refund the bonds. As a result, the bonds are considered to be refunded and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 20 years by $3.9 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $3.1 million.

During fiscal year 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, 2019, the effective reduction in rebate is 5.9 percent. During fiscal year 2019, KUB's Wastewater Division issued Series 2018 bonds to fund wastewater system capital improvements. During fiscal year 2020, KUB's Wastewater Division issued Series 2019 bonds to fund wastewater system capital improvements. KUB's Wastewater Division also issued Series 2020 bonds to retire a portion of outstanding Series 2010 bonds as follows. On May 22, 2020, $28.2 million in revenue refunding bonds with an average interest rate of 3.3 percent were issued to currently refund $30 million of outstanding bonds with an average interest rate of 6.4 percent. The net proceeds of $30.3 million (after payment of $0.3 million in issuance costs plus premium of $2.4 million) were used to refund the bonds. As a result, the bonds are considered to be refunded and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 25 years by $18.9 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $8.8 million.

Other liabilities consist of the following:

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

	Balance June 30, 2018	**Increase**	**Decrease**	**Balance June 30, 2019**
TVA conservation program	$ 4,431,219	$ 229,677	$ (1,578,067)	$ 3,082,829
Accrued compensated absences	8,497,960	17,219,913	(16,533,392)	9,184,481
Customer advances for construction	4,927,837	5,388,950	(2,172,058)	8,144,729
Other	155,411	460,348	(379,155)	236,604
	$ 18,012,427	$ 23,298,888	$ (20,662,672)	$ 20,648,643

7. Lease Commitments

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

2021	$ 313,658
2022	105,405
2023	15,586
2024	13,714
2025	13,714
Total operating minimum lease payments	$ 462,077

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8. Capital Assets

Capital asset activity was as follows:

	Balance June 30, 2019	**Increase**	**Decrease**	**Balance June 30, 2020**
Production Plant (Intakes)	$ 742,503	$ -	$ -	$ 742,503
Pumping and Treatment Plant	330,416,249	16,032,444	(1,912,647)	344,536,046
Distribution and Collection Plant				
Mains and metering	1,059,317,613	52,233,740	(9,858,902)	1,101,692,451
Services and meters	232,626,565	23,499,929	(21,633,098)	234,493,396
Electric station equipment	162,076,580	11,097,794	(1,016,847)	172,157,527
Poles, towers and fixtures	190,331,961	8,214,374	(1,483,237)	197,063,098
Overhead conductors	159,466,936	6,401,128	(4,299,228)	161,568,836
Line transformers	103,617,680	2,488,983	(1,010,136)	105,096,527
Other accounts	295,372,474	11,447,667	(4,059,326)	302,760,815
Total Distribution & Collection Plant	$ 2,202,809,809	$ 115,383,615	$ (43,360,774)	$ 2,274,832,650
General Plant	186,152,983	29,647,823	(1,488,001)	214,312,805
Total Plant Assets	$ 2,720,121,544	$ 161,063,882	$ (46,761,422)	$ 2,834,424,004
Less Accumulated Depreciation	(917,026,275)	(76,331,498)	47,142,133	(946,215,640)
Net Plant Assets	$ 1,803,095,269	$ 84,732,384	$ 380,711	$ 1,888,208,364
Work In Progress	217,073,804	191,689,791	(161,191,714)	247,571,881
Total Net Plant	$ 2,020,169,073	$ 276,422,175	$ (160,811,003)	$ 2,135,780,245

	Balance June 30, 2018	**Increase**	**Decrease**	**Balance June 30, 2019**
Production Plant (Intakes)	$ 742,503	$ -	$ -	$ 742,503
Pumping and Treatment Plant	318,574,479	14,159,127	(2,317,357)	330,416,249
Distribution and Collection Plant				
Mains and metering	1,032,950,195	33,661,520	(7,294,102)	1,059,317,613
Services and meters	202,172,532	33,921,735	(3,467,702)	232,626,565
Electric station equipment	158,378,701	4,513,155	(815,276)	162,076,580
Poles, towers and fixtures	176,892,740	15,553,101	(2,113,880)	190,331,961
Overhead conductors	155,165,532	12,895,083	(8,593,679)	159,466,936
Line transformers	101,994,883	2,854,573	(1,231,776)	103,617,680
Other accounts	288,745,129	10,031,160	(3,403,815)	295,372,474
Total Distribution & Collection Plant	$ 2,116,299,712	$ 113,430,327	$ (26,920,230)	$ 2,202,809,809
General Plant	181,111,380	7,796,309	(2,754,706)	186,152,983
Total Plant Assets	$ 2,616,728,074	$ 135,385,763	$ (31,992,293)	$ 2,720,121,544
Less Accumulated Depreciation	(872,419,331)	(77,516,402)	32,909,458	(917,026,275)
Net Plant Assets	$ 1,744,308,743	$ 57,869,361	$ 917,165	$ 1,803,095,269
Work In Progress	153,685,841	195,236,025	(131,848,062)	217,073,804
Total Net Plant	$ 1,897,994,584	$ 253,105,386	$ (130,930,897)	$ 2,020,169,073

9. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. At June 30, 2020 and June 30, 2019, the amount of these liabilities was $1,720,620 and $1,911,512, respectively, resulting from the following changes:

	2020	2019
Balance, beginning of year	$ 1,911,512	$ 1,822,689
Current year claims and changes in estimates	14,943,377	17,179,059
Claims payments	(15,134,269)	(17,090,236)
Balance, end of year	$ 1,720,620	$ 1,911,512

10. Pension Plan

Description of Plan

The Knoxville Utilities Board Pension Plan (the Plan) is a governmental plan as defined by the Employee Retirement Income Security Act of 1974 (ERISA or the Act), is not subject to any of the provisions of the Act, and was revised January 1, 2020 to include all prior approved amendments. The Plan is a single-employer contributory, defined benefit pension plan established by Knoxville Utilities Board Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville §1107(J). 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 accrue benefits under the Plan.

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

	2019	2018
Inactive plan members:		
Terminated vested participants	18	21
Retirees and beneficiaries	592	588
Active plan members	551	592
Total	1,161	1,201

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

Plan Funding

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

Investments

The Plan’s investments are held by State Street Bank and Trust Company (the “Trustee”). The Plan’s policy in regard to the allocation of invested assets is established by the Retirement System Investment Committee and approved by the KUB Board of Commissioners and may only be amended by the KUB Board of Commissioners. It is the policy of the Retirement System Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Plan’s adopted asset allocation policy as of December 31, 2019:

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

Contributions of $2,585,824 and $3,156,661 for 2018 and 2017, respectively, were made during the Plan sponsor's fiscal years ended June 30, 2020 and 2019, respectively. The fiscal year 2020 contribution was determined as part of the January 1, 2018 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability, or death.

Net Pension Liability

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB 68"), which requires measurement of the net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a December 31, 2019 and 2018 measurement date, respectively.

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

	2019	**2018**
Total pension liability	$ 226,818,557	$ 212,157,951
Plan fiduciary net position	(245,939,932)	(205,508,195)
Plan's net pension liability (asset)	$ (19,121,375)	$ 6,649,756
Plan fiduciary net position as a percentage of the total pension liability	108.43%	96.87%

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Changes in Net Pension Liability are as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2018	$ 212,157,951	$ 205,508,195	$ 6,649,756
Changes for the year:			
Service cost	6,142,213	-	6,142,213
Interest	16,030,626	-	16,030,626
Changes of Benefits	163,199	-	163,199
Differences between Expected and Actual Experience	(1,054,117)	-	(1,054,117)
Changes of Assumptions	8,473,160	-	8,473,160
Contributions - employer	-	2,871,241	(2,871,241)
Contributions - rollovers	-	3,167,836	(3,167,836)
Contributions - member	-	2,989	(2,989)
Net investment income	-	49,951,894	(49,951,894)
Benefit payments	(15,094,475)	(15,094,475)	-
Administrative expense	-	(467,748)	467,748
Net changes	14,660,606	40,431,737	(25,771,131)
Balances at December 31, 2019	$ 226,818,557	$ 245,939,932	$ (19,121,375)

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, 2019, rolled forward to December 31, 2019; January 1, 2018, rolled forward to December 31, 2018
Discount rate	7.25% as of December 31, 2019; 7.50% as of December 31, 2018
Salary increase	From 2.50% to 5.65%, based on years of service as of December 31, 2019; from 2.80% to 5.15%, based on years of service as of December 31, 2018
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, 2019; Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA as of December 31, 2018
Inflation	2.5% as of December 31, 2019; 2.8% as of December 31, 2018

The actuarial assumptions used in the December 31, 2019 valuation were based on an actuarial experience study covering the period January 1, 2014 through December 31, 2018. The discount rate was subsequently reduced from 7.5 percent to 7.25 percent as of the December 31, 2019 measurement date. The Plan was amended to provide automatic increases to retirees for benefits limited under Code §415(d), effective January 1, 2020.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013.

Subsequent revisions to lump sum and post-disability assumptions were based upon updated experience through December 31, 2015 and to retirement and termination rates and expense assumptions based upon updated experience through December 31, 2016.

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, 2019 and 2018 are summarized in the following table. The real rate of return reported for fixed income is for aggregate fixed income. The Plan has both aggregate and long duration fixed income.

	Long Term Expected Real Rate of Return	
Asset Class	**2019**	**2018**
Domestic equity	5.5%	5.8%
Non-U.S. equity	6.4%	6.9%
Real estate equity	5.9%	6.0%
Debt securities	1.5%	1.7%
Cash and deposits	0.6%	0.7%

Discount rate
The discount rate used to measure the total pension liability was 7.25 percent as of December 31, 2019, and 7.5 percent as of December 31, 2018. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate
The following presents the net pension liability of the Plan as of December 31, 2019, calculated using the discount rate of 7.25 percent, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one percent lower (6.25 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 (surplus)	$ 946,692	$ (19,121,375)	$ (36,452,396)

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

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

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

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

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

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

$1,292,915 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, 2021. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2021	$ (4,595,539)
2022	(3,722,647)
2023	57,633
2024	(5,494,060)
Thereafter	-

For the year ended June 30, 2019, KUB recognized pension expense of $4,128,608.

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, 2017, this average was 5.00 years. During the measurement year, there was an experience gain of $605,649, with $121,129 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $484,520. Unrecognized experience gains from prior periods were $2,966,120, of which $1,042,251 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,923,868.

During the measurement year, there were no benefit changes or assumption changes. Unrecognized assumption change decreases from prior periods were $2,045,837, of which $658,103 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,387,733.

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 $28,364,098, of which $5,672,818 was recognized in the current year and an identical amount will be recognized in each of the next four years. Net unrecognized investment gains from prior periods were $8,925,385, of which $1,848,878 was recognized as a decrease in pension expense in the current year. The combination of unrecognized investment losses 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, 2018 of $15,614,774.

The following table summarizes the current balances of deferred outflows and deferred inflows of resources. In addition, KUB recorded a deferred outflow of resources of $1,578,332 at June 30, 2019 for employer contributions made between December 31, 2018 and June 30, 2019.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,408,388
Changes in assumptions	-	1,387,733
Net difference between projected and actual earnings on pension plan investments	15,614,774	-
Contributions subsequent to measurement date	1,578,332	-
Total	$ 17,193,106	$ 3,796,121

11. Qualified Excess Benefit Arrangement

Description

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

As of June 30, 2020, there are 532 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. There is currently one member receiving benefits under the QEBA. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the KUB Pension Plan. The KUB Pension Plan was amended to include the provision of QEBA benefits; therefore, amendments to the QEBA require the same authority as amendments to the KUB Pension Plan. As required by federal tax law, the QEBA is unfunded within the meaning of the federal tax laws. KUB may not pre-fund the QEBA to cover future liabilities beyond the current year. KUB has established procedures to pay for these benefits on a pay-as-you-go basis, funded by KUB. There are no assets accumulated in a trust that meets the GASB's criteria.

Total Pension Liability of the QEBA

The below summarizes the disclosures of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"). GASB 73 extends a similar approach of financial reporting to plans meeting specific criteria that are not administered through trusts that GASB 68 established for pension plans. GASB 73 requires measurement of the total pension liability of the QEBA. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a December 31, 2019 and 2018 measurement date, respectively.

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

	2019	**2018**
Total pension liability	$20,236	$231,883
Deferred outflows	(45,559)	(52,287)
Deferred inflows	35,445	47,260
Net impact on Statement of Net Position	$10,122	$226,856
Covered payroll	$40,276,197	$42,150,040
Total pension liability as a % of covered payroll	0.05%	0.55%

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

	Increase (Decrease) Total Pension Liability
Balances at December 31, 2018	$ 231,883
Changes for the year:	
Service cost	-
Interest	9,181
Changes of Benefits	(218,272)
Differences between Expected and Actual Experience	34
Changes of Assumptions	13,342
Benefit payments	(15,932)
Net changes	(211,647)
Balances at December 31, 2019	$ 20,236

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

Valuation dates	December 31, 2019 and December 31, 2018
Actuarial cost method	Individual entry age
Salary increase	From 2.80% to 5.15%, based on years of service
Mortality	115% and 110% of the Public Sector General Healthy Annuitant Mortality Table (PubG-2010), for males and females, respectively, using the Public Sector General Employee Table for ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of December 31, 2019; Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA as of December 31, 2018
Inflation	2.5% as of December 31, 2019, and 2.8% as of December 31, 2018

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2014 through December 31, 2018. The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013. Subsequent revisions to lump sum and post-disability assumptions were based upon updated experience through December 31, 2015 and to retirement and termination rates and expense assumptions based upon updated experience through December 31, 2016.

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 2.74% at December 31, 2019.

Sensitivity of the total pension liability to changes in the discount rate
The following presents the total pension liability of the QEBA as of December 31, 2019, calculated using the discount rate of 2.74 percent, as well as what the QEBA's total pension liability would be if it were calculated using a discount rate that is one percent lower (1.74 percent) or one percent higher (3.74 percent) than the current rate:

	1% Decrease (1.74%)	**Current Discount Rate (2.74%)**	**1% Increase (3.74%)**
QEBA's total pension liability	$ 20,423	$ 20,236	$ 20,053

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

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

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

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

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

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

$6,083 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2021	$ 8,289
2022	8,289
2023	(9,140)
2024	2,676
Thereafter	-

For the year ended June 30, 2019, KUB recognized pension expense of $29,543 for the QEBA. This amount is not expected to be the same as KUB's contribution to the QEBA ($13,312), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [$226,856 - $210,625 + $13,312].

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, 2017, this average was 5 years. During the measurement year, there was an experience gain of $36,125, with $7,225 recognized in the current year and each of the next four years, resulting in a deferred inflow of $28,900. There was a deferred outflow at the end of the measurement year of $8,210 from experience losses in prior years.

During the measurement year, there were no benefit changes. There was a decrease in the total pension liability due to assumption changes of $22,950, with $4,590 recognized in the current year and each of the next four years, resulting in a deferred inflow of $18,360. There was a deferred outflow at the end of the measurement year of $44,077 from assumption changes in prior years. In addition, KUB recorded a deferred outflow of resources of $7,242 at June 30, 2019 for contributions between December 31, 2018 and June 30, 2019.

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	$ 8,210	$ 28,900
Changes in assumptions	44,077	18,360
Contributions subsequent to measurement date	7,242	-
Total	$ 59,529	$ 47,260

12. Defined Contribution Plan

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

KUB funded 401(k) matching contributions and nonelective contributions of $2,469,273 and $2,410,201, respectively, for the years ended June 30, 2020 and 2019.

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13. Other Post-Employment Benefits (OPEB)

Description of Trust

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

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

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

	2020	2019
Retirees	555	554
Dependents of retirees	576	550
Eligible active employees	181	288
Total	1,312	1,392

Benefits

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

Contributions and Plan Funding

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

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

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

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

Investments

The Trust holds investments in a balanced fund, which invests in passively managed common trust index funds, managed and sponsored by State Street Global Advisors (SSgA), with an asset allocation mirroring the asset allocation of the Trust and rebalanced monthly. The Trust's Investment Policy was established and may only be amended by the KUB Board of Commissioners. The Trust's Investment Policy is to invest in a manner that will provide sufficient investment return to meet current and future retiree health benefits, while conforming to all governing State and Federal statutes. It allows investment of Trust assets in any type of security instrument allowed for in T.C.A 8-50-1203. The following was the Trust's adopted investment target allocations as set forth in the Trust's Investment Policy as of June 30, 2020:

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

An actuarially determined contribution of $311,324 was made to the OPEB Trust in fiscal year ended June 30, 2020. No contribution was made to the OPEB Trust for the fiscal year ended June 30, 2019. These were based on the OPEB Plan's actuarial valuations as of January 1, 2018, and 2017.

Net OPEB Liability

The below summarizes the disclosures of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"), which requires measurement of the net OPEB liability as total OPEB liability less the amount of the Trust's fiduciary net position. The amounts reported as of June 30 are based on the reporting date for the KUB Other Post-Employment Benefits Plan which is June 30. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2020 and 2019 and the Total OPEB Liability as of the valuation date, January 1, 2019 updated to June 30, 2020, and January 1, 2018 updated to June 30, 2019, respectively. There was one significant event between the valuation date and the measurement date for June 30, 2020 where the discount rate was reduced from 7.5% to 7.25%.

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

	2020	**2019**
Total OPEB liability	$ 54,544,240	$ 50,197,938
Plan fiduciary net position	46,954,793	48,750,196
Net OPEB liability	$ 7,589,447	$ 1,447,742
Plan fiduciary net position as a percentage of the total OPEB liability	86.09%	97.12%

Changes in Net OPEB Liability are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2019	$ 50,197,938	$ 48,750,196	$ 1,447,742
Changes for the year:			
Service cost	256,270	-	256,270
Interest	3,672,291	-	3,672,291
Changes of Benefits	(202,408)	-	(202,408)
Differences between Expected and Actual Experience	43,902	-	43,902
Changes of Assumptions	3,604,843	-	3,604,843
Contributions - employer	-	311,324	(311,324)
Contributions - member	-	-	-
Net investment income	-	975,155	(975,155)
Benefit payments	(3,028,596)	(3,028,596)	-
Administrative expense	-	(53,286)	53,286
Net changes	4,346,302	(1,795,403)	6,141,705
Balances at June 30, 2020	$ 54,544,240	$ 46,954,793	$ 7,589,447

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, 2019, updated to June 30, 2020; January 1, 2018, updated to June 30, 2019
Discount rate:	7.25% as of January 1, 2019; 7.5% as of January 1, 2018
Healthcare cost trend rates:	Pre-Medicare: 7.83% grading down to 4.50% over 19 years as of January 1, 2019; 8.00% grading down to 4.50% over 20 years as of January 1, 2018 Medicare: 6.88% grading down to 4.50% over 19 years as of January 1, 2019; 7.00% grading down to 4.50% over 20 years as

	of January 1, 2018 Administrative expenses: 3.0% per year
Salary increases:	From 2.50% to 5.65%, based on years of service as of January 1, 2019; From 2.80% to 5.15%, based on years of service as of January 1, 2018
Mortality:	115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), for males and females, respectively, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational as of January 1, 2019; Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA as of January 1, 2018
Inflation:	2.5% as of January 1, 2019; 2.8% as of January 1, 2018

The actuarial assumptions used in the January 1, 2019 and January 1, 2018 valuations were based on the results of actuarial experience studies for the periods January 1, 2014 through December 31, 2018 and January 1, 2009 through December 31, 2013, respectively. The discount rate was subsequently reduced to 7.25 percent form 7.50 percent as of January 1, 2020; therefore, the new rate was used to calculate the OPEB liability as of June 30, 2020.

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

	Long Term Expected Real Rate of Return	
Asset Class	**2020**	**2019**
Domestic equity	5.4%	5.5%
International equity	6.4%	6.4%
Real estate equity	5.8%	5.9%
Debt securities	0.2%	1.5%
Cash and deposits	(0.2%)	0.6%

Discount rate

The discount rate used to measure the total OPEB liability was 7.25 percent and 7.5 percent as of June 30, 2020 and 2019, respectively. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate.
The following presents the net OPEB liability of the Trust as of June 30, 2020, calculated using the discount rate of 7.25 percent, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is 1 percent lower (6.25 percent) or 1 percent higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	**Current Discount Rate (7.25%)**	**1% Increase (8.25%)**
Net OPEB liability	$ 12,643,555	$ 7,589,447	$ 3,282,461

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.
The following presents the net OPEB liability of the Trust as of June 30, 2020, as well as what the Trust's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percent lower or 1 percent higher than the current rate:

	1% Decrease	**Baseline Trends**	**1% Increase**
Net OPEB liability	$ 2,482,856	$ 7,589,447	$ 13,485,387

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

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

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

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

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

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

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

Year ended June 30:	
2021	$ 2,426,957
2022	602,586
2023	633,347
2024	515,820
2025	-
Thereafter	-

For the year ended June 30, 2019, KUB recognized OPEB expense of $3,046,377.

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 $999,098, with $499,549 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 $499,549. Unrecognized experience losses from prior periods were $662,384, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there were no benefit changes. There was an increase in the Total OPEB Liability due to assumption changes of $3,231,601, with $1,615,801 of that recognized in the current year and in the next year, resulting in a deferred outflow of $1,615,800. Unrecognized assumption changes from prior periods were ($198,590), 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 $587,645, of which $117,529 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 $123,047, of which $30,762 was recognized as a decrease in OPEB expense in the current year. The combination of unrecognized investment losses this year along with the net unrecognized investment gains from prior periods results in a net difference between projected and actual earnings on OPEB plan investments as of June 30, 2019 of $377,831. 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	$ 499,549	$ -
Changes in assumptions	1,615,800	-
Net difference between projected and actual earnings on OPEB plan investments	377,831	-
Total	$ 2,493,180	$ -

14. Related Party Transactions

KUB, in the normal course of operations, is involved in transactions with the City of Knoxville. Such transactions for the years ended June 30, 2020 and 2019 are summarized as follows:

	2020	**2019**
City of Knoxville		
Amounts billed by KUB for utilities and related services	$ 12,615,466	$ 13,624,129
Payments by KUB in lieu of property tax	20,036,911	20,238,463
Payments by KUB for services provided	1,721,989	2,773,377

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

	2020	**2019**
Accounts receivable	$ 773,461	$ 754,587

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15. Natural Gas Supply Contract Commitments

For fiscal year 2020, the Gas Division hedged 36 percent of its total gas purchases via gas supply contracts. As of June 30, 2020, the Gas Division had hedged the price on approximately 4 percent of its anticipated gas purchases for fiscal year 2021.

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

Firm obligations related to purchased gas – demand

	2021	2022	2023	2024	2025
Transportation					
Tennessee Gas Pipeline	$ 3,343,892	$ 3,381,612	$ 3,381,612	$ 3,381,612	$ 3,381,612
East Tennessee Natural Gas	9,664,040	9,664,040	9,664,040	9,664,040	9,664,040
Texas Eastern	328,500	328,500	328,500	328,500	328,500
Storage					
Tennessee Gas Pipeline	1,600,272	1,600,272	1,600,272	1,600,272	1,600,272
East Tennessee Natural Gas	727,385	727,385	727,385	727,385	727,385
Saltville Natural Gas	2,000,160	2,000,160	1,655,130	620,040	465,030
Bobcat	156,000	162,000	54,000	-	-
Demand Total	$ 17,820,249	$ 17,863,969	$ 17,410,939	$ 16,321,849	$ 16,166,839

Firm obligations related to purchased gas – commodity

	2021	2022	2023	2024	2025
Baseload					
ConocoPhillips	$ 279,000	$ -	$ -	$ -	$ -
Shell Energy	460,920	-	-	-	-
CNX Gas	2,367,573	-	-	-	-
NJR Energy Services	1,599,632	-	-	-	-
Commodity Total	$ 4,707,125	$ -	$ -	$ -	$ -

The total commodity values presented here are based upon firm supply obligations with each individual natural gas supplier. The firm obligations value for ConocoPhillips and Shell Energy are based upon firm supply obligations and locked prices with those suppliers. The firm obligations value for CNX Gas and NJR Energy Services are based upon firm supply obligations and the applicable NYMEX strip prices on June 30, 2020.

16. Other Commitments and Contingencies

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

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

The Consent Decree also required KUB to perform an evaluation of the wet weather performance and capacity of its wastewater treatment plants. In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB's Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provides for a biologically enhanced high-rate clarification (the BEHRC) secondary treatment system to be installed at the Fourth Creek treatment plant by June 30, 2018 and at the Kuwahee treatment plant by June 30, 2021. KUB successfully completed the installation of the BEHRC system at the Fourth Creek treatment plant ahead of schedule in April 2018. Work is currently ongoing at the Kuwahee treatment plant and remains on schedule for completion before the deadline of June 30, 2021. The total cost of such improvements at the Kuwahee treatment plant is estimated to be approximately $50 million.

KUB's funding plan for the Consent Decree includes long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all types of wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2020, the Wastewater Division had issued $556.2 million in bonds to fund wastewater system capital improvements since the inception of the Consent Decree. The Board approved two 50 percent rate increases, which went into effect in April 2005 and January 2007. The Board also approved an 8 percent rate increase, which was effective in September 2008, two 12 percent rate increases, which were effective in April 2011 and October 2012, three 6 percent rate increases which were effective October 2014, October 2015, and October 2016 and three 5 percent rate increases which were effective July 2017, July 2018, and July 2019. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

KUB successfully completed the first cycle of Maintenance Operation Management (MOM) requirements one year before the deadline by inspecting manholes and gravity mains, smoke testing gravity mains, performing required inspections of pump stations and the related force mains, and completing all Corrective Action Plan/Engineering Report (CAP/ER) projects. KUB initiated the second MOM cycle that continues to focus on the prevention of SSOs. As part of the Century II initiative, formally known as the PACE10 program, KUB has installed storage tanks providing 34 million gallons of wastewater storage to control wet weather overflows and rehabilitated or replaced 408 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, 2020, the Wastewater Division had completed its 16th full year under the Consent Decree, spending $559.8 million on capital investments to meet Consent Decree requirements.

17. Risks and Uncertainties

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

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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

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

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Condensed Statement of Net Position

	2019			
	Electric	**Gas**	**Water**	**Wastewater**
Assets and Deferred Outflows of Resources				
Current assets	$ 137,680,310	$ 62,061,705	$ 39,581,468	$ 67,332,917
Restricted assets	19,507,008	3,638,555	4,418,741	8,405,641
Net capital assets	634,285,863	292,089,721	340,619,377	753,174,112
Other assets	17,957,337	7,626,693	5,921,643	15,719,112
Total assets	$ 809,430,518	$ 365,416,674	$ 390,541,229	$ 844,631,782
Deferred outflows of resources	12,340,126	4,243,825	5,537,853	19,086,892
Total assets and deferred outflows of resources	$ 821,770,644	$ 369,660,499	$ 396,079,082	$ 863,718,674
Liabilities and Deferred Inflows of Resources				
Current liabilities	$ 94,528,815	$ 16,992,984	$ 12,652,885	$ 24,413,825
Other liabilities	20,105,451	5,028,708	2,692,650	3,825,681
Long-term debt	320,243,884	112,623,696	192,222,325	509,936,966
Total liabilities	$ 434,878,150	$ 134,645,388	$ 207,567,860	$ 538,176,472
Deferred inflows of resources	1,844,823	653,375	499,640	845,544
Total liabilities and deferred inflows of resources	$ 436,722,973	$ 135,298,763	$ 208,067,500	$ 539,022,016
Net position				
Net investment in capital assets	$ 300,562,581	$ 173,773,732	$ 147,251,605	$ 249,592,233
Restricted	13,610,435	2,174,252	2,151,226	3,358,076
Unrestricted	70,874,655	58,413,752	38,608,751	71,746,349
Total net position	$ 385,047,671	$ 234,361,736	$ 188,011,582	$ 324,696,658

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Condensed Statement of Revenues, Expenses and Changes in Net Position

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

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2019			
	Electric	**Gas**	**Water**	**Wastewater**
Operating revenues	$558,369,583	$ 108,551,679	$ 58,073,479	$ 98,482,153
Operating expenses	497,928,942	76,977,721	32,340,065	40,970,691
Provision for depreciation	31,991,227	12,877,969	10,315,031	19,545,435
Total operating expenses	529,920,169	89,855,690	42,655,096	60,516,126
Operating income	28,449,414	18,695,989	15,418,383	37,966,027
Non-operating expense	(8,537,834)	(3,068,090)	(5,811,120)	(18,877,988)
Change in net position before capital contributions	19,911,580	15,627,899	9,607,263	19,088,039
Capital contributions	120,717	29,791	563,998	389,102
Change in net position	20,032,297	15,657,690	10,171,261	19,477,141
Net position				
Beginning of year	365,015,374	218,704,046	177,840,321	305,219,517
End of year	$385,047,671	$ 234,361,736	$ 188,011,582	$ 324,696,658

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Condensed Statement of Cash Flows

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

Condensed Statement of Cash Flows

	2019			
	Electric	**Gas**	**Water**	**Wastewater**
Net cash provided by operating activities	$ 64,317,384	$ 30,955,487	$ 27,144,260	$ 62,428,523
Net cash used in capital and related financing activities	(68,089,843)	(30,264,126)	(25,849,294)	(74,220,488)
Net cash used in investing activities	(11,104,315)	(939,468)	(2,683,636)	(8,272,468)
Net decrease in cash and cash equivalents	(14,876,774)	(248,107)	(1,388,670)	(20,064,433)
Cash and cash equivalents, beginning of year	40,334,343	31,436,054	14,150,014	42,297,513
Cash and cash equivalents, end of year	$ 25,457,569	$ 31,187,947	$ 12,761,344	$ 22,233,080

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Knoxville Utilities Board
Required Supplementary Information - Schedule of Changes in Net Pension Liability and Related Ratios
June 30, 2020

	*Year ended December 31					
	2019	2018	2017	2016	2015	2014
Total pension liability						
Service cost	$ 6,142,213	$ 5,095,488	$ 4,607,486	$ 4,226,985	$ 4,157,062	$ 4,092,808
Interest	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	(1,054,117)	(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	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)	(15,533,167)
Net change in total pension liability	14,660,606	4,559,218	3,207,995	(111,612)	1,728,586	3,258,298
Total pension liability - beginning	212,157,951	207,598,733	204,390,738	204,502,350	202,773,764	199,515,466
Total pension liability - ending (a)	$ 226,818,557	$ 212,157,951	$ 207,598,733	$ 204,390,738	$ 204,502,350	$ 202,773,764
Plan fiduciary net position						
Contributions - employer	$ 2,871,241	$ 3,456,475	$ 4,286,597	$ 5,243,146	$ 5,991,887	$ 5,908,541
Contributions - participants	3,170,825	2,081,125	1,488,632	555,075	487,546	475,854
Net investment income	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)	22,292,369
Other additions	13,579	62,616	82,239	45,848	30,879	29,733
Benefit payments, including refunds of member contributions	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)	(15,405,167)
Administrative expense	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)	(378,085)
Death benefits	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)	(128,000)
Net change in plan fiduciary net position**	40,431,737	(21,868,910)	22,862,426	5,052,489	(9,333,204)	12,795,245
Plan fiduciary net position - beginning**	205,508,195	227,377,105	204,514,679	199,462,190	208,795,394	196,000,149
Plan fiduciary net position - ending (b)**	$ 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)	$ (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	108.43%	96.87%	109.53%	100.06%	97.54%	102.97%
Covered payroll	$ 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	(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.

Knoxville Utilities Board
Required Supplementary Information - Schedule of Employer Pension Contributions
June 30, 2020

	*Year ended December 31					
	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 2,871,241	$ 3,456,475	$ 4,286,597	$ 5,243,146	$ 5,991,887	$ 5,908,541
Contribution in relation to the actuarially determined contribution	2,871,241	3,456,475	4,286,597	5,243,146	5,991,887	5,908,541
Contribution deficiency	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 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	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, 2018 and January 1, 2017

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 23 years remaining (24 years as of January 1, 2017), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2018, the unfunded liability was negative.
Discount rate:	7.5%
Salary increases:	2.80% to 5.15%, based on years of service
Mortality:	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation:	2.8%

* 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.

Knoxville Utilities Board
Required Supplementary Information – Schedule of Changes in Net OPEB Liability and Related Ratios
June 30, 2020

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	*Year ended June 30		
	2020	2019	2018
Total OPEB liability			
Service cost	$ 256,270	$ 270,515	$ 202,603
Interest	3,672,291	3,624,737	3,295,240
Change of benefit terms	(202,408)	-	-
Differences between expected and actual experience	43,902	999,098	1,324,769
Changes of assumptions	3,604,843	3,231,601	(397,180)
Benefit payments	(3,028,596)	(3,532,444)	(3,298,739)
Net change in total OPEB liability	4,346,302	4,593,507	1,126,693
Total OPEB liability - beginning	50,197,938	45,604,431	44,477,738
Total OPEB liability - ending (a)	$ 54,544,240	$ 50,197,938	$ 45,604,431
Plan fiduciary net position			
Contributions - employer	$ 311,324	$ -	$ -
Net investment income	975,155	2,981,928	3,705,473
Benefit payments	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	(53,286)	(54,787)	(51,668)
Net change in plan fiduciary net position	(1,795,403)	(605,303)	355,066
Plan fiduciary net position - beginning	48,750,196	49,355,499	49,000,433
Plan fiduciary net position - ending (b)	$ 46,954,793	$ 48,750,196	$ 49,355,499
Net OPEB liability (asset) - ending (a) - (b)	$ 7,589,447	$ 1,447,742	$ (3,751,068)
Plan fiduciary net position as a percentage of the total OPEB liability	86.09%	97.12%	108.23%
Covered employee payroll	$ 23,363,536	$ 24,346,735	$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	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.

Knoxville Utilities Board
Required Supplementary Information – Schedule of Employer OPEB Contributions
June 30, 2020

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

Notes to Schedule:

Valuation Date:	January 1, 2018 and January 1, 2017
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 18 years remaining as of January 1, 2018 (19 years as of January 1, 2017), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2018, the unfunded liability was negative
Discount rate:	7.5%
Healthcare cost trend rate:	Pre-Medicare: 8% grading down to 4.5% over 20 years as of January 1, 2018; 7.83% to 4.5% over 19 years as of January 1, 2017 Medicare: 7% grading down to 4.5% over 20 years as of January 1, 2018; 6.88% to 4.5% over 19 years as of January 1, 2017 Administrative expenses: 3.0% per year
Salary increases:	From 2.8% to 5.15%, based on years of service
Mortality:	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation:	2.8%
Investment rate of return:	7.5%
Retirement age:	2% at ages 50-57 at January 1, 2018 and January 1, 2017, respectively, 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.

Knoxville Utilities Board
Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement
Schedule of Changes in Total Pension Liability and Related Ratios
June 30, 2020

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	*Year ended December 31			
	2019	2018	2017	2016
Total pension liability				
Service cost	$ -	$ 941	$ 584	$ -
Interest (includes interest on service cost)	9,181	9,676	7,535	-
Changes of benefit terms	(218,272)	-	-	185,077
Differences between expected and actual experience	34	(36,125)	13,684	-
Changes of assumptions	13,342	(22,950)	73,461	-
Benefit payments, including refunds of member contributions	(15,932)	-	-	-
Net change in total pension liability	(211,647)	(48,458)	95,264	185,077
Total pension liability - beginning	231,883	280,341	185,077	-
Total pension liability - ending	$ 20,236	$ 231,883	$ 280,341	$ 185,077
Covered payroll	$ 40,276,197	$ 42,150,040	$ 43,309,374	$ 44,437,747
Total pension liability as a percentage of covered payroll	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.

Knoxville Utilities Board
Supplemental Information - Schedule of Expenditures of Federal Awards and State Financial Assistance
June 30, 2020

Federal Grantor/ Pass-Through Grantor	Program Name	CFDA Number	Pass-Through Entity Identifying Number	Expenditures
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	PA-04-TN-4427-PW-00434	$ 105,150
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	PA-04-TN-4427-PW-00266	$ 18,000
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	PA-04-TN-4427-PW-00446	$ 36,418
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	PA-04-TN-4427-PW-00468	$ 21,653
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	PA-04-TN-4427-PW-00472	$ 60,398
		Total Program 97.036		$ 241,619
		Total Federal Awards		$ 241,619

NOTE 1 - BASIS OF PRESENTATION

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

Crime

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

Directors’ and Officers’ Liability Insurance

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

Employment Practices Liability

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

Fiduciary

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

Pollution Legal Liability

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

Property Insurance

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

Travel Accident

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

Excess Insurance for General Liability

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

Excess Insurance for Workers’ Compensation

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

Employee Health Plan Stop Loss Coverage

KUB’s employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB’s exposure to annual expenses in excess of $575,000 per individual participant.

9717 Cogdill Road
Suite 201
Knoxville, TN 37932

C&J COULTER & JUSTUS, P.C.

phone: (865) 637-4161
fax: (865) 524-2952
web: cj-pc.com

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

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Knoxville Utilities Board (KUB), a component unit of the City of Knoxville, Tennessee, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise KUB's basic financial statements, and have issued our report thereon dated October 29, 2020.

Internal Control over Financial Reporting

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

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

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

Board of Commissioners
Knoxville Utilities Board
Knoxville, Tennessee

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 29, 2020

Knoxville Utilities Board
Schedule of Findings and Questioned Costs
June 30, 2020

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

2019-01

In July 2018, an employee in the KUB Underground Construction Department in the Wastewater Division used a KUB-owned backhoe to take a front-loader full of asphalt off KUB property for use at his personal residence. The value of the asphalt was estimated at $200. The employee resigned in lieu of termination and the stolen materials were written-off.

2019-02

In November 2018, it was discovered that an employee in the KUB Electrical Engineering Department in the Electric Division had falsified timesheets resulting in $7,907.79 of overpayments for false time reported. The employee resigned in lieu of termination. The employee paid full restitution of $7,907.79 to KUB.

2019-03

In May 2019, it was discovered that an employee in the KUB Gas Engineering Department in the Gas Division had falsified timesheets resulting in $2,740.50 of overpayments for false time reported. The employee resigned in lieu of termination. The employee paid full restitution of $2,740.50 to KUB.

Knoxville Utilities Board

Electric Division

Financial Statements and Supplemental Information
June 30, 2020 and 2019

Knoxville Utilities Board Electric Division
Index
June 30, 2020 and 2019

9717 Cogdill Road
Suite 201
Knoxville, TN 37932

COULTER & JUSTUS, P.C.

phone: (865) 637-4161
fax: (865) 524-2952
web: cj-pc.com

Independent Auditor's Report

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

We have audited the accompanying financial statements of the Electric Division (the Division) of the Knoxville Utilities Board, a component unit of the City of Knoxville, Tennessee, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the index.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Division of the Knoxville Utilities Board as of June 30, 2020 and 2019, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 25 and the required supplementary information on pages 63 through 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Division's basic financial statements. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

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

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Electric Division and do not purport to, and do not, present fairly the financial position of the Knoxville Utilities Board, as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2020, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.

Coulter & Justus, P.C.

Knoxville, Tennessee
October 29, 2020

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. The Electric Division (Division) provides services to certain customers in Knox County and in seven surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Electric Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2020 and 2019, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Division’s Management Discussion and Analysis (MD&A) focuses on the fiscal year ended June 30, 2020 activities, resulting changes and current known facts, and should be read in conjunction with the Division’s financial statements.

Electric Division Highlights

System Highlights

KUB serves 210,393 electric customers over a 688 square mile service area and maintains 5,408 miles of service lines and 63 electric substations to provide 5.4 million megawatt hours to its customers annually.

For the second year in a row, KUB’s system was impacted by excessive rainfall. After record setting levels in 2019, KUB experienced sustained rainfall amounts exceeding Knoxville’s ten-year average for eight months of fiscal year 2020. System reliability was affected, resulting in 2.44 hours of service interruption for the average customer.

During March 2020, a global pandemic was declared related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). The pandemic has significantly impacted the economic conditions across the nation.

As a result of the pandemic, KUB quickly responded with changes to lessen the economic burden on customers by deferring proposed rate increases and suspending disconnections for nonpayment. To offset the reduced revenues, KUB delayed projects to create more financial liquidity. KUB plans to enroll customers with past due balances in repayment plans and resume disconnects for nonpayment.

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

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

The typical residential customer’s average monthly electric bill was $108.46 as of June 30, 2020, representing an increase of $0.08 compared to June 30, 2019. The slight increase in the monthly bill during fiscal year 2020 was the net result of the flow through of TVA wholesale rate adjustments, previously over recovered wholesale power costs and the October 2019 electric rate increase.

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

Century II Infrastructure Program

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

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

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

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

During the fiscal year, KUB replaced 1,962 poles, exceeding the target level of 1,900 poles, and replaced 15.1 miles of transmission lines, slightly exceeding the target level of 15 miles, while staying on track with Century II goals and within the Electric Division's total capital budget.

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Financial Highlights

Fiscal Year 2020 Compared to Fiscal Year 2019

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

Operating revenue decreased $10.7 million or 1.9 percent over the prior fiscal year. The decrease in operating revenue was the net result of additional revenue from KUB's 1 percent electric rate increase effective October 2019, the flow through of TVA rate adjustments, a 2.3 percent decrease in billed sales and the flow through of prior year over recovered purchased power costs to KUB's electric customers. KUB's over recovered purchased power cost decreased by $0.8 million in fiscal year 2020. KUB flows changes to wholesale power rates directly through to its retail electric rates via its Purchased Power Adjustment.

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

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

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

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

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

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

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

Long-term debt represented 42.6 percent of the Division's capital structure as of June 30, 2020, compared to 45.6 percent last year. Capital structure equals long-term debt (including the current and long-term portion of any revenue bonds) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Current year debt coverage for the fiscal year was 3.34. Maximum debt service coverage was 3.35.

Fiscal Year 2019 Compared to Fiscal Year 2018

The Division's Change in Net Position increased $20 million in fiscal year 2019. Comparatively, net position increased by $17.6 million in fiscal year 2018. A restatement to the fiscal year 2018 beginning net position, based on a change in method of accounting for Other Post-Employment Benefits (OPEB), increased the total net position by an additional $2.2 million. The change resulted in a total increase of $19.8 million in the Division's net position.

Operating revenue decreased $1.7 million or 0.3 percent compared to the prior fiscal year. The decrease in operating revenue was the result of additional revenue from KUB's October 2018 electric rate increase, the flow through of TVA rate adjustments, a one percent decrease in billed sales and the flow through of prior year over recovered purchased power costs to KUB's electric customers. KUB's over recovered purchased power cost decreased by $2 million in fiscal year 2019. KUB flows changes to wholesale power rates directly through to its retail electric rates via its Purchased Power Adjustment.

Seventy-six percent of Electric Division sales revenue was used to purchase electric power from TVA for the fiscal year ended June 30, 2019. Purchased power expense decreased $8.2 million compared to last fiscal year. Billed power sales were down one percent compared to fiscal year 2018, as milder winter weather offset warmer summer and spring seasons.

Margin on electric sales (operating revenue less purchased power expense) increased $6.4 million or 4.8 percent, reflecting additional revenue from the KUB electric rate increase.

Operating expenses (excluding purchased power expense) increased $4.8 million. Operating and maintenance (O&M) expenditures increased $7.2 million or 13.3 percent. Depreciation expense decreased $3.4 million or 9.7 percent. Taxes and tax equivalents were $1 million or 5.7 percent higher than the prior fiscal year.

Interest income was $1 million more than the prior fiscal year, due to higher short-term interest rates. Interest expense increased $1 million or 9.5 percent, due to the net effect of interest expense on long-term bonds issued in August 2018.

Capital contributions were consistent with the prior fiscal year, reflecting a steady level of electric system assets provided to KUB during the fiscal year.

Total capital assets (net) increased $52.5 million or 9 percent over the end of the last fiscal year, reflecting pole replacements and other distribution system improvements as part of KUB's Century II electric program.

During fiscal year 2019, KUB sold $40 million in electric system revenue bonds for the purpose of funding electric system capital improvements.

Long-term debt represented 45.6 percent of the Division's capital structure as of June 30, 2019, compared to 44.7 percent last year. Capital structure equals long-term debt (including the current and long-term portion of any revenue bonds) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Current year debt coverage for the fiscal year was 3.41. Maximum debt service coverage was 3.17.

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Knoxville Utilities Board Electric Division - Financial Statements

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

Statement of Net Position

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

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

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

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

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

Statement of Revenues, Expenses and Changes in Net Position

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

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

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

Statement of Cash Flows

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

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

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

Condensed Financial Statements

Statement of Net Position

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

Statements of Net Position
As of June 30

(in thousands of dollars)	**2020**	**2019**	**2018**
Current, restricted and other assets	$ 181,494	$ 175,145	$ 192,101
Capital assets, net	677,193	634,286	581,742
Deferred outflows of resources	8,535	12,340	4,457
Total assets and deferred outflows of resources	867,222	821,771	778,300
Current and other liabilities	140,286	114,634	112,235
Long-term debt outstanding	305,318	320,244	294,206
Deferred inflows of resources	9,873	1,845	6,844
Total liabilities and deferred inflows of resources	455,477	436,723	413,285
Net position			
Net investment in capital assets	356,245	300,563	278,370
Restricted	14,186	13,610	12,285
Unrestricted	41,314	70,875	74,360
Total net position	$ 411,745	$ 385,048	$ 365,015

Normal Impacts on Statement of Net Position

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

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

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

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

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

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

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

Impacts and Analysis

Current, Restricted and Other Assets

Fiscal Year 2020 Compared to Fiscal Year 2019

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

Fiscal Year 2019 Compared to Fiscal Year 2018

Current, restricted and other assets decreased $17 million or 8.8 percent. The change reflects a decrease in the actuarially determined net pension asset of $9.5 million, a decrease in accounts receivable of $5.1 million, a decrease in general fund cash (consisting of cash and cash equivalents, short-term investments, and long-term investments) of $2.4 million and a decrease in the actuarially determined net OPEB asset of $1.8 million. These decreases were offset by a net increase in operating contingency reserves of $1.4 million.

Capital Assets

Fiscal Year 2020 Compared to Fiscal Year 2019

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

Fiscal Year 2019 Compared to Fiscal Year 2018

Capital assets, net of depreciation, increased $52.5 million or 9 percent. Major capital expenditures included $29.5 million for distribution system improvements, $13 million for building improvements, $10.3 million for pole replacements, $9.2 million for Grid Modernization including Supervisory Control and Data Acquisition (SCADA) system upgrades and $2.6 million for installation or replacement of electric services.

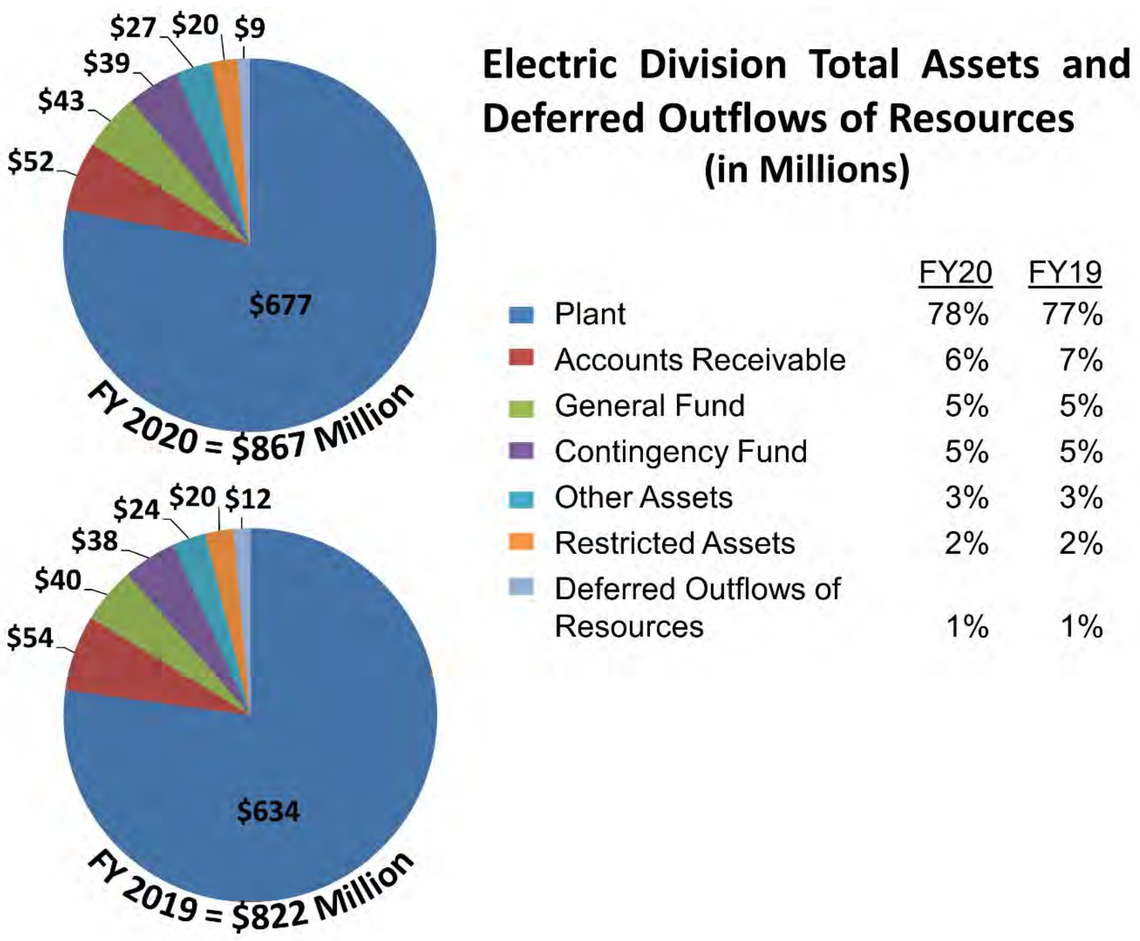
Deferred Outflows of Resources

Fiscal Year 2020 Compared to Fiscal Year 2019

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

Fiscal Year 2019 Compared to Fiscal Year 2018

Deferred outflows of resources increased $7.9 million compared to the prior fiscal year primarily due to an increase in pension outflow of $7.3 million.



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

	FY20	FY19
Plant	78%	77%
Accounts Receivable	6%	7%
General Fund	5%	5%
Contingency Fund	5%	5%
Other Assets	3%	3%
Restricted Assets	2%	2%
Deferred Outflows of Resources	1%	1%

Current and Other Liabilities

Fiscal Year 2020 Compared to Fiscal Year 2019

Current and other liabilities increased $25.7 million. Accounts payable increased $24.1 million, net OPEB liability increased $2.9 million, customer advances for construction increased $1.2 million, accrued expenses increased $0.9 million, and the current portion of revenue bonds and associated accrued interest increased $0.4 million. The increase in accounts payable is primarily attributable to a change in timing of the payment of the May TVA wholesale power invoice. The increases in liabilities were offset by a decrease in net pension liability of $3.3 million. The outstanding balance on TVA conservation loans declined by $1.1 million, as KUB ceased issuance of any new loans in fiscal year 2016.

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

Fiscal Year 2019 Compared to Fiscal Year 2018

Current and other liabilities increased $2.4 million. Net pension liability increased $3.2 million, customer advances for construction increased $2.8 million, and the current portion of revenue bonds and associated accrued interest increased $1.8 million. These increases were offset by a decline in accounts payable of $1.8 million and a decline in accrued expenses of $2.2 million. The outstanding balance on TVA conservation loans declined by $1.3 million, as KUB ceased issuance of any new loans in fiscal year 2016.

KUB over recovered $2.7 million in wholesale power costs from its customers in fiscal year 2019, as compared to a $4.7 million over recovery in fiscal year 2018. This over recovery of costs will be flowed back to KUB’s electric customers during the next fiscal year through adjustments to rates via the Purchased Power Adjustment.

Long-Term Debt

Fiscal Year 2020 Compared to Fiscal Year 2019

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

Fiscal Year 2019 Compared to Fiscal Year 2018

Long-term debt increased $26 million or 8.9 percent. Electric system revenue bonds of $40 million, sold in August 2018, were offset by the scheduled repayment of debt.

Deferred Inflows of Resources

Fiscal Year 2020 Compared to Fiscal Year 2019

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

Fiscal Year 2019 Compared to Fiscal Year 2018

Deferred inflows decreased $5 million compared to the prior fiscal year due to differences in pension inflows.

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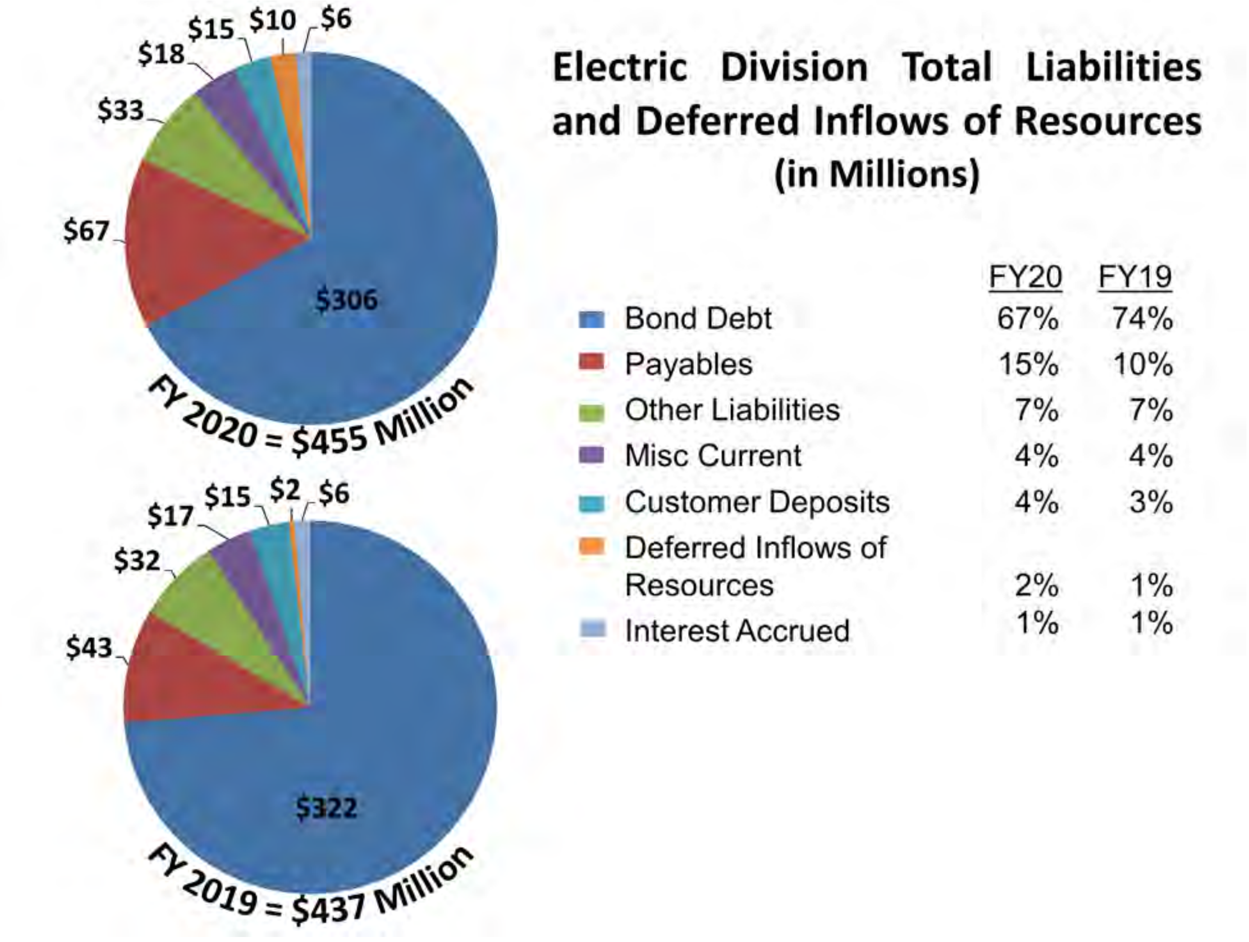

Electric Division Total Liabilities and Deferred Inflows of Resources (in Millions)

	FY20	FY19
Bond Debt	67%	74%
Payables	15%	10%
Other Liabilities	7%	7%
Misc Current	4%	4%
Customer Deposits	4%	3%
Deferred Inflows of Resources	2%	1%
Interest Accrued	1%	1%

Net Position

Fiscal Year 2020 Compared to Fiscal Year 2019

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

Fiscal Year 2019 Compared to Fiscal Year 2018

Unrestricted net position decreased $3.5 million, primarily due to the $18.7 million decrease in current and other assets. This decrease is offset by a decrease in deferred inflows of $5 million and an increase in deferred outflows of $8.2 million related to pension and OPEB. Net investment in capital assets increased by $22.2 million or 8 percent. The increase was primarily the result of an increase of $52.5 million in net electric plant additions offset by an increase in the current portion of revenue bonds and total long-term debt of $27.4 million. Restricted net position increased $1.3 million due to the net increase of the electric bond fund and the associated interest payable.

Statement of Revenues, Expenses and Changes in Net Position

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

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

(in thousands of dollars)	2020	2019	2018
Operating revenues	$ 547,687	$ 558,370	$ 560,111
Less: Purchased power expense	398,230	417,675	425,841
Margin from sales	149,457	140,695	134,270
Operating expenses			
Distribution	39,929	35,540	35,020
Customer service	6,186	7,160	6,124
Administrative and general	18,764	18,844	13,173
Depreciation	29,994	31,991	35,431
Taxes and tax equivalents	18,333	18,711	17,700
Total operating expenses	113,206	112,246	107,448
Operating income	36,251	28,449	26,822
Interest income	1,579	2,667	1,635
Interest expense	(11,648)	(11,704)	(10,692)
Other income/(expense)	346	500	(294)
Change in net position before capital contributions	26,528	19,912	17,471
Capital contributions	169	121	120
Change in net position	$ 26,697	$ 20,033	$ 17,591

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

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

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

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

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

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

- Taxes and tax equivalents are impacted by plant additions/retirements, changes in property tax rates, and margin (operating revenue less purchased power expense) levels.

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

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

- Other income/(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 2020 Compared to Fiscal Year 2019

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

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

Fiscal Year 2019 Compared to Fiscal Year 2018

The Division's Change in Net Position increased $20 million in fiscal year 2019. Comparatively, net position increased $17.6 million in fiscal year 2018. A restatement to the fiscal year 2018 beginning net position, based on a change in method of accounting for OPEB, increased the total net position by an additional $2.2 million. The change resulted in a total increase of $19.8 million in the Division's net position.

The higher earnings were attributable to the net effect of a $6.4 million increase in margin on sales and a $1 million increase in interest income offset by a $1 million increase in interest expense and a $4.8 million increase in operating expenses.

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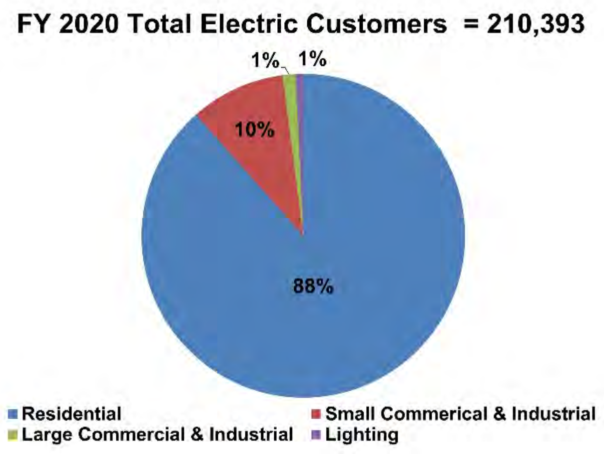
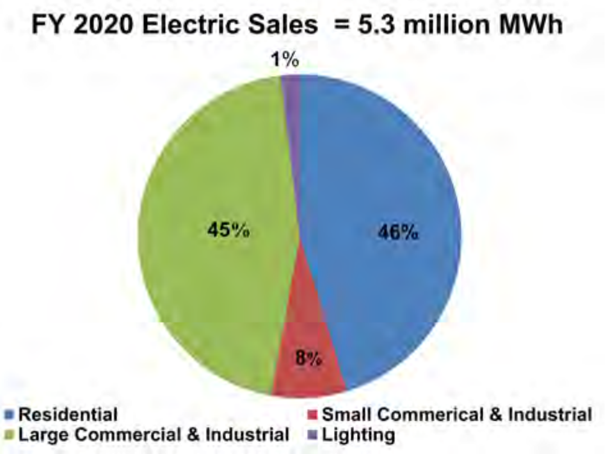
Margin from Sales

Fiscal Year 2020 Compared to Fiscal Year 2019

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

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


FY 2020 Total Electric Customers = 210,393


FY 2020 Electric Sales = 5.3 million MWh

Residential customers represented 88 percent of total electric system customers and accounted for 46 percent of electric sales volumes for the year. Large commercial and industrial customers accounted for 45 percent of electric sales volumes, though volumes decreased 2.6 percent partially due to the closure of Tennova's Physicians Regional Medical Center campus in North Knoxville last fiscal year. KUB's ten largest electric customers accounted for 18 percent of KUB's billed volumes. Those ten customers represent two industrial and eight commercial customers, including four governmental customers. Sales to the University of Tennessee, KUB's largest commercial/governmental customer, accounted for 4.2 percent of total electric system sales.

KUB has added 5,305 electric system customers over the past three years, representing annual growth of less than one percent. Electric billed sales volumes have declined 3 percent over the past three years. Fiscal year 2020 customer growth was 1,411.

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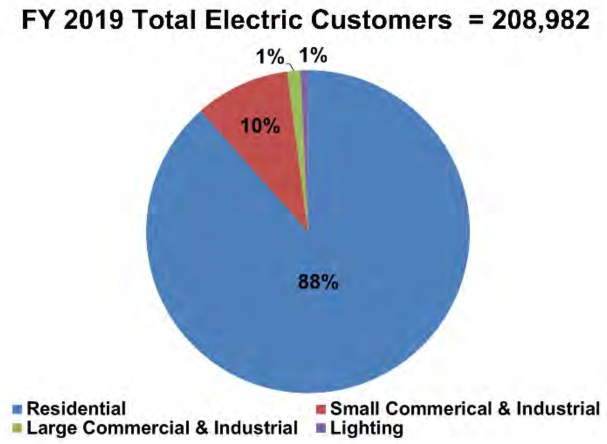
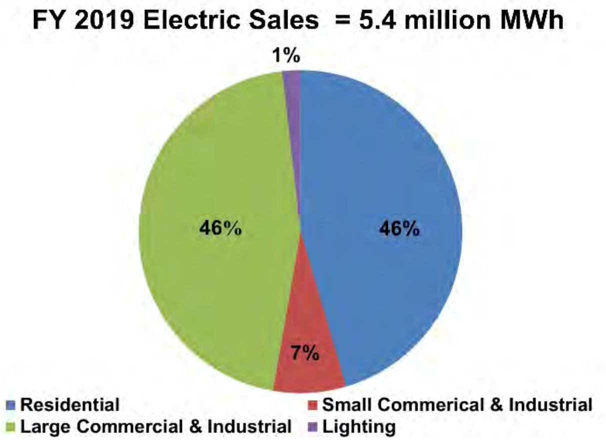
Fiscal Year 2019 Compared to Fiscal Year 2018

Margin on electric sales grew $6.4 million, reflecting increased revenue due to the October 2018 rate increase.

Operating revenue decreased $1.7 million or 0.3 percent, reflecting the net result of additional revenue from KUB's October 2018 electric rate increase, the flow through of previously over recovered wholesale power costs, and the flow through of TVA rate adjustments. Billed power sales were down one percent compared to fiscal year 2018, as the impact from the closure of two large customers was offset by a warm spring and summer. Purchased power expense decreased $8.2 million over last year.





Residential customers represented 88 percent of total electric system customers and accounted for 46 percent of electric sales volumes for the year. Large commercial and industrial customers also accounted for 46 percent of electric sales volumes, though volumes decreased two percent partially due to the closure of Tennova's Physicians Regional Medical Center campus in North Knoxville. KUB's ten largest electric customers accounted for 18 percent of KUB's billed volumes. Those ten customers represent two industrial and eight commercial customers, including five governmental customers. Sales to the University of Tennessee, KUB's largest commercial/governmental customer, accounted for 4.5 percent of total electric system sales.

KUB has added 6,139 electric system customers over the past three years, representing annual growth of one percent. Electric billed sales volumes have remained consistent over the past three years. Fiscal year 2019 customer growth was 2,549.

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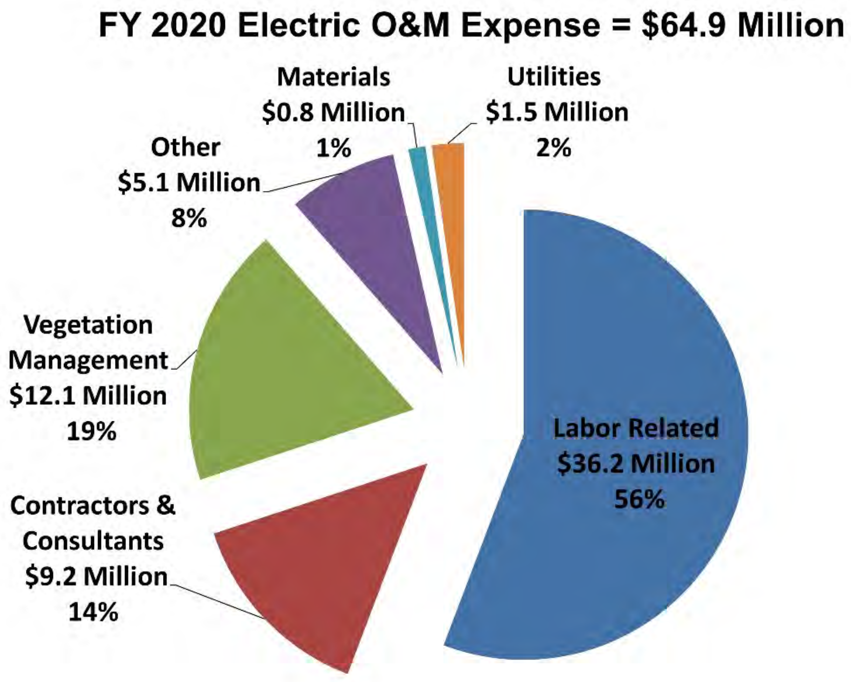
Operating Expenses

Fiscal Year 2020 Compared to Fiscal Year 2019

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

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



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

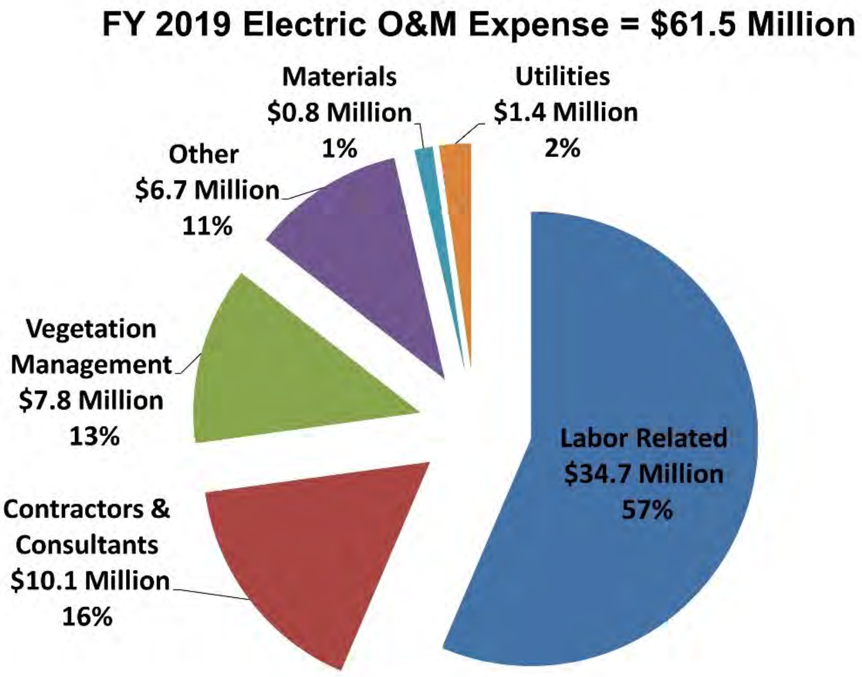
Fiscal Year 2019 Compared to Fiscal Year 2018

Operating expenses (excluding purchased power expense) increased $4.8 million, compared to fiscal year 2018. Operating expenses include operations and maintenance (O&M) expense, depreciation, and taxes/tax equivalents. O&M expenses can be further classified as distribution, customer service, and administrative and general.

- Distribution expenses increased $0.5 million or 1.5 percent, primarily due to increased labor related expenses.

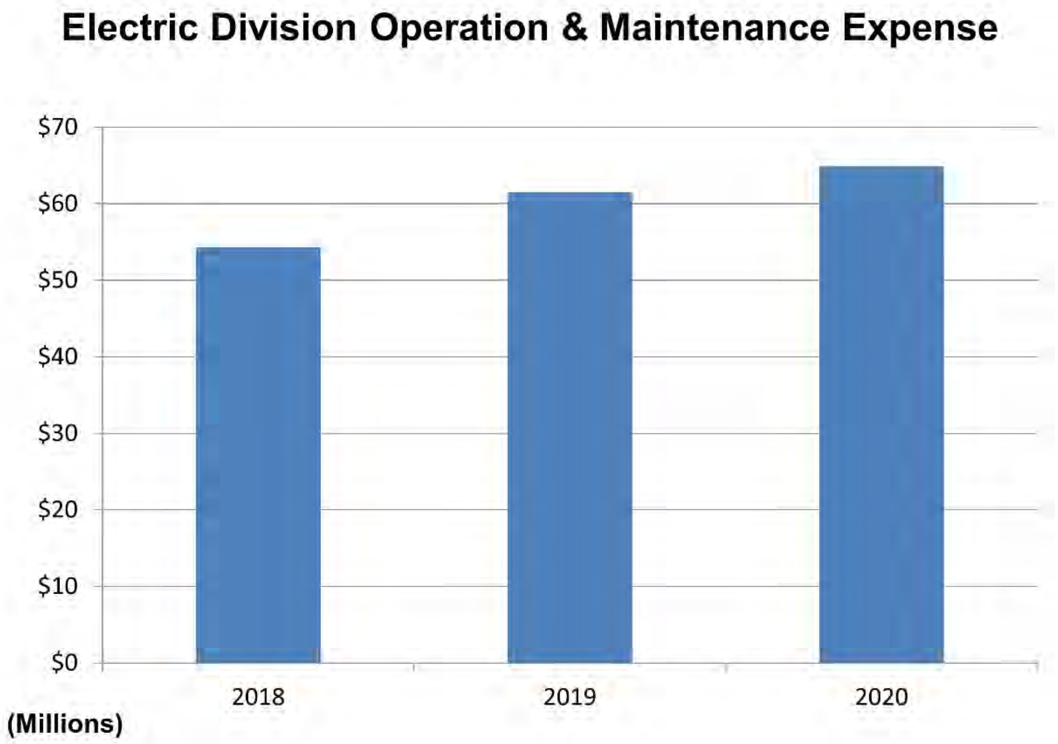
- Customer service expenses increased $1 million, primarily due to increased outside contractor use.

- Administrative and general expenses increased $5.7 million, primarily due to higher labor related expenses including higher pension expenses, reflecting impact of investment losses on Pension Trust assets in 2018.



- Depreciation expense for fiscal year 2019 decreased $3.4 million or 9.7 percent. This decrease was primarily attributable to the sale of streetlight assets to the City of Knoxville.

- Taxes and tax equivalents were $1 million higher than the prior fiscal year primarily due to increased plant in service levels.



Other Income and Expense

Fiscal Year 2020 Compared to Fiscal Year 2019

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

Interest expense decreased $0.1 million or 0.5 percent.

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

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

Fiscal Year 2019 Compared to Fiscal Year 2018

Interest income increased $1 million compared to the prior fiscal year, primarily due to increases in short-term interest rates over the prior fiscal year.

Interest expense increased $1 million or 9.5 percent, reflecting the impact of interest expense from new revenue bonds sold during the fiscal year.

Other income (net) increased $0.8 million, primarily due to mark-to-market adjustments on investments.

The Division's capital contributions were consistent, reflecting a steady level of developer donated utility assets compared to the prior fiscal year.

Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

(in thousands of dollars)	**2020**	**2019**	**2018**
Distribution Plant			
Services and Meters	$ 50,485	$ 41,665	$ 31,210
Electric Station Equipment	57,564	52,974	54,695
Poles, Towers and Fixtures	140,424	137,804	127,343
Overhead Conductors	110,865	108,965	99,761
Line Transformers	61,725	61,784	61,446
Other Accounts	112,004	107,268	104,435
Total Distribution Plant	$ 533,067	$ 510,460	$ 478,890
General Plant	48,484	28,442	27,821
Total Plant Assets	$ 581,551	$ 538,902	$ 506,711
Work In Progress	95,642	95,384	75,031
Total Net Plant	$ 677,193	$ 634,286	$ 581,742

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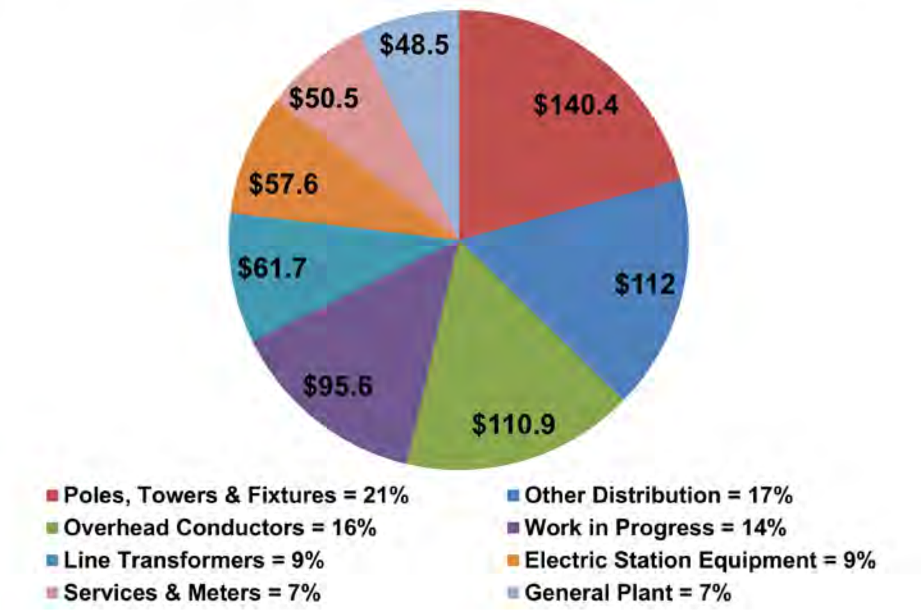
Fiscal Year 2020 Compared to Fiscal Year 2019

As of June 30, 2020, the Division had $677.2 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of $42.9 million or 6.8 percent over the end of the last fiscal year.

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



Major capital asset expenditures during the year were as follows:

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

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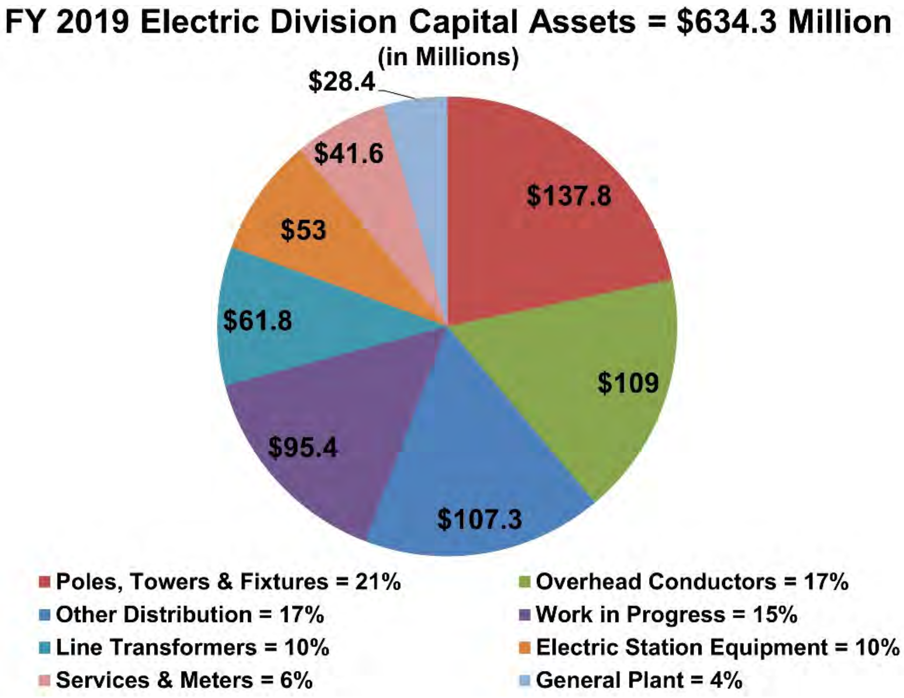
Fiscal Year 2019 Compared to Fiscal Year 2018

As of June 30, 2019, the Division had $634.3 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of $52.5 million or 9 percent over the end of the last fiscal year.



Major capital asset expenditures during the year were as follows:

- $29.5 million for electric distribution system improvements
- $13 million for building improvements
- $10.3 million for pole replacements
- $9.2 million for Grid Modernization including SCADA system upgrades
- $2.6 million for installation of new electric services and the upgrade or replacement of existing services

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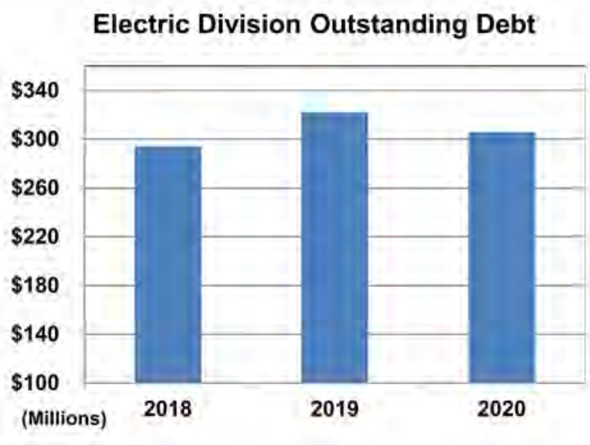
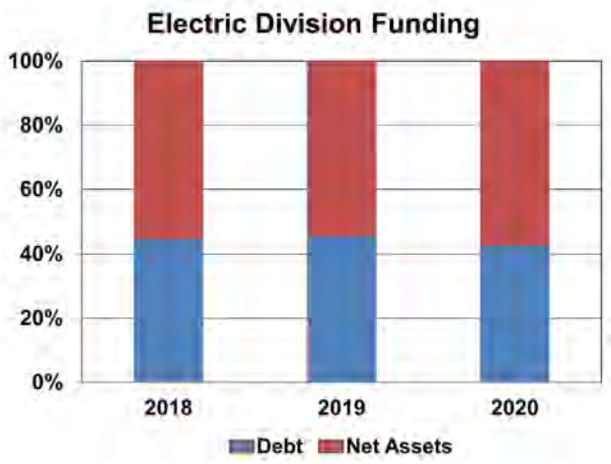
Debt Administration

The Division's outstanding debt was $305.8 million at June 30, 2020. The bonds are secured solely by revenues of the Electric Division. Debt as a percentage of the Division's capital structure was 42.6 percent in 2020, 45.6 percent in 2019, and 44.7 percent at the end of fiscal year 2018. KUB's Debt Management Policy limits the Division's debt ratio to 60 percent or less.

Outstanding Debt
As of June 30

(in thousands of dollars)	**2020**	**2019**	**2018**
Revenue bonds	$ 305,835	$ 322,170	$ 294,450
Total outstanding debt	$ 305,835	$ 322,170	$ 294,450


Electric Division Outstanding Debt


Electric Division Funding

The Division will pay $148.2 million in principal payments over the next ten years, representing 48.5 percent of the outstanding bonds. KUB's Debt Management Policy requires that a minimum of 30 percent of electric debt principal be repaid over the next ten years.

Fiscal Year 2020 Compared to Fiscal Year 2019

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

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

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

Fiscal Year 2019 Compared to Fiscal Year 2018

As of June 30, 2019, the Division had $322.2 million in outstanding debt (including the current portion of revenue bonds), compared to $294.5 million last year, an increase of $27.7 million or 9.4 percent. The increase is attributable to new revenue bonds issued during the fiscal year offset by the scheduled repayment of debt. As of June 30, 2019, the Division's weighted average cost of debt was 3.66 percent (3.55 percent including the impact of Build America Bonds rebates).

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

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2019, the Division's revenue bonds were rated AA by Standard & Poor's and Aa2 by Moody's Investors Service. In May 2019, KUB received a change in its long-term rating from Standard & Poor's on the electric system. The reduction from 'AA+' to 'AA' reflects a change in methodology in how Standard & Poor's calculates fixed-charge coverage by including the utility's demand component of its purchased power bill to cover its portion of the Tennessee Valley Authority's (TVA) fixed costs, including debt service associated with generating plants. KUB's reduction is consistent with that of other TVA distributors due to the same change in methodology.

Impacts on Future Financial Position

KUB anticipates adding 1,750 additional electric customers in fiscal year 2021.

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

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

KUB will be using a portion of the annual partnership credit, around $800,000 annually, to purchase 212MW of solar power to meet the needs of its electric system customers through TVA's Green Invest Program. This first of its kind agreement in the TVA region will provide 465 million kilowatt-hours of solar output and represent about eight percent of KUB's electric system load. The solar developments providing the 212MW of solar energy are due to be completed in fiscal year 2022.

KUB expects to receive reimbursements in fiscal year 2021 from the Federal Emergency Management Agency (FEMA) to partially offset the cost of the 2019 storm and flood event.

KUB's long-term debt includes $1.4 million of Electric Division 2010 Build America Bonds (BABs). The BABs were sold on a taxable basis with the United States Treasury providing a rebate to KUB for a percentage of the interest cost. The interest rebates were subject to federal sequestration during the fiscal year and were reduced 5.9 percent. Any future actions by Congress may also affect the anticipated rebates for future fiscal years.

The Pension Plan actuarial valuation for the Plan year beginning January 1, 2019 resulted in an actuarially determined contribution of $3,167,680 for the fiscal year ending June 30, 2021, based on the Plan's current funding policy. The Electric Division's portion of this contribution is $1,520,486. Subsequent to June 30, 2020, the actuarial valuation for the Plan year beginning January 1, 2020 was completed. The actuarial valuation resulted in an actuarially determined contribution of $3,665,168 for the fiscal year ending June 30, 2022, based on the Plan's current funding policy. The Electric Division's portion of this contribution is $1,759,281. For the Plan year beginning January 1, 2020, the Plan's actuarial funded ratio is 101.61 percent.

The OPEB Plan actuarial valuation as of January 1, 2019 resulted in an actuarially determined contribution of $757,226 for the fiscal year ending June 30, 2021, based on the Plan's current funding policy. The Electric Division's portion of this contribution is $363,468. Subsequent to June 30, 2020, the actuarial valuation as of January 1, 2020 was completed. The actuarial valuation resulted in an actuarially determined contribution of $489,066 for the fiscal year ending June 30, 2022, based on the Plan's current funding policy. The Electric Division's portion of this contribution is $234,752. The Plan's actuarial funded ratio is 97.68 percent.

GASB Statement No. 84, *Fiduciary Activities*, is effective for fiscal years beginning after December 15, 2019. GASB Statement No. 87, *Leases*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period,* is effective for fiscal years beginning after December 15, 2020. GASB Statement No. 90, *Major Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, is effective for fiscal years beginning after December 15, 2019. GASB Statement No. 91, *Conduit Debt Obligations*, is effective for fiscal years beginning after December 15, 2021. GASB Statement No. 92, *Omnibus 2020*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 93, *Replacement of Interbank Offered Rates*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, is effective for fiscal years beginning after June 15, 2021. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on the Division's financial position or results of operations during fiscal year 2020.

Financial Contact

The Division's financial statements are designed to present users (citizens, customers, investors, and creditors) with a general overview of the Division's financial position and results of operations for the fiscal years ended June 30, 2020 and 2019. If you have questions about the statements or need additional financial information, contact KUB's Chief Financial Officer at 445 South Gay Street, Knoxville, Tennessee 37902.

Knoxville Utilities Board Electric Division
Statements of Net Position
June 30, 2020 and 2019

	2020	2019
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	$ 43,327,171	$ 25,457,569
Short-term investments	-	14,989,200
Short-term contingency fund investments	33,658,768	25,929,199
Other current assets	418,467	411,950
Accrued interest receivable	6,001	73,899
Accounts receivable, less allowance of uncollectible accounts of $430,529 in 2020 and $411,152 in 2019	52,494,791	53,744,219
Inventories	11,987,689	16,376,074
Prepaid expenses	703,611	698,200
Total current assets	142,596,498	137,680,310
Restricted assets:		
Electric bond fund	19,873,134	19,496,697
Other funds	727	10,311
Total restricted assets	19,873,861	19,507,008
Electric plant in service	1,023,267,900	975,757,680
Less accumulated depreciation	(441,716,884)	(436,855,568)
	581,551,016	538,902,112
Retirement in progress	3,159,699	2,131,243
Construction in progress	92,482,611	93,252,508
Net plant in service	677,193,326	634,285,863
Other assets:		
Net pension asset	9,178,260	-
Long-term contingency fund investments	4,880,955	11,559,399
TVA conservation program receivable	1,933,798	2,961,311
Other	3,030,366	3,436,627
Total other assets	19,023,379	17,957,337
Total assets	858,687,064	809,430,518
Deferred outflows of resources:		
Pension outflow	3,899,081	8,281,265
OPEB outflow	2,005,781	1,196,726
Unamortized bond refunding costs	2,630,234	2,862,135
Total deferred outflows of resources	8,535,096	12,340,126
Total assets and deferred outflows of resources	$ 867,222,160	$ 821,770,644

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

Knoxville Utilities Board Electric Division
Statements of Net Position
June 30, 2020 and 2019

	2020	2019
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	$ 14,185,000	$ 13,600,000
Sales tax collections payable	919,794	981,629
Accounts payable	66,095,573	42,010,867
Accrued expenses	18,309,578	17,440,250
Customer deposits plus accrued interest	15,449,939	14,599,496
Accrued interest on revenue bonds	5,688,009	5,896,573
Total current liabilities	120,647,893	94,528,815
Other liabilities:		
TVA conservation program	2,023,948	3,082,829
Accrued compensated absences	4,724,274	4,231,203
Customer advances for construction	7,285,510	6,081,864
Net pension liability	9,713	3,303,187
Net OPEB liability	3,642,935	694,916
Over recovered purchased power cost	1,848,630	2,674,466
Other	103,644	36,986
Total other liabilities	19,638,654	20,105,451
Long-term debt:		
Electric revenue bonds	291,650,000	308,570,000
Unamortized premiums/discounts	13,668,174	11,673,884
Total long-term debt	305,318,174	320,243,884
Total liabilities	445,604,721	434,878,150
Deferred inflows of resources:		
Pension inflow	9,872,921	1,844,823
Total deferred inflows of resources	9,872,921	1,844,823
Total liabilities and deferred inflows of resources	455,477,642	436,722,973
Net position		
Net investment in capital assets	356,245,321	300,562,581
Restricted for:		
Debt service	14,185,125	13,600,124
Other	727	10,311
Unrestricted	41,313,345	70,874,655
Total net position	411,744,518	385,047,671
Total liabilities, deferred inflows, and net position	$ 867,222,160	$ 821,770,644

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

Knoxville Utilities Board Electric Division
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2020 and 2019

	2020	2019
Operating revenues	$ 547,686,983	$ 558,369,583
Operating expenses		
Purchased power	398,229,905	417,674,655
Distribution	39,928,275	35,539,679
Customer service	6,186,221	7,160,178
Administrative and general	18,764,049	18,843,502
Provision for depreciation	29,994,212	31,991,227
Taxes and tax equivalents	18,332,928	18,710,928
Total operating expenses	511,435,590	529,920,169
Operating income	36,251,393	28,449,414
Non-operating revenues (expenses)		
Contributions in aid of construction	2,063,288	3,175,023
Interest income	1,579,182	2,666,532
Interest expense	(11,647,959)	(11,704,490)
Amortization of debt costs	378,924	355,852
Write-down of plant for costs recovered through contributio	(2,063,288)	(3,175,023)
Other	(33,702)	144,272
Total non-operating revenues (expenses)	(9,723,555)	(8,537,834)
Change in net position before capital contributions	26,527,838	19,911,580
Capital contributions	169,009	120,717
Change in net position	26,696,847	20,032,297
Net position, beginning of year	385,047,671	365,015,374
Net position, end of year	$ 411,744,518	$ 385,047,671

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

Knoxville Utilities Board Electric Division
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash receipts from customers	$ 539,716,128	$ 556,060,252
Cash receipts from other operations	11,093,817	10,771,445
Cash payments to suppliers of goods or services	(407,431,732)	(459,063,253)
Cash payments to employees for services	(26,220,385)	(26,982,458)
Payment in lieu of taxes	(16,067,210)	(16,459,902)
Cash receipts from collections of TVA conservation loan program participants	1,171,803	1,539,808
Cash payments for TVA conservation loan program	(1,203,172)	(1,548,508)
Net cash provided by operating activities	101,059,249	64,317,384
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	-	40,136,680
Principal paid on revenue bonds	(13,600,000)	(12,275,000)
Interest paid on revenue bonds	(11,856,523)	(11,260,838)
Acquisition and construction of electric plant	(76,390,903)	(89,286,078)
Changes in electric bond fund, restricted	(376,437)	(1,768,652)
Customer advances for construction	1,226,285	2,888,073
Proceeds received on disposal of plant	193,187	300,949
Cash received from developers and individuals for capital purposes	2,063,288	3,175,023
Net cash used in capital and related financing activities	(98,741,103)	(68,089,843)
Cash flows from investing activities:		
Purchase of investment securities	(26,938,348)	(34,097,101)
Maturities of investment securities	40,930,828	20,673,155
Interest received	1,737,297	2,614,848
Other property and investments	(178,321)	(295,217)
Net cash provided by (used in) investing activities	15,551,456	(11,104,315)
Net increase (decrease) in cash and cash equivalents	17,869,602	(14,876,774)
Cash and cash equivalents, beginning of year	25,457,569	40,334,343
Cash and cash equivalents, end of year	43,327,171	$ 25,457,569
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 36,251,393	$ 28,449,414
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	31,373,335	33,344,746
Changes in operating assets and liabilities:		
Accounts receivable	1,249,428	5,109,297
Inventories	4,388,385	334,819
Prepaid expenses	(5,411)	(3,196)
TVA conservation program receivable	1,027,513	1,339,690
Other assets	279,440	(112,530)
Sales tax collections payable	(61,835)	12,390
Accounts payable and accrued expenses	27,524,617	(1,859,486)
Unrecovered purchased power cost	(825,836)	(2,032,249)
TVA conservation program payable	(1,058,881)	(1,348,390)
Customer deposits plus accrued interest	850,443	1,095,711
Other liabilities	66,658	(12,832)
Net cash provided by operating activities	$ 101,059,249	$ 64,317,384
Noncash capital activities:		
Acquisition of plant assets through developer contributions	$ 169,009	$ 120,717

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

1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions, including setting rates. The Electric Division (Division) provides services to certain customers in Knox County and in seven surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform Division of Accounts of the Federal Energy Regulatory Commission (FERC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Electric Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2020 and 2019, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

Recently Adopted New Accounting Pronouncements

In May 2020, the GASB issued GASB Statement No. 95 (Statement No. 95), *Postponement of the Effective Dates of Certain Authoritative Guidance.* The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for fiscal years beginning after June 15, 2018. The requirements of this Statement are effective immediately.

Electric Plant

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

The provision for depreciation of electric plant in service is based on the estimated useful lives of the assets, which range from three to forty years, and is computed using the straight-line method. Pursuant to FERC, the caption "Provision for depreciation" in the Statements of Revenues, Expenses and Changes in Net Position does not include depreciation for transportation equipment of $1,379,123 in fiscal year 2020 and $1,353,519 in fiscal year 2019. Under regulatory accounting, interest costs are expensed as incurred with construction of plant assets.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of the KUB Electric Division. Operating revenue is recorded when the service is rendered, on a cycle basis, and includes an estimate of unbilled revenue. Revenues are reported net of bad debt expense of $1,453,483 in fiscal year 2020 and $1,432,683 in fiscal year 2019.

Non-operating Revenue

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

Expense

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

Net Position

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

These classifications are defined as follows:

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

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

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

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

OPEB Plan

KUB's employees hired prior to July 1, 1999, who are retired and who (prior to retirement) qualified for retiree medical insurance by meeting the Rule of 80 (age plus years of service) with a minimum of 20 years of service and were enrolled in medical coverage on their last day, are eligible for post-employment health care. KUB's OPEB Trust was established by KUB's Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. KUB's policy is to fully fund the annual actuarially determined contributions, which are determined by actuarial valuation. As required by GASB Statement No. 75, KUB measures net OPEB liability as total OPEB liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2020 and 2019 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a June 30, 2020 and 2019 measurement date, respectively. The net OPEB liability is $7,589,447 (Division's share $3,642,935) as of June 30, 2020, and $1,447,742 (Division's share $694,916) as of June 30, 2019.

Pension Plan and Qualified Excess Benefit Arrangement

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 10). KUB's policy is to fully fund the annual actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2020 and 2019 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a December 31, 2019 and 2018 measurement date, respectively. The net pension asset is $19,121,375 (Division's share $9,178,260) as of June 30, 2020, and the net pension liability was $6,649,756 (Division's share $3,191,883) as of June 30, 2019.

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, 2020 and 2019 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a December 31, 2019 and 2018 measurement date, respectively. The total pension liability of the

QEBA is $20,236 (Division's share $9,713) as of June 30, 2020, and $231,883 (Division's share $111,304) as of June 30, 2019.

Investments

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

Self-Insurance

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

Estimates

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

Restricted and Designated Assets

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

Cash Equivalents

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

Deferred Outflows and Inflows of Resources

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

Debt Premium/Discount

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

Debt Issuance Costs

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

Deferred Gain/Loss on Refunding of Debt

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

Compensated Absences

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

TVA Conservation Program

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

Subsequent Events

KUB has evaluated events and transactions through October 29, 2020, the date these financial statements were issued, for items that should potentially be recognized or disclosed.

Purchased Power Adjustment

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

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

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

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 $1,848,630 at June 30, 2020, and $2,674,466 at June 30, 2019.

Recently Issued Accounting Pronouncements

In January 2017, the GASB issued GASB Statement No. 84 (Statement No. 84), *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 is effective for fiscal years beginning after December 15, 2019.

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

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

In August 2018, the GASB issued GASB Statement No. 90 (Statement No. 90), *Major Equity Interests – an amendment of GASB Statements No. 14 and No. 61.* The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Statement No. 90 is effective for fiscal years beginning after December 15, 2019.

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

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

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

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

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

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

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

3. Deposits and Investments

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

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

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

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

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

Classification of deposits and investments per Statement of Net Position:

	2020	**2019**
Current assets		
Cash and cash equivalents	$ 43,327,171	$ 25,457,569
Short-term investments	-	14,989,200
Short-term contingency fund investments	33,653,741	25,929,199
Other assets		
Long-term contingency fund investments	4,771,755	11,359,982
Restricted assets		
Electric bond fund	19,873,134	19,496,697
Other funds	727	10,311
	$ 101,626,528	$ 97,242,958

The above amounts do not include accrued interest of $114,227 in fiscal year 2020 and $199,417 in fiscal year 2019. 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, 2020:

	Deposit and Investment Maturities (in Years)		
	Fair Value	**Less Than 1**	**1-5**
Supersweep NOW and Other Deposits	$ 65,587,132	$ 65,587,132	$ -
State Treasurer's Investment Pool	18,462,467	18,462,467	-
Agency Bonds	20,040,921	15,269,166	4,771,755
	$ 104,090,520	$ 99,318,765	$ 4,771,755

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, 2020:

- U.S. Agency bonds of $4,771,755, which have a maturity at purchase of greater than one year, are valued using quoted market prices (Level 1 inputs)

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

4. Accounts Receivable

Accounts receivable consists of the following:

	2020	2019
Wholesale and retail customers		
Billed services	$ 31,629,304	$ 33,789,883
Unbilled services	20,194,987	19,164,590
Other	1,101,029	1,200,898
Allowance for uncollectible accounts	(430,529)	(411,152)
	$ 52,494,791	$ 53,744,219

5. Accounts Payable and Accruals

Accounts payable and accruals were composed of the following:

	2020	2019
Trade accounts	$ 66,095,573	$ 42,010,867
Salaries and wages	1,893,144	1,687,316
Advances on pole rental	1,262,510	1,224,209
Self-insurance liabilities	825,898	917,526
Other current liabilities	14,328,026	13,611,199
	$ 84,405,151	$ 59,451,117

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6. Long-Term Obligations

Long-term debt consists of the following:

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

	Balance June 30, 2018	**Additions**	**Payments**	**Defeased**	**Balance June 30, 2019**	**Amounts Due Within One Year**
Y-2009 - 2.5 - 5.0%	$ 1,850,000	$ -	$ 1,850,000	$ -	$ -	$ -
Z-2010 - 1.45 - 6.35%	21,285,000	-	1,355,000	-	19,930,000	1,390,000
AA-2012 - 3.0 - 5.0%	28,640,000	-	2,805,000	-	25,835,000	2,955,000
BB-2012 - 3.0 - 4.0%	31,850,000	-	725,000	-	31,125,000	750,000
CC-2013 - 3.0 - 4.0%	8,560,000	-	475,000	-	8,085,000	500,000
DD-2014 - 2.0 - 4.0%	37,900,000	-	775,000	-	37,125,000	800,000
EE-2015 - 2.0 - 5.0%	28,125,000	-	150,000	-	27,975,000	2,075,000
FF-2015 - 2.0 - 5.0%	33,625,000	-	725,000	-	32,900,000	750,000
GG-2016 - 2.0 - 5.0%	39,225,000	-	825,000	-	38,400,000	850,000
HH-2017 - 2.5 - 5.0%	23,390,000	-	1,890,000	-	21,500,000	1,990,000
II-2017 - 3.0 - 5.0%	40,000,000	-	700,000	-	39,300,000	765,000
JJ-2018 - 3.0 - 5.0%	-	39,995,000	-	-	39,995,000	775,000
Total bonds	$ 294,450,000	$ 39,995,000	$ 12,275,000	$ -	$ 322,170,000	$ 13,600,000
Unamortized Premium	12,031,042	516,151	873,309	-	11,673,884	-
Total long term debt	$ 306,481,042	$ 40,511,151	$ 13,148,309	$ -	$ 333,843,884	$ 13,600,000

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

Fiscal Year		Principal		Total Interest		Grand Total
2021	$	14,185,000	$	10,837,513	$	25,022,513
2022		14,545,000		9,980,106		24,525,106
2023		15,180,000		9,322,106		24,502,106
2024		15,815,000		8,674,181		24,489,181
2025		16,455,000		8,074,831		24,529,831
2026-2030		72,000,000		32,251,758		104,251,758
2031-2035		42,130,000		22,679,783		64,809,783
2036-2040		46,490,000		15,694,087		62,184,087
2041-2045		51,190,000		7,340,132		58,530,132
2046-2048		17,845,000		776,627		18,621,627
Total	$	305,835,000	$	125,631,124	$	431,466,124

The Division has pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet the revenue bonds principal and interest payments when due. Such bond requirements are being met through monthly deposits to the Electric Bond Fund as required by the bond covenants. As of June 30, 2020, these requirements had been satisfied.

During fiscal year 2011, KUB’s Electric Division issued Series Z 2010 bonds to fund electric system capital improvements. The bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. These bonds are subject to a reduction in rebate payment amounts which is subject to change based on Congressional action. As of October 1, 2019, the effective reduction in rebate is 5.9 percent.

During fiscal year 2019, KUB’s Electric Division issued Series JJ 2018 bonds to fund electric system capital improvements.

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

Other liabilities consist of the following:

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

	Balance June 30, 2018	Increase	Decrease	Balance June 30, 2019
TVA conservation program	$ 4,431,219	$ 229,677	$ (1,578,067)	$ 3,082,829
Accrued compensated absences	4,056,705	8,209,577	(8,035,079)	4,231,203
Customer advances for construction	3,236,413	4,291,911	(1,446,460)	6,081,864
Other	49,817	33,327	(46,158)	36,986
	$ 11,774,154	$ 12,764,492	$ (11,105,764)	$ 13,432,882

7. Lease Commitments

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

2021	$ 158,172
2022	50,595
2023	7,481
2024	6,583
2025	6,583
Total operating minimum lease payments	$ 229,414

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8. Capital Assets

Capital asset activity was as follows:

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

	Balance June 30, 2018	Increase	Decrease	Balance June 30, 2019
Distribution Plant				
Services and Meters	$ 65,695,105	$ 14,634,939	$ (202,920)	$ 80,127,124
Electric Station Equipment	158,378,701	4,513,155	(815,276)	162,076,580
Poles, Towers and Fixtures	176,892,740	15,553,101	(2,113,880)	190,331,961
Overhead Conductors	155,165,531	12,895,084	(8,593,679)	159,466,936
Line Transformers	101,994,883	2,854,573	(1,231,776)	103,617,680
Other Accounts	180,936,153	8,717,868	(3,322,040)	186,331,981
Total Distribution Plant	$ 839,063,113	$ 59,168,720	$ (16,279,571)	$ 881,952,262
General Plant	90,918,370	4,781,626	(1,894,578)	93,805,418
Total Plant Assets	$ 929,981,483	$ 63,950,346	$ (18,174,149)	$ 975,757,680
Less Accumulated Depreciation	(423,269,910)	(33,451,708)	19,866,050	(436,855,568)
Net Plant Assets	$ 506,711,573	$ 30,498,638	$ 1,691,901	$ 538,902,112
Work In Progress	75,030,834	85,135,838	(64,782,921)	95,383,751
Total Net Plant	$ 581,742,407	$ 115,634,476	$ (63,091,020)	$ 634,285,863

9. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. At June 30, 2020 and June 30, 2019, the amount of these liabilities was $825,898 and $917,526, respectively, resulting from the following changes:

	2020	2019
Balance, beginning of year	$ 917,526	$ 874,891
Current year claims and changes in estimates	7,184,747	8,245,948
Claims payments	(7,276,375)	(8,203,313)
Balance, end of year	$ 825,898	$ 917,526

10. Pension Plan

Description of Plan

The Knoxville Utilities Board Pension Plan (the Plan) is a governmental plan as defined by the Employee Retirement Income Security Act of 1974 (ERISA or the Act), is not subject to any of the provisions of the Act and was revised January 1, 2020 to include all prior approved amendments. The Plan is a single-employer contributory, defined benefit pension plan established by Knoxville Utilities Board Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville §1107(J). The Plan is designed to provide retirement, disability, and death benefits to KUB employees. KUB administers the Plan through an Administrative Committee consisting of seven KUB employees that are appointed by KUB's President and CEO. Any amendments to the Plan involving costs not approved in the operating budget must be adopted by KUB's Board of Commissioners, upon recommendation by KUB's President and CEO. All other amendments to the Plan may be approved by KUB's President and CEO upon 60 days notification to the Board's Audit and Finance Committee. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017. For purposes of this disclosure, presentation is on a consolidated basis unless division's share is specified.

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

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

	2019	2018
Inactive plan members:		
Terminated vested participants	18	21
Retirees and beneficiaries	592	588
Active plan members	551	592
Total	1,161	1,201

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

Plan Funding

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

Investments

The Plan's investments are held by State Street Bank and Trust Company (the "Trustee"). The Plan's policy in regard to the allocation of invested assets is established by the Retirement System Investment Committee and approved by the KUB Board of Commissioners and may only be amended by the KUB Board of Commissioners. It is the policy of the Retirement System Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Plan's adopted asset allocation policy as of December 31, 2019:

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

Contributions of $2,585,824 and $3,156,661 for 2018 and 2017, respectively, were made during the Plan sponsor's fiscal years ended June 30, 2020 and 2019, respectively. Of these amounts, $1,241,196 and $1,515,197 are attributable to the Electric Division. The fiscal year 2020 contribution was determined as part of the January 1, 2018 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability, or death.

Net Pension Liability

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB 68"), which requires measurement of the net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a December 31, 2019 and 2018 measurement date, respectively. The Division's share of the net pension asset at June 30, 2020 is $9,178,260, and the net pension liability at June 30, 2019 is $3,191,883.

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

	2019	2018
Total pension liability	$ 226,818,557	$ 212,157,951
Plan fiduciary net position	(245,939,932)	(205,508,195)
Plan's net pension liability (asset)	$ (19,121,375)	$ 6,649,756
Plan fiduciary net position as a percentage of the total pension liability	108.43%	96.87%

Changes in Net Pension Liability are as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2018	$ 212,157,951	$ 205,508,195	$ 6,649,756
Changes for the year:			
Service cost	6,142,213	-	6,142,213
Interest	16,030,626	-	16,030,626
Changes of Benefits	163,199	-	163,199
Differences between Expected and Actual Experience	(1,054,117)	-	(1,054,117)
Changes of Assumptions	8,473,160	-	8,473,160
Contributions - employer	-	2,871,241	(2,871,241)
Contributions - rollovers	-	3,167,836	(3,167,836)
Contributions - member	-	2,989	(2,989)
Net investment income	-	49,951,894	(49,951,894)
Benefit payments	(15,094,475)	(15,094,475)	-
Administrative expense	-	(467,748)	467,748
Net changes	14,660,606	40,431,737	(25,771,131)
Balances at December 31, 2019	$ 226,818,557	$ 245,939,932	$ (19,121,375)

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, 2019, rolled forward to December 31, 2019; January 1, 2018, rolled forward to December 31, 2018
Discount rate	7.25% as of December 31, 2019; 7.50% as of December 31, 2018
Salary increase	From 2.50% to 5.65%, based on years of service as of December 31, 2019; from 2.80% to 5.15%, based on years of service as of December 31, 2018
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, 2019; Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA as of December 31, 2018
Inflation	2.5% as of December 31, 2019; 2.8% as of December 31, 2018

The actuarial assumptions used in the December 31, 2019 valuation were based on an actuarial experience study covering the period January 1, 2014 through December 31, 2018. The discount rate was subsequently reduced from 7.5 percent to 7.25 percent as of the December 31, 2019 measurement date. The Plan was amended to provide automatic increases to retirees for benefits limited under Code §415(d), effective January 1, 2020.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013.

Subsequent revisions to lump sum and post-disability assumptions were based upon updated experience through December 31, 2015 and to retirement and termination rates and expense assumptions based upon updated experience through December 31, 2016.

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, 2019 and 2018 are summarized in the following table. The real rate of return reported for fixed income is for aggregate fixed income. The Plan has both aggregate and long duration fixed income.

	Long Term Expected Real Rate of Return	
Asset Class	**2019**	**2018**
Domestic equity	5.5%	5.8%
Non-U.S. equity	6.4%	6.9%
Real estate equity	5.9%	6.0%
Debt securities	1.5%	1.7%
Cash and deposits	0.6%	0.7%

Discount rate
The discount rate used to measure the total pension liability was 7.25 percent as of December 31, 2019, and 7.5 percent as of December 31, 2018. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate
The following presents the net pension liability of the Plan as of December 31, 2019, calculated using the discount rate of 7.25 percent, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one percent lower (6.25 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 (surplus)	$ 946,692	$ (19,121,375)	$ (36,452,396)

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

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

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

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

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

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

$1,292,915 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, 2021. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2021	$ (4,595,539)
2022	(3,722,647)
2023	57,633
2024	(5,494,060)
Thereafter	-

For the year ended June 30, 2019, KUB recognized pension expense of $4,128,608 (Division's share $1,981,732).

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, 2017, this average was 5.00 years. During the measurement year, there was an experience gain of $605,649, with $121,129 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $484,520 (Division's share $232,570). Unrecognized experience gains from prior periods were $2,966,120, of which $1,042,251 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,923,868 (Division's share $923,456).

During the measurement year, there were no benefit changes or assumption changes. Unrecognized assumption change decreases from prior periods were $2,045,837, of which $658,104 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,387,733 (Division's share $666,112).

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 $28,364,098, of which $5,672,818 was recognized in the current year and an identical amount will be recognized in each of the next four years. Net unrecognized investment gains from prior periods were $8,925,385, of which $1,848,879 was recognized as a decrease in pension expense in the current year. The combination of unrecognized investment losses 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, 2018 of $15,614,774 (Division's share $7,495,092).

The following table summarizes the current balances of deferred outflows and deferred inflows of resources. In addition, KUB recorded a deferred outflow of resources of $1,578,332 (Division's share $757,599) at June 30, 2019 for employer contributions made between December 31, 2018 and June 30, 2019.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,408,388
Changes in assumptions	-	1,387,733
Net difference between projected and actual earnings on pension plan investments	15,614,774	-
Contributions subsequent to measurement date	1,578,332	-
Total	$ 17,193,106	$ 3,796,121
Division's share	$ 8,252,691	$ 1,822,138

11. Qualified Excess Benefit Arrangement

Description

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

As of June 30, 2020, there are 532 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. There is currently one member receiving benefits under the QEBA. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the KUB Pension Plan. The KUB Pension Plan was amended to include the provision of QEBA benefits; therefore, amendments to the QEBA require the same authority as amendments to the KUB Pension Plan. As required by federal tax law, the QEBA is unfunded within the meaning of the federal tax laws. KUB may not pre-fund the QEBA to cover future liabilities beyond the current year. KUB has established procedures to pay for these benefits on a pay-as-you-go basis, funded by KUB. There are no assets accumulated in a trust that meets the GASB's criteria.

Total Pension Liability of the QEBA

The below summarizes the disclosures of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"). GASB 73 extends a similar approach of financial reporting to plans meeting specific criteria that are not administered through trusts that GASB 68 established for pension plans. GASB 73 requires measurement of the total pension liability of the QEBA. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a December 31, 2019 and 2018 measurement date, respectively. The Division's share of the total pension liability was $9,713 at June 30, 2020, and $111,304 at June 30, 2019.

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

	2019	**2018**
Total pension liability	$20,236	$231,883
Deferred outflows	(45,559)	(52,287)
Deferred inflows	35,445	47,260
Net impact on Statement of Net Position	$10,122	$226,856
Covered payroll	$40,276,197	$42,150,040
Total pension liability as a % of covered payroll	0.05%	0.55%

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

	Increase (Decrease)	
	Total Pension Liability	
Balances at December 31, 2018	$	231,883
Changes for the year:		
Service cost		-
Interest		9,181
Changes of Benefits		(218,272)
Differences between Expected and Actual Experience		34
Changes of Assumptions		13,342
Benefit payments		(15,932)
Net changes		(211,647)
Balances at December 31, 2019	$	20,236

Actuarial Assumptions

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

Valuation dates	December 31, 2019 and December 31, 2018
Actuarial cost method	Individual entry age
Salary increase	From 2.80% to 5.15%, based on years of service
Mortality	115% and 110% of the Public Sector General Healthy Annuitant Mortality Table (PubG-2010), for males and females, respectively, using the Public Sector General Employee Table for ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of December 31, 2019; Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA as of December 31, 2018
Inflation	2.5% as of December 31, 2019, and 2.8% as of December 31, 2018

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2014 through December 31, 2018. The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013. Subsequent revisions to lump sum and post-disability assumptions were based upon updated experience through December 31, 2015 and to retirement and termination rates and expense assumptions based upon updated experience through December 31, 2016.

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 2.74% at December 31, 2019.

Sensitivity of the total pension liability to changes in the discount rate
The following presents the total pension liability of the QEBA as of December 31, 2019, calculated using the discount rate of 2.74 percent, as well as what the QEBA's total pension liability would be if it were calculated using a discount rate that is one percent lower (1.74 percent) or one percent higher (3.74 percent) than the current rate:

	1% Decrease (1.74%)	**Current Discount Rate (2.74%)**	**1% Increase (3.74%)**
QEBA's total pension liability	$ 20,423	$ 20,236	$ 20,053

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

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

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

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

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

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

$6,083 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total pension liability in the year ended June 30, 2021 (Division's share $2,920). Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2021	$ 8,289
2022	8,289
2023	(9,140)
2024	2,676
Thereafter	-

For the year ended June 30, 2019, KUB recognized pension expense of $29,543 for the QEBA (Division's share $14,181). This amount is not expected to be the same as KUB's contribution to the QEBA ($13,312), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [$226,856 - $210,625 + $13,312].

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, 2017, this average was 5 years. During the measurement year, there was an experience gain of $36,125, with $7,225 recognized in the current year and each of the next four years, resulting in a deferred inflow of $28,900 (Division's share $13,872). There was a deferred outflow at the end of the measurement year of $8,210 from experience losses in prior years (Division's share $3,941).

During the measurement year, there were no benefit changes. There was a decrease in the total pension liability due to assumption changes of $22,950, with $4,590 recognized in the current year and each of the next four years, resulting in a deferred inflow of $18,360 (Division's share $8,813). There was a deferred outflow at the end of the measurement year of $44,077 from assumption changes in prior years (Division's share $21,157). In addition, KUB recorded a deferred outflow of resources of $7,242 at June 30, 2019 for contributions between December 31, 2018 and June 30, 2019 (Division's share $3,476).

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	$ 8,210	$ 28,900
Changes in assumptions	44,077	18,360
Contributions subsequent to measurement date	7,242	-
Total	$ 59,529	$ 47,260
Division's share	$ 28,574	$ 22,685

12. Defined Contribution Plan

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

KUB funded 401(k) matching contributions and nonelective contributions of $2,469,273 (Division’s share $1,185,251) and $2,410,201 (Division’s share $1,156,897), respectively, for the years ended June 30, 2020 and 2019.

13. Other Post-Employment Benefits (OPEB)

Description of Trust

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

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

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

	2020	2019
Retirees	555	554
Dependents of retirees	576	550
Eligible active employees	181	288
Total	1,312	1,392

Benefits

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

Contributions and Plan Funding

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

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

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

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

Investments

The Trust holds investments in a balanced fund, which invests in passively managed common trust index funds, managed and sponsored by State Street Global Advisors (SSgA), with an asset allocation mirroring the asset allocation of the Trust and rebalanced monthly. The Trust's Investment Policy was established and may only be amended by the KUB Board of Commissioners. The Trust's Investment Policy is to invest in a manner that will provide sufficient investment return to meet current and future retiree health benefits, while conforming to all governing State and Federal statutes. It allows investment of Trust assets in any type of security instrument allowed for in T.C.A 8-50-1203. The following was the Trust's adopted investment target allocations as set forth in the Trust's Investment Policy as of June 30, 2020:

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

An actuarially determined contribution of $311,324 was made to the OPEB Trust in fiscal year ended June 30, 2020 (Division's share $149,436). No contribution was made to the OPEB Trust for the fiscal year ended June 30, 2019. These were based on the OPEB Plan's actuarial valuations as of January 1, 2018, and 2017.

Net OPEB Liability

The below summarizes the disclosures of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"), which requires measurement of the net OPEB liability as total OPEB liability less the amount of the Trust's fiduciary net position. The amounts reported as of June 30 are based on the reporting date for the KUB Other Post-Employment Benefits Plan which is June 30. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2020 and 2019 and the Total OPEB Liability as of the valuation date, January 1, 2019 updated to June 30, 2020, and January 1, 2018 updated to June 30, 2019, respectively. The Division's share of the total net OPEB liability was $3,642,935 at June 30, 2020 and $694,916 at June 30, 2019. There was one significant event between the valuation date and the measurement date for June 30, 2020 where the discount rate was reduced from 7.5% to 7.25%.

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

	2020	**2019**
Total OPEB liability	$ 54,544,240	$ 50,197,938
Plan fiduciary net position	46,954,793	48,750,196
Net OPEB liability	$ 7,589,447	$ 1,447,742
Plan fiduciary net position as a percentage of the total OPEB liability	86.09%	97.12%

Changes in Net OPEB Liability are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2019	$ 50,197,938	$ 48,750,196	$ 1,447,742
Changes for the year:			
Service cost	256,270	-	256,270
Interest	3,672,291	-	3,672,291
Changes of Benefits	(202,408)	-	(202,408)
Differences between Expected and Actual Experience	43,902	-	43,902
Changes of Assumptions	3,604,843	-	3,604,843
Contributions - employer	-	311,324	(311,324)
Contributions - member	-	-	-
Net investment income	-	975,155	(975,155)
Benefit payments	(3,028,596)	(3,028,596)	-
Administrative expense	-	(53,286)	53,286
Net changes	4,346,302	(1,795,403)	6,141,705
Balances at June 30, 2020	$ 54,544,240	$ 46,954,793	$ 7,589,447

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, 2019, updated to June 30, 2020; January 1, 2018, updated to June 30, 2019
Discount rate:	7.25% as of January 1, 2019; 7.5% as of January 1, 2018
Healthcare cost trend rates:	Pre-Medicare: 7.83% grading down to 4.50% over 19 years as of January 1, 2019; 8.00% grading down to 4.50% over 20 years as of January 1, 2018 Medicare: 6.88% grading down to 4.50% over 19 years as of January 1, 2019; 7.00% grading down to 4.50% over 20 years as of January 1, 2018 Administrative expenses: 3.0% per year
Salary increases:	From 2.50% to 5.65%, based on years of service as of January 1, 2019; From 2.80% to 5.15%, based on years of service as of January 1, 2018

Mortality:	115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), for males and females, respectively, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational as of January 1, 2019; Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA as of January 1, 2018
Inflation:	2.5% as of January 1, 2019; 2.8% as of January 1, 2018

The actuarial assumptions used in the January 1, 2019 and January 1, 2018 valuations were based on the results of actuarial experience studies for the periods January 1, 2014 through December 31, 2018 and January 1, 2009 through December 31, 2013, respectively. The discount rate was subsequently reduced to 7.25 percent from 7.50 percent as of January 1, 2020; therefore, the new rate was used to calculate the OPEB liability as of June 30, 2020.

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

	Long Term Expected Real Rate of Return	
Asset Class	**2020**	**2019**
Domestic equity	5.4%	5.5%
International equity	6.4%	6.4%
Real estate equity	5.8%	5.9%
Debt securities	0.2%	1.5%
Cash and deposits	(0.2%)	0.6%

Discount rate

The discount rate used to measure the total OPEB liability was 7.25 percent and 7.5 percent as of June 30, 2020 and 2019, respectively. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate.
The following presents the net OPEB liability of the Trust as of June 30, 2020, calculated using the discount rate of 7.25 percent, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is 1 percent lower (6.25 percent) or 1 percent higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net OPEB liability	$ 12,643,555	$ 7,589,447	$ 3,282,461

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.
The following presents the net OPEB liability of the Trust as of June 30, 2020, as well as what the Trust's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percent lower or 1 percent higher than the current rate:

	1% Decrease	Baseline Trends	1% Increase
Net OPEB liability	$ 2,482,856	$ 7,589,447	$ 13,485,387

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

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

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

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

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

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

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

Year ended June 30:	
2021	$ 2,426,957
2022	602,586
2023	633,347
2024	515,820
2025	-
Thereafter	-

For the year ended June 30, 2019, KUB recognized OPEB expense of $3,046,377 (Division's share $1,462,261).

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 $999,098, with $499,549 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 $499,549 (Division's share $239,783). Unrecognized experience losses from prior periods were $662,384, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there were no benefit changes. There was an increase in the Total OPEB Liability due to assumption changes of $3,231,601, with $1,615,801 of that recognized in the current year and in the next year, resulting in a deferred outflow of $1,615,800 (Division's share $775,584). Unrecognized assumption changes from prior periods were ($198,590), 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 $587,645, of which $117,529 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 $123,047, of which $30,762 was recognized as a decrease in OPEB expense in the current year. The combination of unrecognized investment losses this year along with the net unrecognized investment gains from prior periods results in a net difference between projected and actual earnings on OPEB plan investments as of June 30, 2019 of $377,831 (Division's share $181,359). 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	$ 499,549	$ -
Changes in assumptions	1,615,800	-
Net difference between projected and actual earnings on OPEB plan investments	377,831	-
Total	$ 2,493,180	$ -
Division's share	$ 1,196,726	$ -

14. Related Party Transactions

The Division, in the normal course of operations, is involved in transactions with the City of Knoxville and with other divisions of KUB. Such transactions for the years ended June 30, 2020 and 2019 are summarized as follows:

	2020	**2019**
City of Knoxville		
Amounts billed by the Division for utilities and related services	$ 5,879,568	$ 7,115,980
Payments by the Division in lieu of property tax	8,189,287	8,422,155
Payments by the Division for services provided	66,529	96,839
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	6,688,070	6,113,820
Interdivisional rental expense	69,286	-
Interdivisional rental income	2,190,576	791,721
Amounts billed to the Division by other divisions for utilities services provided	185,557	180,580

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

	2020	**2019**
Accounts receivable	$ 324,574	$ 308,867

15. Other Commitments and Contingencies

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

16. Risks and Uncertainties

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

Knoxville Utilities Board Electric Division
Required Supplementary Information – Schedule of Changes in Net Pension Liability and Related Ratios
June 30, 2020

	*Year ended December 31					
	2019	**2018**	**2017**	**2016**	**2015**	**2014**
Total pension liability						
Service cost	$ 6,142,213	$ 5,095,488	$ 4,607,486	$ 4,226,985	$ 4,157,062	$ 4,092,808
Interest	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	(1,054,117)	(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	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)	(15,533,167)
Net change in total pension liability	14,660,606	4,559,218	3,207,995	(111,612)	1,728,586	3,258,298
Total pension liability - beginning	212,157,951	207,598,733	204,390,738	204,502,350	202,773,764	199,515,466
Total pension liability - ending (a)	$ 226,818,557	$ 212,157,951	$ 207,598,733	$ 204,390,738	$ 204,502,350	$ 202,773,764
Plan fiduciary net position						
Contributions - employer	$ 2,871,241	$ 3,456,475	$ 4,286,597	$ 5,243,146	$ 5,991,887	$ 5,908,541
Contributions - participants	3,170,825	2,081,125	1,488,632	555,075	487,546	475,854
Net investment income	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)	22,292,369
Other additions	13,579	62,616	82,239	45,848	30,879	29,733
Benefit payments, including refunds of member contributions	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)	(15,405,167)
Administrative expense	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)	(378,085)
Death benefits	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)	(128,000)
Net change in plan fiduciary net position**	40,431,737	(21,868,910)	22,862,426	5,052,489	(9,333,204)	12,795,245
Plan fiduciary net position - beginning**	205,508,195	227,377,105	204,514,679	199,462,190	208,795,394	196,000,149
Plan fiduciary net position - ending (b)**	$ 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)	$ (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	108.43%	96.87%	109.53%	100.06%	97.54%	102.97%
Covered payroll	$ 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	(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.

Knoxville Utilities Board Electric Division
Required Supplementary Information – Schedule of Employer Pension Contributions
June 30, 2020

	*Year ended December 31					
	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 2,871,241	$ 3,456,475	$ 4,286,597	$ 5,243,146	$ 5,991,887	$ 5,908,541
Contribution in relation to the actuarially determined contribution	2,871,241	3,456,475	4,286,597	5,243,146	5,991,887	5,908,541
Contribution deficiency	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 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	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, 2018 and January 1, 2017

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 23 years remaining (24 years as of January 1, 2017), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2018, the unfunded liability was negative.
Discount rate:	7.5%
Salary increases:	2.80% to 5.15%, based on years of service
Mortality:	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation:	2.8%

* 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.

Knoxville Utilities Board Electric Division
Required Supplementary Information – Schedule of Changes in Net OPEB Liability and Related Ratios
June 30, 2020

	*Year ended June 30		
	2020	2019	2018
Total OPEB liability			
Service cost	$ 256,270	$ 270,515	$ 202,603
Interest	3,672,291	3,624,737	3,295,240
Change of benefit terms	(202,408)	-	-
Differences between expected and actual experience	43,902	999,098	1,324,769
Changes of assumptions	3,604,843	3,231,601	(397,180)
Benefit payments	(3,028,596)	(3,532,444)	(3,298,739)
Net change in total OPEB liability	4,346,302	4,593,507	1,126,693
Total OPEB liability - beginning	50,197,938	45,604,431	44,477,738
Total OPEB liability - ending (a)	$ 54,544,240	$ 50,197,938	$ 45,604,431
Plan fiduciary net position			
Contributions - employer	$ 311,324	$ -	$ -
Net investment income	975,155	2,981,928	3,705,473
Benefit payments	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	(53,286)	(54,787)	(51,668)
Net change in plan fiduciary net position	(1,795,403)	(605,303)	355,066
Plan fiduciary net position - beginning	48,750,196	49,355,499	49,000,433
Plan fiduciary net position - ending (b)	$ 46,954,793	$ 48,750,196	$ 49,355,499
Net OPEB liability (asset) - ending (a) - (b)	$ 7,589,447	$ 1,447,742	$ (3,751,068)
Plan fiduciary net position as a percentage of the total OPEB liability	86.09%	97.12%	108.23%
Covered employee payroll	$ 23,363,536	$ 24,346,735	$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	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.

Knoxville Utilities Board Electric Division
Required Supplementary Information – Schedule of Employer OPEB Contributions
June 30, 2020

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

Notes to Schedule:

Valuation Date:	January 1, 2018 and January 1, 2017
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 18 years remaining as of January 1, 2018 (19 years as of January 1, 2017), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2018, the unfunded liability was negative
Discount rate:	7.5%
Healthcare cost trend rate:	Pre-Medicare: 8% grading down to 4.5% over 20 years as of January 1, 2018; 7.83% to 4.5% over 19 years as of January 1, 2017 Medicare: 7% grading down to 4.5% over 20 years as of January 1, 2018; 6.88% to 4.5% over 19 years as of January 1, 2017 Administrative expenses: 3.0% per year
Salary increases:	From 2.8% to 5.15%, based on years of service
Mortality:	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation:	2.8%
Investment rate of return:	7.5%
Retirement age:	2% at ages 50-57 at January 1, 2018 and January 1, 2017, respectively, 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.

Knoxville Utilities Board Electric Division
Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement
Schedule of Changes in Total Pension Liability and Related Ratios
June 30, 2020

	*Year ended December 31			
	2019	2018	2017	2016
Total pension liability				
Service cost	$ -	$ 941	$ 584	$ -
Interest (includes interest on service cost)	9,181	9,676	7,535	-
Changes of benefit terms	(218,272)	-	-	185,077
Differences between expected and actual experience	34	(36,125)	13,684	-
Changes of assumptions	13,342	(22,950)	73,461	-
Benefit payments, including refunds of member contributions	(15,932)	-	-	-
Net change in total pension liability	(211,647)	(48,458)	95,264	185,077
Total pension liability - beginning	231,883	280,341	185,077	-
Total pension liability - ending	$ 20,236	$ 231,883	$ 280,341	$ 185,077
Covered payroll	$ 40,276,197	$ 42,150,040	$ 43,309,374	$ 44,437,747
Total pension liability as a percentage of covered payroll	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.

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2020

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	Z-2010			AA-2012		BB-2012		CC-2013		DD-2014		EE-2015	
FY	**Principal**	**Interest**	**Rebate***	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
20-21	1,425,000	520,065	171,283	3,100,000	791,463	800,000	911,500	515,000	227,800	825,000	1,282,369	2,135,000	863,825
21-22				3,270,000	632,213	825,000	879,000	540,000	206,700	875,000	1,256,619	2,235,000	788,100
22-23				3,415,000	482,163	875,000	849,375	560,000	187,500	900,000	1,221,119	2,300,000	708,250
23-24				3,540,000	360,763	900,000	822,750	575,000	170,475	950,000	1,184,119	2,415,000	590,375
24-25				3,640,000	253,063	950,000	795,000	590,000	153,000	975,000	1,145,619	2,555,000	478,900
25-26				1,105,000	180,506	975,000	766,125	640,000	134,550	1,025,000	1,110,744	2,670,000	387,750
26-27				1,140,000	144,025	1,025,000	736,125	650,000	115,200	1,075,000	1,079,244	2,735,000	306,675
27-28				1,180,000	106,325	1,075,000	704,625	670,000	95,400	1,125,000	1,046,244	2,850,000	222,900
28-29				1,225,000	65,713	1,125,000	671,625	675,000	75,225	1,175,000	1,011,744	2,955,000	135,825
29-30				1,265,000	22,138	1,175,000	637,125	710,000	54,450	1,225,000	975,744	3,050,000	45,750
30-31						1,225,000	601,125	725,000	32,925	1,275,000	938,244		
31-32						1,275,000	563,625	735,000	11,025	1,325,000	897,919		
32-33						1,325,000	524,625			1,375,000	854,375		
33-34						1,375,000	484,125			1,450,000	808,469		
34-35						1,450,000	441,750			1,500,000	759,594		
35-36						1,500,000	397,500			1,575,000	707,703		
36-37						1,575,000	351,375			1,650,000	652,250		
37-38						1,625,000	303,375			1,725,000	593,188		
38-39						1,700,000	253,500			1,800,000	531,500		
39-40						1,775,000	201,375			1,875,000	462,500		
40-41						1,850,000	147,000			1,950,000	386,000		
41-42						1,950,000	90,000			2,025,000	306,500		
42-43						2,025,000	30,375			2,125,000	223,500		
43-44										2,225,000	136,500		
44-45										2,300,000	46,000		
45-46													
46-47													
47-48													
Total	$ 1,425,000	$ 520,065	$ 171,283	$ 22,880,000	$ 3,038,372	$ 30,375,000	$ 12,163,000	$ 7,585,000	$ 1,464,250	$ 36,325,000	$ 19,617,807	$ 25,900,000	$ 4,528,350

*Series Z-2010 bonds were issued as federally taxable Build America Bonds. KUB is scheduled to receive a 35 percent interest rebate payment from the United States Government for each interest payment. Effective October 1, 2019 these bonds became subject to a 5.9% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change.

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2020

Continued from Previous Page

	FF-2015		GG-2016		HH-2017		II-2017		JJ-2018		KK-2020		Total		Grand Total (P + I)	Grand Total (Less Rebate)
FY	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest		
20-21	775,000	1,336,625	900,000	1,073,938	2,090,000	754,455	805,000	1,262,775	815,000	1,375,306	-	437,392	14,185,000	10,837,513	25,022,513	24,851,230
21-22	800,000	1,297,250	950,000	1,027,688	2,195,000	647,330	845,000	1,221,525	855,000	1,333,556	1,155,000	690,125	14,545,000	9,980,106	24,525,106	24,525,106
22-23	825,000	1,256,625	1,000,000	978,938	2,305,000	534,830	890,000	1,178,150	895,000	1,294,281	1,215,000	630,875	15,180,000	9,322,106	24,502,106	24,502,106
23-24	850,000	1,214,750	1,050,000	927,688	2,400,000	444,205	935,000	1,132,525	930,000	1,257,781	1,270,000	568,750	15,815,000	8,674,181	24,489,181	24,489,181
24-25	900,000	1,171,000	1,100,000	884,938	2,460,000	380,455	985,000	1,084,525	965,000	1,224,706	1,335,000	503,625	16,455,000	8,074,831	24,529,831	24,529,831
25-26	925,000	1,125,375	1,125,000	857,188	2,560,000	285,705	1,035,000	1,034,025	1,005,000	1,185,106	1,400,000	435,250	14,465,000	7,502,324	21,967,324	21,967,324
26-27	950,000	1,078,500	1,150,000	834,438	2,695,000	154,330	1,075,000	992,025	1,055,000	1,133,606	1,460,000	363,750	15,010,000	6,937,918	21,947,918	21,947,918
27-28	975,000	1,030,375	1,175,000	811,188	2,805,000	43,478	1,110,000	959,250	1,100,000	1,090,731	1,525,000	289,125	15,590,000	6,399,641	21,989,641	21,989,641
28-29	1,025,000	985,500	1,200,000	787,437			1,140,000	925,500	1,130,000	1,057,281	1,595,000	211,125	13,245,000	5,926,975	19,171,975	19,171,975
29-30	1,050,000	944,000	1,200,000	762,687			1,175,000	890,775	1,165,000	1,022,856	1,675,000	129,375	13,690,000	5,484,900	19,174,900	19,174,900
30-31	1,100,000	901,000	1,250,000	731,187			1,215,000	854,925	1,200,000	986,631	1,750,000	43,750	9,740,000	5,089,787	14,829,787	14,829,787
31-32	1,125,000	856,500	1,275,000	693,312			1,250,000	817,950	1,240,000	947,731			8,225,000	4,788,062	13,013,062	13,013,062
32-33	1,175,000	810,500	1,325,000	654,312			1,285,000	779,925	1,285,000	905,897			7,770,000	4,529,634	12,299,634	12,299,634
33-34	1,225,000	762,500	1,350,000	614,187			1,325,000	740,775	1,330,000	860,938			8,055,000	4,270,994	12,325,994	12,325,994
34-35	1,250,000	713,000	1,400,000	572,937			1,365,000	700,425	1,375,000	813,600			8,340,000	4,001,306	12,341,306	12,341,306
35-36	1,300,000	662,000	1,450,000	535,625			1,410,000	658,800	1,420,000	766,463			8,655,000	3,728,091	12,383,091	12,383,091
36-37	1,350,000	609,000	1,475,000	500,875			1,450,000	615,900	1,470,000	719,500			8,970,000	3,448,900	12,418,900	12,418,900
37-38	1,400,000	554,000	1,525,000	459,563			1,495,000	571,725	1,520,000	669,963			9,290,000	3,151,814	12,441,814	12,441,814
38-39	1,450,000	497,000	1,550,000	417,313			1,540,000	526,200	1,570,000	617,819			9,610,000	2,843,332	12,453,332	12,453,332
39-40	1,500,000	438,000	1,600,000	377,937			1,590,000	479,250	1,625,000	562,888			9,965,000	2,521,950	12,486,950	12,486,950
40-41	1,550,000	377,000	1,650,000	335,250			1,635,000	430,875	1,685,000	504,963			10,320,000	2,181,088	12,501,088	12,501,088
41-42	1,600,000	314,000	1,675,000	289,531			1,685,000	381,075	1,745,000	444,938			10,680,000	1,826,044	12,506,044	12,506,044
42-43	1,675,000	248,500	1,725,000	242,781			1,740,000	329,700	1,805,000	382,813			11,095,000	1,457,669	12,552,669	12,552,669
43-44	1,725,000	180,500	1,775,000	194,656			1,790,000	275,631	1,870,000	318,500			9,385,000	1,105,787	10,490,787	10,490,787
44-45	1,800,000	110,000	1,825,000	142,875			1,850,000	218,756	1,935,000	251,913			9,710,000	769,544	10,479,544	10,479,544
45-46	1,850,000	37,000	1,900,000	87,000			1,910,000	160,006	2,005,000	182,963			7,665,000	466,969	8,131,969	8,131,969
46-47			1,950,000	29,250			1,970,000	98,151	2,075,000	111,563			5,995,000	238,964	6,233,964	6,233,964
47-48							2,035,000	33,069	2,150,000	37,625			4,185,000	70,694	4,255,694	4,255,694
Total	$ 32,150,000	$ 19,510,500	$ 37,550,000	$ 15,824,719	$ 19,510,000	$ 3,244,788	$ 38,535,000	$ 19,354,213	$ 39,220,000	$ 22,061,918	$ 14,380,000	$ 4,303,142	$ 305,835,000	$ 125,631,124	$ 431,466,124	$ 431,294,841

Knoxville Utilities Board Electric Division
Supplemental Information - Schedule of Changes in Long-term Debt by Individual Issue
June 30, 2020

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding Balance 7/1/2019	Issued During Period	Paid/Matured During Period	Refunded During Period	Outstanding Balance 6/30/2020
Business-Type Activities									
BONDS PAYABLE									
Payable through Electric Fund									
Revenue Bond, Series Z-2010	30,000,000	1.45-6.35	12/08/10	07/01/30	$ 19,930,000	$	$ 1,390,000	$ 17,115,000	$ 1,425,000
Revenue Bond Refunding, Series AA-2012	36,815,000	3.0-5.0	04/20/12	07/01/29	25,835,000		2,955,000		22,880,000
Revenue Bond, Series BB-2012	35,000,000	3.0-4.0	12/18/12	07/01/42	31,125,000		750,000		30,375,000
Revenue Bond Refunding, Series CC-2013	9,660,000	3.0-4.0	03/15/13	07/01/31	8,085,000		500,000		7,585,000
Revenue Bond, Series DD-2014	40,000,000	2.0-4.0	09/18/14	07/01/44	37,125,000		800,000		36,325,000
Revenue Bond Refunding, Series EE-2015	28,550,000	2.0-5.0	05/01/15	07/01/29	27,975,000		2,075,000		25,900,000
Revenue Bond, Series FF-2015	35,000,000	2.0-5.0	05/20/15	07/01/45	32,900,000		750,000		32,150,000
Revenue Bond, Series GG-2016	40,000,000	2.0-5.0	08/05/16	07/01/46	38,400,000		850,000		37,550,000
Revenue Bond Refunding, Series HH-2017	23,445,000	2.5-5.0	04/07/17	07/01/27	21,500,000		1,990,000		19,510,000
Revenue Bond, Series II-2017	40,000,000	3.0-5.0	09/15/17	07/01/47	39,300,000		765,000		38,535,000
Revenue Bond, Series JJ-2018	39,995,000	3.0-5.0	09/14/18	07/01/47	39,995,000		775,000		39,220,000
Revenue Bond Refunding, Series KK-2020	14,380,000	5.0	05/22/20	07/01/30	-	14,380,000	-		14,380,000
					$ 322,170,000	$ 14,380,000	$ 13,600,000	$ 17,115,000	$ 305,835,000

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Insurance in Force
June 30, 2020
(Unaudited)

Insurance coverage is for KUB as a consolidated entity.

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

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

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

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

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

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

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

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

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

Employee Health Plan Stop Loss Coverage
KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses in excess of $575,000 per individual participant.

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2020
(Unaudited)

Rate Class		Base Charge			Number of Customers
Residential		Customer Charge:	$22.10 per month, less Hydro Allocation Credit: $1.60 per month.		186,052
		Energy Charge:	Summer Period	$0.08647 per kWh per month.	
			Winter Period	$0.08606 per kWh per month.	
			Transition Period	$0.08606 per kWh per month.	
Commercial/ Industrial	**A. 1.**	If (a) the higher of (i) the customer's currently effective contract demand, if any, or (ii) its highest billing demand during the latest 12-month period is not more than 50 kWh, and (b) customer's monthly energy takings for any month during such period do not exceed 15,000 kWh:			20,029
		Customer Charge:	$29.00 per delivery point per month.		
		Energy Charge:	Summer Period	$0.10691 per kWh per month.	
			Winter Period	$0.10650 per kWh per month.	
			Transition Period	$0.10650 per kWh per month.	
	2.	If (a) the higher of (i) the customer's currently effective contract demand or (ii) its highest billing demand during the latest 12-month period is greater than 50 kW but not more than 1,000 kW, or (b) if the customer's billing demand is less than 50 kW and its energy takings for any month during such period exceed 15,000 kWh:			2,651
		Customer Charge:	$95.00 per delivery point per month.		
		Demand Charge:	First 50 kW of billing demand per month, no demand charge.		
			Excess over 50 kW of billing demand per month, at		
			Summer Period	$15.20 per kW.	
			Winter Period	$14.41 per kW.	
			Transition Period	$14.41 per kW.	
		Energy Charge:	Summer Period	First 15,000 kWh per month at $0.13379 per kWh Additional kWh per month at $.05637 per kWh.	
			Winter Period	First 15,000 kWh per month at $0.13338 per kWh Additional kWh per month at $.05637 per kWh.	
			Transition Period	First 15,000 kWh per month at $0.13338 per kWh Additional kWh per month at $.05637 per kWh.	

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2020
(Unaudited)

Rate Class				Number of Customers
	3. If (a) the higher of the customer's currently effective contract demand or (b) its highest billing demand during the latest 12-month period is greater than 1,000 kW:			42
	Customer Charge:	$260.00 per delivery point per month.		
	Demand Charge:	Summer Period	First 1,000 kW of billing demand per month, at $15.94 per kW. Excess over 1,000 kW of billing demand per month, at $16.59 per kW, plus an additional $16.59 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds the higher of 2,500 kW or its contract demand.	
		Winter Period	First 1,000 kW of billing demand per month, at $15.18 per kW. Excess over 1,000 kW of billing demand per month, at $15.83 per kW, plus an additional $15.83 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds the higher of 2,500 kW or its contract demand.	
		Transition Period	First 1,000 kW of billing demand per month, at $15.18 per kW. Excess over 1,000 kW of billing demand per month, at $15.83 per kW, plus an additional $15.83 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds the higher of 2,500 kW or its contract demand.	
	Energy Charge:	Summer Period	$0.06624 per kWh per month.	
		Winter Period	$0.06624 per kWh per month.	
		Transition Period	$0.06624 per kWh per month.	

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2020
(Unaudited)

Rate Class		Base Charge			Number of Customers
Commercial/ Industrial	**B.**	This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 5,000 kW but not more than 15,000 kW:			3
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:			
		Summer Period	Onpeak Demand	$10.88 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$6.20 per kW per month of the customer's maximum billing demand, plus	
			Excess Demand	$17.08 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
		Winter Period	Onpeak Demand	$9.91 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$6.20 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$16.11 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
		Transition Period	Onpeak Demand	$9.91 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$6.20 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$16.11 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2020
(Unaudited)

Energy Charge:		
Summer Period	Onpeak	$0.08158 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.05664 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.02203 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.01862 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Winter Period	Onpeak	$0.07021 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.05886 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.02203 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.01862 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Transition Period	Onpeak	$0.05632 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.05632 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.02203 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.01862 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.

For the Summer Period, Winter Period, and Transition Period, Offpeak Block 1 energy rates less fuel rate of $0.0129 per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

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Rate Class		Base Charge			Number of Customers
Commercial/ Industrial	**C.**	This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 15,000 kW but not more than 25,000 kW:			1
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:			
		Summer Period	Onpeak Demand	$10.88 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$6.08 per kW per month of the customer's maximum billing demand, plus	
			Excess Demand	$16.96 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
		Winter Period	Onpeak Demand	$9.91 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$6.08 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$15.99 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
		Transition Period	Onpeak Demand	$9.91 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$6.08 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$15.99 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	

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Energy Charge:

Summer Period	Onpeak	$0.08149 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.05655 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.02194 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.01853 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Winter Period	Onpeak	$0.07012 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.05877 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.02194 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.01853 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Transition Period	Onpeak	$0.05623 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.05623 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.02194 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.01853 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.

For the Summer Period, Winter Period, and Transition Period, Offpeak Block 1 energy rates less fuel rate of $0.0129 per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

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Rate Class		Base Charge			Number of Customers
Commercial/ Industrial	**D.**	This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 25,000 kW:			1
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:			
		Summer Period	Onpeak Demand	$10.88 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$5.95 per kW per month of the customer's maximum billing demand, plus	
			Excess Demand	$16.83 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
		Winter Period	Onpeak Demand	$9.91 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$5.95 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$15.86 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
		Transition Period	Onpeak Demand	$9.91 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$5.95 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$15.86 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	

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Energy Charge:		
Summer Period	Onpeak	$0.08140 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.05646 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.02071 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.01844 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Winter Period	Onpeak	$0.07003 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.05868 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.02071 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.01844 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Transition Period	Onpeak	$0.05614 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.05614 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.02071 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.01844 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.

For the Summer Period, Winter Period, and Transition Period, Offpeak Block 1 energy rates less fuel rate of $0.0129 per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

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Rate Class		Base Charge			Number of Customers
Commercial/ Industrial Time of Use	**A.**	This rate shall apply to the firm electric power requirements where a customer's currently effective contract demand is greater than 1,000 kW but not more than 5,000 kW:			8
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:			
		Summer Period	Onpeak Demand	$10.96 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$6.88 per kW per month of the customer's maximum billing demand, plus	
			Excess Demand	$17.84 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
		Winter Period	Onpeak Demand	$10.00 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$6.88 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$16.88 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
		Transition Period	Onpeak Demand	$10.00 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$6.88 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$16.88 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	

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Energy Charge:

Summer Period	Onpeak	$0.10439 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.07086 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.02834 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.02531 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Winter Period	Onpeak	$0.08909 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.07383 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.02834 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.02531 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Transition Period	Onpeak	$0.07502 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.07502 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.02834 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.02531 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.

For the Summer Period, Winter Period, and Transition Period, Offpeak Block 1 energy rates less fuel rate of $0.01427 per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

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Rate Class		Base Charge			Number of Customers
Manufacturing	**B.**	This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 5,000 kW but not more than 15,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive, or classified with 2002 North American Industry Classification System (NAICS) code 5181, or 2007 NAICS codes 5182, 522320, and 541214.			2
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:			
		Summer Period	Onpeak Demand	$10.25 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$3.24 per kW per month of the customer's maximum billing demand, plus	
			Excess Demand	$13.49 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
		Winter Period	Onpeak Demand	$9.28 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$3.24 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$12.52 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
		Transition Period	Onpeak Demand	$9.28 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$3.24 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$12.52 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	

Energy Charge:		
Summer Period	Onpeak	$0.07331 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.04829 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.01857 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.01602 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Winter Period	Onpeak	$0.06190 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.05053 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.01857 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.01602 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Transition Period	Onpeak	$0.05139 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.05139 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.01857 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.01602 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.

For the Summer Period, Winter Period, and Transition Period, Offpeak Block 1 energy rates less fuel rate of $0.01201 per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

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Rate Class		Base Charge			Number of Customers
Manufacturing	**C.**	This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 15,000 kW but not more than 25,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive, or classified with 2002 North American Industry Classification System (NAICS) code 5181, or 2007 NAICS codes 5182, 522320, and 541214.			1
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:			
		Summer Period	Onpeak Demand	$10.25 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$3.12 per kW per month of the customer's maximum billing demand, plus	
			Excess Demand	$13.37 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
		Winter Period	Onpeak Demand	$9.28 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$3.12 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$12.40 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
		Transition Period	Onpeak Demand	$9.28 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$3.12 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$12.40 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	

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Energy Charge:

Summer Period	Onpeak	$0.07210 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.04707 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.01989 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.01989 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Winter Period	Onpeak	$0.06068 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.04929 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.01989 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.01989 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Transition Period	Onpeak	$0.05017 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.05017 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.01989 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.01989 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.

For the Summer Period, Winter Period, and Transition Period, Offpeak Block 1 energy rates less fuel rate of $0.01201 per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

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Rate Class		**Base Charge**			**Number of Customers**
Manufacturing	**D.**	This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 25,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive, or classified with 2002 North American Industry Classification System (NAICS) code 5181, or 2007 NAICS codes 5182, 522320, and 541214.			2
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:			
		Summer Period	Onpeak Demand	$10.25 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$2.69 per kW per month of the customer's maximum billing demand, plus	
			Excess Demand	$12.94 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
		Winter Period	Onpeak Demand	$9.28 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$2.69 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$11.97 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
		Transition Period	Onpeak Demand	$9.28 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$2.69 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$11.97 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	

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Energy Charge:

Summer Period	Onpeak	$0.06867 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.04365 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.01705 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.01646 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Winter Period	Onpeak	$0.05725 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.04586 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.01705 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.01646 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Transition Period	Onpeak	$0.04674 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.04674 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.01705 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.01646 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.

For the Summer Period, Winter Period, and Transition Period, Offpeak Block 1 energy rates less fuel rate of $0.01201 per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

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Rate Class		Base Charge			Number of Customers
Manufacturing Time of Use	**A.**	This rate shall apply to the firm electric power requirements where (a) a customer's currently effective contract demand is greater than 1,000 kW but not more than 5,000 kW and (b) the major use of electricity is for activities conducted at the delivery point serving that customer which are classified with a 2-digit Standard Industrial Classification Code between 20 and 39, inclusive, or classified with 2002 North American Industry Classification System (NAICS) code 5181, or 2007 NAICS codes 5182, 522320, and 541214.			5
		Customer Charge:	$1,500 per delivery point per month.		
		Administrative Charge:	$700 per delivery point per month.		
		Demand Charge:			
		Summer Period	Onpeak Demand	$10.25 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$5.22 per kW per month of the customer's maximum billing demand, plus	
			Excess Demand	$15.47 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
		Winter Period	Onpeak Demand	$9.28 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$5.22 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$14.50 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	
		Transition Period	Onpeak Demand	$9.28 per kW per month of the customer's onpeak billing demand, plus	
			Maximum Demand	$5.22 per kW per month of the customer's maximum billing demand plus	
			Excess Demand	$14.50 per kW per month for each kW of the amount, if any, by which (1) the customer's onpeak billing demand exceeds its onpeak contract demand or (2) the customer's offpeak billing demand exceeds its offpeak contract demand, whichever is higher.	

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Energy Charge:

Summer Period	Onpeak	$0.07939 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.05437 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.02692 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.02437 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Winter Period	Onpeak	$0.06797 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.05660 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.02692 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.02437 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.
Transition Period	Onpeak	$0.05749 per kWh per month for all metered onpeak kWh, plus
	Offpeak: Block 1	$0.05749 per kWh per month for the first 200 hours use of onpeak metered demand multiplied by the ratio of offpeak energy to toal energy, plus
	Block 2	$0.02692 per kWh per month for the next 200 hours use of onpeak metered demand multiplied by the ratio of offpeak enegy to total energy, plus
	Block 3	$0.02437 per kWh per month for the hours use of onpeak metered demand in excess of 400 hours multiplied by the ratio of offpeak energy to total energy.

For the Summer Period, Winter Period, and Transition Period, Offpeak Block 1 energy rates less fuel rate of $0.01427 per kWh per month shall be applied to the portion, if any, of the minimum offpeak energy takings amount that is greater than the metered energy.

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2020
(Unaudited)

Rate Class	Base Charge	Number of Customers
Outdoor Lighting		
	Part A - Charges for Street and Park Lighting Systems, Traffic Signal Systems, and Athletic Field Lighting Installations	70

Energy Charge:	Summer Period	$0.07821 per kWh per month.
	Winter Period	$0.07821 per kWh per month.
	Transition Period	$0.07821 per kWh per month.

Facility Charge: The annual facility charge shall be 15.89 percent of the installed cost to KUB's electric system of the facilities devoted to street and park lighting service specified in this Part A. Such installed cost shall be recomputed on July 1 of each year, or more often if substantial changes in the facilities are made. Each month, one-twelfth of the then total annual facility charge shall be billed to the customer. If any part of the facilities has not been provided at the electric system's expense, or if the installed cost of any portion thereof is reflected on the books of another municipality or agency or department, the annual facility charge shall be adjusted to reflect properly the remaining cost to be borne by the electric system.

Customer Charge: $2.50.

Part B - Charges for Outdoor Lighting for Individual Customers 12,245

Charges Per Fixture Per Month

a. **Type of Fixture**	**(Watts)**	**(Lumens)**	**Rated kWh**	**Facility Charge**	**Total Lamp Charge**
Mercury Vapor or Incandescent*	175	7,650	70	$ 4.97	$ 10.44
	400	19,100	155	6.94	19.06
	1000**	47,500	378	11.10	40.66
High Pressure Sodium	100	8,550	42	4.97	8.25
	250	23,000	105	5.89	14.10
	400	45,000	165	6.94	19.84
	1000**	126,000	385	11.10	41.21
Decorative	100	8,550	42	5.66	8.94

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

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

b. Energy Charge: For each lamp size under **a.** above, $0.07821 per rated kWh per month.

Additional pole charge: $5.00 per pole.

Knoxville Utilities Board Electric Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2020
(Unaudited)

Rate Class	Base Charge	Number of Customers
LED Outdoor Lighting		11,852

Charges Per Fixture Per Month

	Lamp Size	Rated kWh	Facility Charge	Total Lamp Charge
a.				
	100 WE	21	$ 5.72	$ 7.36
	250 WE	58	7.07	11.61
	400 WE	79	9.72	15.90

b. Energy Charge: For each lamp size under **a.** above, $0.07821 per rated kWh per month.
Additional pole charge: $5.00 per pole.

9717 Cogdill Road
Suite 201
Knoxville, TN 37932

COULTER & JUSTUS, P.C.

phone: (865) 637-4161
fax: (865) 524-2952
web: cj-pc.com

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Electric Division (the Division) of the Knoxville Utilities Board, a component unit of the City of Knoxville, Tennessee, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements, and have issued our report thereon dated October 29, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Coulter & Justus, P.C.

Knoxville, Tennessee
October 29, 2020

Knoxville Utilities Board Electric Division
Schedule of Findings and Questioned Costs
June 30, 2020

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

2019-02

In November 2018, it was discovered that an employee in the KUB Electrical Engineering Department in the Electric Division had falsified timesheets resulting in $7,907.79 of overpayments for false time reported. The employee resigned in lieu of termination. The employee paid full restitution of $7,907.79 to KUB.

Knoxville Utilities Board

Gas Division

Financial Statements and Supplemental Information
June 30, 2020 and 2019

KUB Board of Commissioners

Kathy Hamilton - Chair

Adrienne Simpson-Brown - Vice Chair

Dr. Jerry W. Askew

Celeste Herbert

Sara Hedstrom Pinnell

Tyvi Small

John Worden

Management

Gabriel Bolas II
President and
Chief Executive Officer

Mark Walker
Senior Vice President and
Chief Financial Officer

Susan Edwards
Senior Vice President and
Chief Administrative Officer

Derwin Hagood
Senior Vice President and
Chief Operating Officer

Eddie Black
Senior Vice President and
Chief Technology Officer

John Williams
Vice President of
Construction

Mike Bolin
Vice President of Utility
Advancement

Julie Childers
Vice President and
Century II Administrator

John Gresham
Vice President of
Operations

Knoxville Utilities Board Gas Division
Index
June 30, 2020 and 2019

9717 Cogdill Road
Suite 201
Knoxville, TN 37932

C&J Coulter & Justus, P.C.

phone: (865) 637-4161
fax: (865) 524-2952
web: cj-pc.com

Independent Auditor's Report

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

We have audited the accompanying financial statements of the Gas Division (the Division) of the Knoxville Utilities Board, a component unit of the City of Knoxville, Tennessee, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the index.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gas Division of the Knoxville Utilities Board as of June 30, 2020 and 2019, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 25 and the required supplementary information on pages 64 through 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Division's basic financial statements. The supplemental information which includes the Schedule of Expenditures of Federal Awards and State Financial Assistance, as required by Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State of Tennessee are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Gas Division and do not purport to, and do not, present fairly the financial position of the Knoxville Utilities Board, as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October, 29, 2020, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.

Coulter & Justus, P.C.

Knoxville, Tennessee
October 29, 2020

Knoxville Utilities Board Gas Division
Management's Discussion and Analysis
June 30, 2020 and 2019

Knoxville Utilities Board (KUB), comprised of Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. The Gas Division (Division) provides services to certain customers in Knox County and portions of Anderson and Loudon counties. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Gas Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2020 and 2019, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Division's Management Discussion and Analysis (MD&A) focuses on the fiscal year ended June 30, 2020 activities, resulting changes and current known facts, and should be read in conjunction with the Division's financial statements.

Gas Division Highlights

System Highlights

KUB's natural gas system serves 104,433 customers, and its service territory covers 293 square miles. KUB maintains 2,499 miles of service mains to provide 12.1 million dekatherms of natural gas to its customers annually.

KUB's natural gas system service territory experienced warmer temperatures this winter compared to the previous year. As a result, billed natural gas sales decreased 3.2 percent when compared to fiscal year 2019. Gas Division margin (operating revenue less purchased gas cost) was $0.6 million higher in fiscal year 2020. The increase is the net result of lower billed sales volumes and additional revenue from the natural gas system rate increase effective October 2019.

During March 2020, a global pandemic was declared related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). The pandemic has significantly impacted the economic conditions across the nation.

As a result of the pandemic, KUB quickly responded with changes to lessen the economic burden on customers by deferring proposed rate increases and suspending disconnections for nonpayment. To offset the reduced revenues, KUB delayed projects to create more financial liquidity. KUB plans to enroll customers with past due balances in repayment plans and resume disconnects for nonpayment.

The natural gas system's record peak in demand remains 140,204 dekatherms, set in January 2018.

The natural gas system has added 3,410 customers over the past three years representing annual growth of one percent. In fiscal year 2020, 1,034 customers were added.

The typical residential gas customer's average monthly gas bill was $55.88 for the twelve months ending June 30, 2020. The average monthly bill decreased $1.65 compared to last fiscal year, reflecting lower natural gas prices along with the October 2019 gas rate increase and the flow through of under recovered purchased gas costs from fiscal year 2019.

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 Silver level winner and remains a member of the program through 2020. KUB was designated a Safety Contest Winner for calendar year 2019 by APGA, indicating the lowest number of recordable injuries per labor-hours worked.

Century II Infrastructure Program

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

In fiscal year 2015, KUB concluded the smart grid pilot project, of which a portion of the project was funded by a United States Department of Energy Smart Grid Investment Grant (SGIG). This grant was received by KUB in 2009 as part of the American Reinvestment and Recovery Act (ARRA). Based upon the success of that pilot, KUB formed a plan to move forward with a Century II Grid Modernization initiative, which includes advanced metering for all KUB customers, a telecommunication system linking critical KUB infrastructure, and an increased investment in automation technology to help operate KUB's energy and water distribution systems. Over the course of ten years, KUB plans to spend $124.4 million in this effort, of which the Gas Division's share is $19.2 million. The deployment is funded in large part by debt issues and system revenues. As of June 30, 2020, KUB completed the final year of the four-year advanced meters deployment, including the installation of network communication devices, spending $12.8 million. The project was completed on time and under budget.

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

In June 2017, the Board approved the next phase of gas rate increases to support the Century II program. The three approved gas rate increases went into effect in October 2017, October 2018, and October 2019, generating $2.2 million, $2.3 million, and $2.3 million in additional annual Gas Division revenue, respectively.

During the fiscal year, KUB replaced 8.3 miles of steel gas main while staying on track with Century II goals and within the Gas Division's total capital budget.

Financial Highlights

Fiscal Year 2020 Compared to Fiscal Year 2019

The Division's net position increased $15.8 million in fiscal year 2020 compared to a $15.7 million increase in fiscal year 2019.

Operating revenue decreased $6 million or 5.5 percent. The decrease is attributable to lower billed volumes of 3.2 percent and lower natural gas prices, along with additional revenue from the 2 percent rate increase effective October 2019 and the flow through of prior year under recovered purchased gas costs to KUB's gas customers. KUB flows changes to wholesale gas costs directly through to its retail gas rates via the Purchased Gas Adjustment. Purchased gas expense was $6.5 million or 13.2 percent lower due to lower customer demand and lower natural gas prices. Margin on gas sales (operating revenue less purchased gas expense) increased $0.6 million or one percent, reflecting the decrease in gas sales volumes and additional revenue from the rate increase.

Operating expenses (excluding purchased gas expense) increased $0.5 million or 1.2 percent. Operating and maintenance (O&M) expenses were $0.7 million more than the prior fiscal year. Depreciation expense was consistent with the prior fiscal year. Taxes and tax equivalents were $0.2 million lower than the prior year.

Wholesale purchased gas expense represented 43 percent of natural gas sales revenue for the fiscal year ended June 30, 2020.

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

Total plant assets (net) increased $16.6 million or 5.7 percent reflecting capital investment associated with the replacement of key gas system assets and other major system projects.

During fiscal year 2020, KUB sold $6.8 million in gas system revenue refunding bonds for the purpose of refinancing existing gas system revenue bonds at lower interest rates. KUB will realize a total debt service savings of $1.8 million over the life of the bonds ($1.3 million on a net present value basis).

Long-term debt represented 29.7 percent of the Division's capital structure as of June 30, 2020, as compared to 32.9 percent last year. Capital structure equals long-term debt (which includes the current and long-term portion of revenue bonds) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Current year debt coverage for the fiscal year was 3.61. Maximum debt service coverage was 3.73.

Fiscal Year 2019 Compared to Fiscal Year 2018

The Division's net position increased $15.7 million in fiscal year 2019 compared to a $17.9 million increase last fiscal year. A restatement to the fiscal year 2018 beginning net position, based on a change in method of accounting for Other Post-Employment Benefits (OPEB), increased the total net position by $0.8 million during the fiscal year 2018. The change resulted in a total increase of $18.7 million in the Division's net position.

Operating revenue decreased $6 million or 5.2 percent. The decrease is attributable to lower billed volumes of 5.6 percent, additional revenue from the October 2018 rate increase and the flow through of prior year over recovered purchased gas costs to KUB's gas customers. KUB flows changes to wholesale gas costs directly through to its retail gas rates via the Purchased Gas Adjustment. Purchased gas expense was $6.4 million or 11.4 percent lower, primarily due to lower customer demand. Margin on gas sales (operating revenue less purchased gas expense) increased $0.4 million or 0.7 percent, reflecting the decrease in gas sales volumes and additional revenue from the rate increase.

Operating expenses (excluding purchased gas expense) increased $3.5 million or 9.4 percent. Operating and maintenance (O&M) expenses were $3 million more than the prior fiscal year. Depreciation expense increased $0.2 million, and taxes and tax equivalents were $0.2 million higher than the prior year.

Wholesale purchased gas expense represented 47 percent of natural gas sales revenue for the fiscal year ended June 30, 2019.

Interest income increased $0.5 million compared to the prior fiscal year. Interest expense increased $0.1 million.

Total plant assets (net) increased $14 million or 5 percent reflecting capital investment associated with the replacement of key gas system assets and other major system projects.

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

Long-term debt represented 32.9 percent of the Division’s capital structure as of June 30, 2019, as compared to 34.1 percent last year. Capital structure equals long-term debt (which includes the current and long-term portion of revenue bonds) plus net position.

The Division’s bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division’s outstanding bonds. Current year debt coverage for the fiscal year was 3.68. Maximum debt service coverage was 3.66.

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Knoxville Utilities Board Gas Division - Financial Statements

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

Statement of Net Position

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

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

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

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

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

Statement of Revenues, Expenses and Changes in Net Position

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

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

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

Statement of Cash Flows

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

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

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

Condensed Financial Statements

Statement of Net Position

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

Statements of Net Position
As of June 30

(in thousands of dollars)	**2020**	**2019**	**2018**
Current, restricted and other assets	$ 68,686	$ 73,327	$ 75,388
Capital assets, net	308,722	292,090	278,095
Deferred outflows of resources	3,060	4,244	1,438
Total assets and deferred outflows of resources	380,468	369,661	354,921
Current and other liabilities	23,173	22,022	22,132
Long-term debt outstanding	103,659	112,624	111,661
Deferred inflows of resources	3,497	653	2,424
Total liabilities and deferred inflows of resources	130,329	135,299	136,217
Net position			
Net investment in capital assets	198,777	173,774	161,294
Restricted	2,113	2,174	2,050
Unrestricted	49,249	58,414	55,360
Total net position	$ 250,139	$ 234,362	$ 218,704

Normal Impacts on Statement of Net Position

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

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

Impacts and Analysis

Current, Restricted and Other Assets

Fiscal Year 2020 Compared to Fiscal Year 2019

Current, restricted and other assets decreased $4.6 million or 6.3 percent, primarily due to a $7 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) offset by an increase in the actuarially determined net pension asset of $3.3 million.

KUB under recovered $1.5 million in wholesale gas costs from its customers in fiscal year 2020, as compared to an under recovery of $1.3 million in fiscal year 2019. This under recovery of costs will be collected from KUB's gas customers during the next fiscal year through adjustments to rates via the Purchased Gas Adjustment.

Gas storage decreased $1 million, reflecting ten percent higher storage volumes compared to the prior fiscal year at a 21.1 percent lower weighted average cost.

Fiscal Year 2019 Compared to Fiscal Year 2018

Current, restricted and other assets decreased $2.1 million or 2.7 percent, primarily due to a decrease in the actuarially determined net pension asset of $3.4 million offset by an increase of $2 million in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments).

KUB under recovered $1.3 million in wholesale gas costs from its customers in fiscal year 2019, as compared to an over recovery of $1.5 million in fiscal year 2018. This under recovery of costs will be collected from KUB's gas customers during the next fiscal year through adjustments to rates via the Purchased Gas Adjustment.

Gas storage increased $0.2 million, reflecting three percent higher storage volumes compared to the prior fiscal year.

Capital Assets

Fiscal Year 2020 Compared to Fiscal Year 2019

Capital assets increased $16.6 million or 5.7 percent. Major capital expenditures during the year included $9.3 million for the construction of gas mains, $6.5 million for the construction of service extensions, $4.8 million for steel mains and services, and $1.3 million for the deployment of advanced metering equipment. The Gas Division retired $2.3 million of natural gas system assets during the fiscal year.

Fiscal Year 2019 Compared to Fiscal Year 2018

Capital assets increased $14 million or 5 percent. Major capital expenditures during the year included $4.7 million for steel mains and services, $4.6 million for the replacement and relocation of gas system assets to accommodate Tennessee Department of Transportation (TDOT) highway improvement projects, $4.6 million for the construction of service extensions, $2.5 million for the construction of gas mains and $2 million for the deployment of advanced metering equipment. The Gas Division retired $4.7 million of natural gas system assets during the fiscal year.

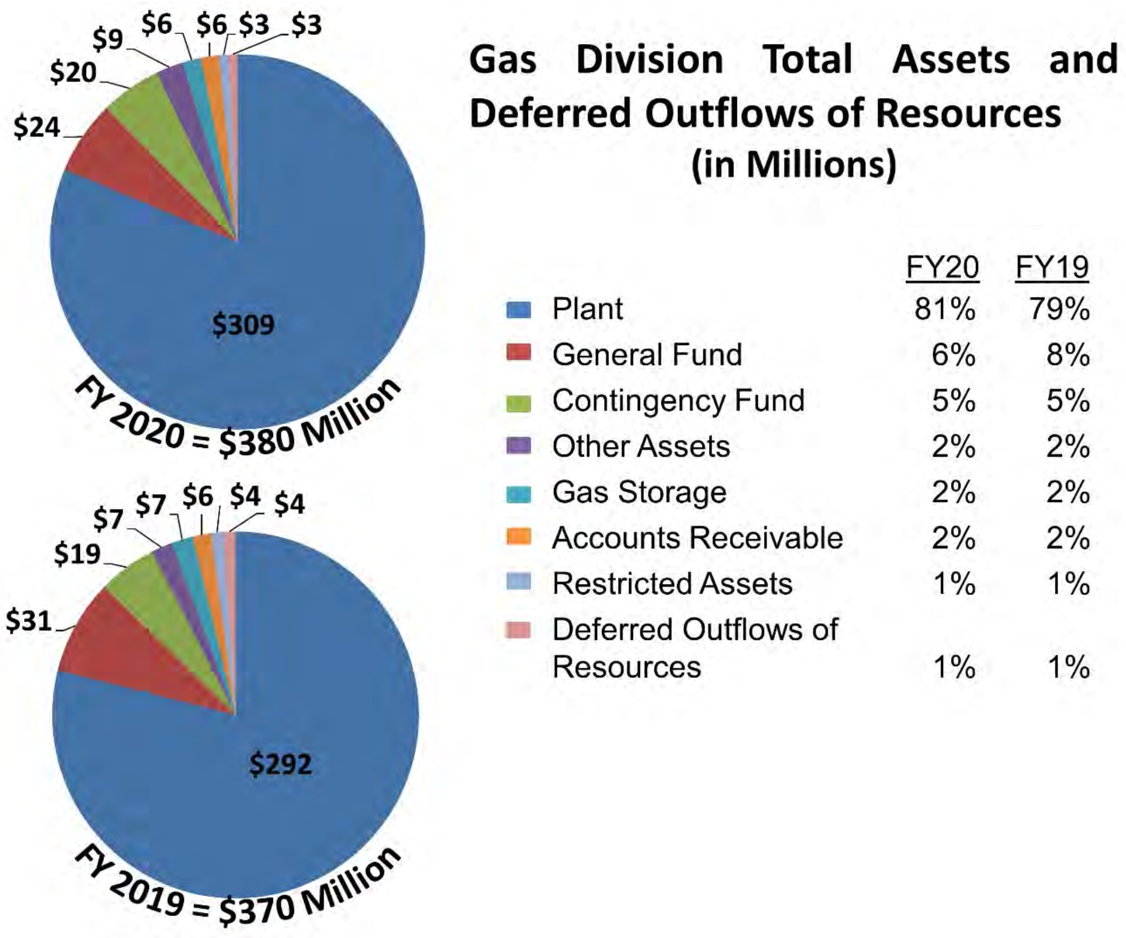
Deferred Outflows of Resources

Fiscal Year 2020 Compared to Fiscal Year 2019

Deferred outflows of resources decreased $1.2 million compared to the prior fiscal year. This decrease is attributable to a $1.6 million decrease in pension outflow partially offset by a $0.3 million increase in OPEB outflow.

Fiscal Year 2019 Compared to Fiscal Year 2018

Deferred outflows of resources increased $2.8 million compared to the prior fiscal year. This increase is primarily attributable to a $2.6 million increase in pension outflow.



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

		FY20	FY19
■	Plant	81%	79%
■	General Fund	6%	8%
■	Contingency Fund	5%	5%
■	Other Assets	2%	2%
■	Gas Storage	2%	2%
■	Accounts Receivable	2%	2%
■	Restricted Assets	1%	1%
■	Deferred Outflows of Resources	1%	1%

Current and Other Liabilities

Fiscal Year 2020 Compared to Fiscal Year 2019

Current and other liabilities increased $1.2 million compared to the prior fiscal year. The current portion of revenue bonds increased $0.2 million and net OPEB liability increased $1 million.

Fiscal Year 2019 Compared to Fiscal Year 2018

Current and other liabilities decreased $0.1 million compared to the prior fiscal year. The current portion of revenue bonds increased $0.4 million and net pension liability increased $1.1 million. These increases were offset by a decrease of $1 million in accounts payable compared to the prior fiscal year.

Long-Term Debt

Fiscal Year 2020 Compared to Fiscal Year 2019

Long-term debt was $9 million lower than the prior year. Natural gas system revenue refunding bonds of $6.8 million, sold in April 2020, along with a $2 million cash contribution to help retire existing debt were offset by the refunded bonds and the scheduled repayment of debt.

Fiscal Year 2019 Compared to Fiscal Year 2018

Long-term debt was $1 million higher than the prior year. Natural gas system revenue bonds of $8 million, sold in August 2018, were offset by the scheduled repayment of debt.

Deferred Inflows of Resources

Fiscal Year 2020 Compared to Fiscal Year 2019

Deferred inflows of resources increased $2.8 million compared to the prior fiscal year due to differences in pension inflows.

Fiscal Year 2019 Compared to Fiscal Year 2018

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

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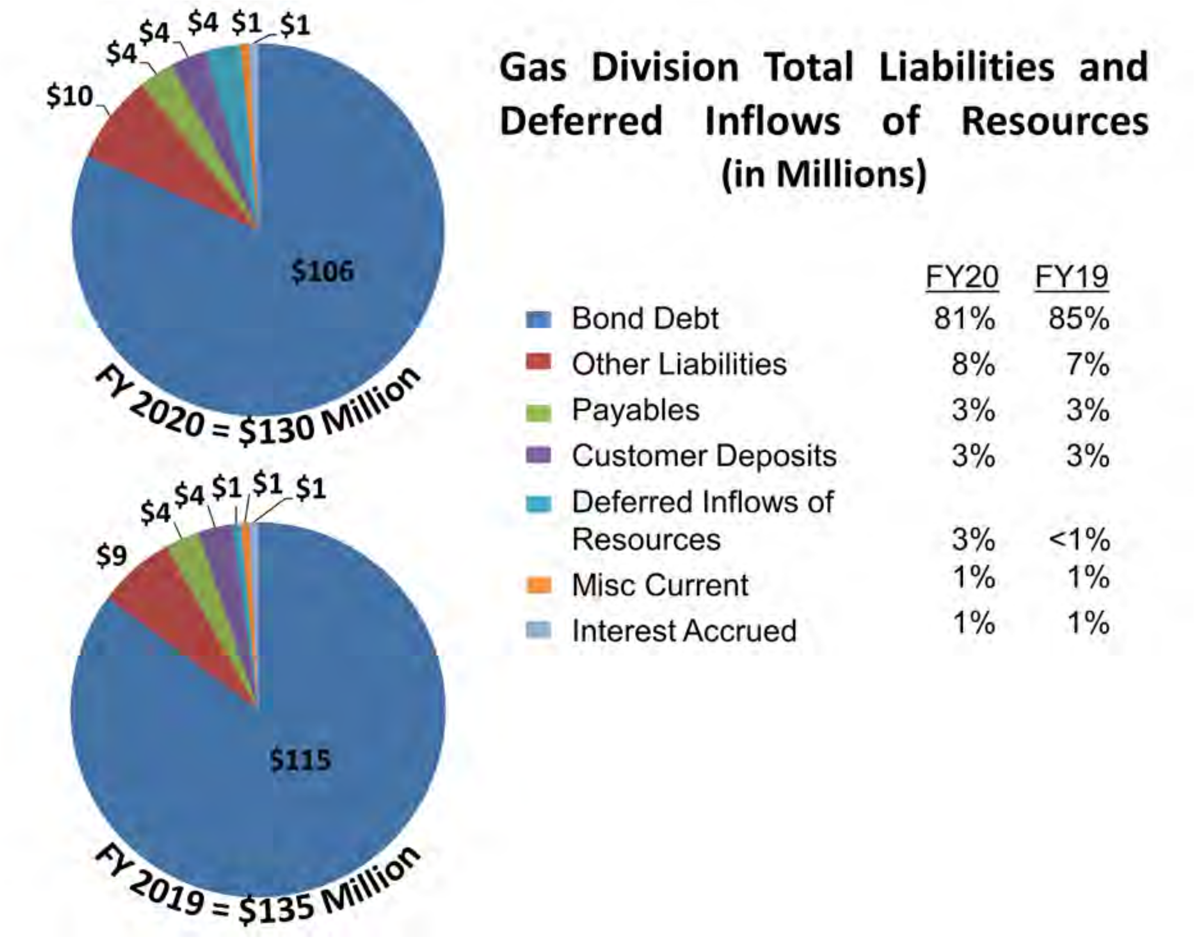

Net Position

Fiscal Year 2020 Compared to Fiscal Year 2019

Net position increased $15.8 million in fiscal year 2020. Unrestricted net position decreased $9.2 million, partially due to a $7 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments). Net investment in capital assets increased $25 million, due to an increase in net plant in service of $16.6 million along with a decrease of $8.7 million in the current portion of revenue bonds and total long-term debt. Restricted net position was $0.1 million lower than the prior fiscal year, due to a decrease in bond fund reserves.

Fiscal Year 2019 Compared to Fiscal Year 2018

Net position increased $15.7 million in fiscal year 2019. Unrestricted net position increased $3.1 million, primarily due to a $2.8 million increase in deferred outflows of resources. Investment in capital assets, net of debt, increased $12.5 million, primarily from an increase in net plant in service of $14 million offset by an increase of $1.7 million in the current portion of revenue bonds and total long-term debt. Restricted net position was $0.1 million higher than the prior fiscal year, based on increases in debt service.

Statement of Revenues, Expenses and Changes in Net Position

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

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

(in thousands of dollars)	**2020**	**2019**	**2018**
Operating revenues	$ 102,565	$ 108,552	$ 114,539
Less: Purchased gas expense	43,117	49,665	56,077
Margin from sales	59,448	58,887	58,462
Operating expenses			
Distribution	10,100	9,757	8,657
Customer service	2,469	2,888	2,486
Administrative and general	7,557	6,805	5,265
Depreciation	12,910	12,878	12,717
Taxes and tax equivalents	7,629	7,863	7,615
Total operating expenses	40,665	40,191	36,740
Operating income	18,783	18,696	21,722
Interest income	834	1,167	634
Interest expense	(4,177)	(4,525)	(4,420)
Other income/(expense)	337	290	(28)
Change in net position before capital contributions	15,777	15,628	17,908
Capital contributions	-	30	20
Change in net position	$ 15,777	$ 15,658	$ 17,928

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

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

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

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

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

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

- Taxes and tax equivalents are impacted by plant additions/retirements, changes in property tax rates, and margin (operating revenue less purchased gas expense) levels.

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

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

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

Impacts and Analysis

Change in Net Position

Fiscal Year 2020 Compared to Fiscal Year 2019

The Division's Change in Net Position increased $15.8 million in fiscal year 2020, reflecting decreased operating revenues from a warmer winter along with lower purchased gas expenses. Comparatively, net position increased by $15.7 million in fiscal year 2019.

Fiscal Year 2019 Compared to Fiscal Year 2018

The Division's Change in Net Position increased $15.7 million in fiscal year 2019, reflecting decreased operating revenues from a warmer winter along with lower purchased gas expenses. Comparatively, net position increased by $17.9 million in fiscal year 2018. A restatement to the fiscal year 2018 beginning net position, based on a change in method of accounting for OPEB, increased the total net position by an additional $0.8 million. The change resulted in a total increase of $18.7 million in the Division's net position.

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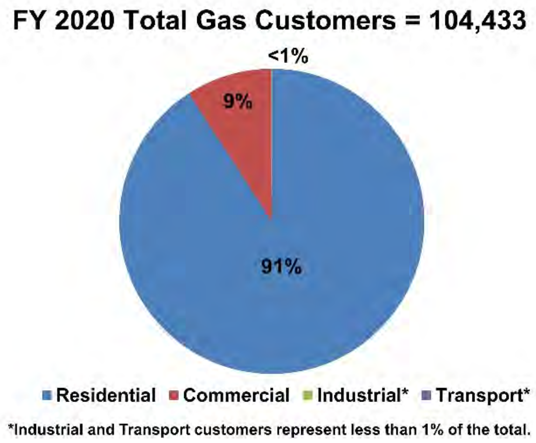
Margin from Sales

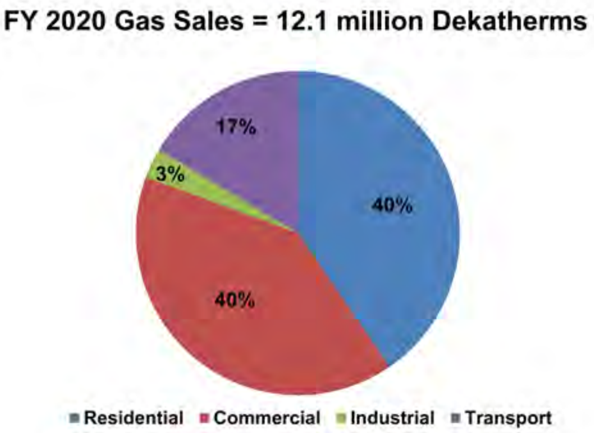
Fiscal Year 2020 Compared to Fiscal Year 2019

Margin on gas sales (operating revenue less purchased gas expense) increased $0.6 million, or one percent, due to revenue from the 2 percent rate increase effective October 2019 offset by a 3.2 percent decrease in billed sales volumes.

Operating revenue decreased $6 million or 5.5 percent for the fiscal year ended June 30, 2020. The gas system service territory experienced a warmer winter than the prior fiscal year. Billed sales were down 3.2 percent. The decrease in operating revenue reflected the net impact of decreased customer demand and additional revenue from the October 2019 rate increase.

Purchased gas expense decreased $6.5 million or 13.2 percent, due to decreased customer demand and lower natural gas prices. Total volumes delivered to KUB's gas distribution system decreased four percent this fiscal year. The Division's weighted average cost of gas purchased for fiscal year 2020 was $2.34 per dekatherm, as compared to $3.33 per dekatherm last year.





Residential customers, whose natural gas is primarily used as a heating source during winter months, accounted for 91 percent of customers billed and 40 percent of total volumes sold during the year.

Residential sales volumes decreased 3.3 percent, commercial sales volumes decreased 1.3 percent, industrial sales volumes decreased 5.5 percent, and transport sales volumes decreased 6.8 percent.

KUB's ten largest gas customers accounted for 27 percent of KUB's billed gas volumes. Those ten customers represent six industrial and four commercial customers, including three governmental customers.

KUB has added 3,410 gas customers over the past three years, representing annual growth of one percent. Natural Gas system growth has increased due to increased new housing construction.

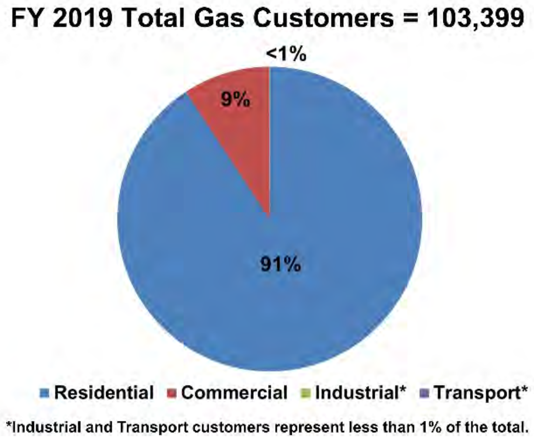
KUB has 16 transport customers who purchase gas directly from a supplier other than KUB. KUB provides transportation service on its gas distribution system to those customers.

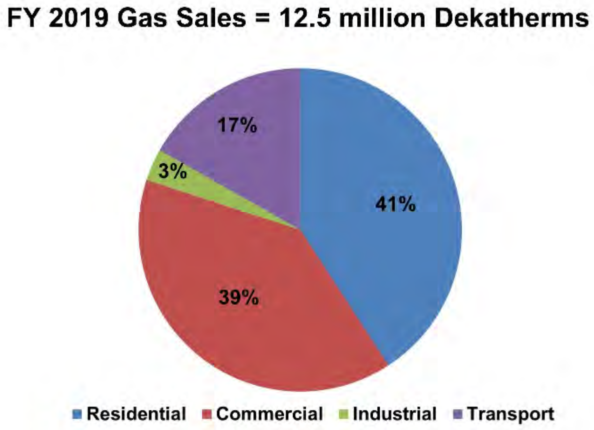
Fiscal Year 2019 Compared to Fiscal Year 2018

Margin on gas sales (operating revenue less purchased gas expense) increased $0.4 million or 0.7 percent due to revenue from the rate increase effective October 2018 and a 5.6 percent decrease in billed sales volumes.

Operating revenue decreased $6 million or 5.2 percent for the fiscal year ended June 30, 2019. The gas system service territory experienced a warmer winter than the prior fiscal year. Billed sales were down 5.6 percent. The decrease in operating revenue reflected the net impact of decreased customer demand and additional revenue from the October 2018 rate increase.

Purchased gas expense decreased $6.4 million or 11.4 percent, due to decreased customer demand. Total volumes delivered to KUB's gas distribution system decreased 2.4 percent this fiscal year. The Division's weighted average cost of gas purchased for fiscal year 2019 was $3.33 per dekatherm, as compared to $2.98 per dekatherm last year.





Residential customers, whose natural gas is primarily used as a heating source during winter months, accounted for 91 percent of customers billed and 41 percent of total volumes sold during the year.

Residential sales volumes decreased 7.1 percent, commercial sales volumes decreased 4.2 percent, industrial sales volumes decreased 13.4 percent and transport sales volumes decreased 3.6 percent. Industrial and transport sales were affected by the Enbridge pipeline incident in December 2018, which resulted in curtailment for KUB's largest customers.

KUB's ten largest gas customers accounted for 26 percent of KUB's billed gas volumes. Those ten customers represent six industrial and four commercial customers, including three governmental customers.

KUB has 17 transport customers who purchase gas directly from a supplier other than KUB. KUB provides transportation service on its gas distribution system to those customers.

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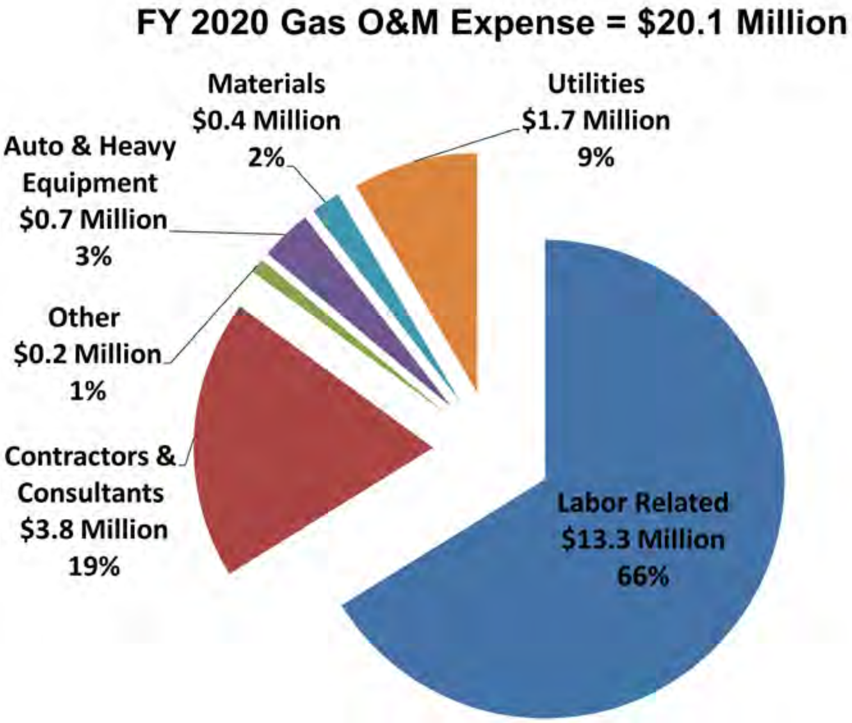
Operating Expenses

Fiscal Year 2020 Compared to Fiscal Year 2019

Operating expenses (excluding purchased gas expense) increased $0.5 million or 1.2 percent compared to fiscal year 2019. Operating expenses include operations and maintenance (O&M) expense, depreciation, and taxes/tax equivalents. O&M expenses can be further classified as distribution, customer service, and administrative and general.

- Distribution system O&M expenses were $0.3 million higher than the prior fiscal year due to an increase in labor related expenses.
- Customer service expenses were $0.4 million lower than the prior fiscal year due to a decrease in outside contractors.
- Administrative and general expenses increased $0.8 million, primarily due to labor related expenses including higher OPEB costs.

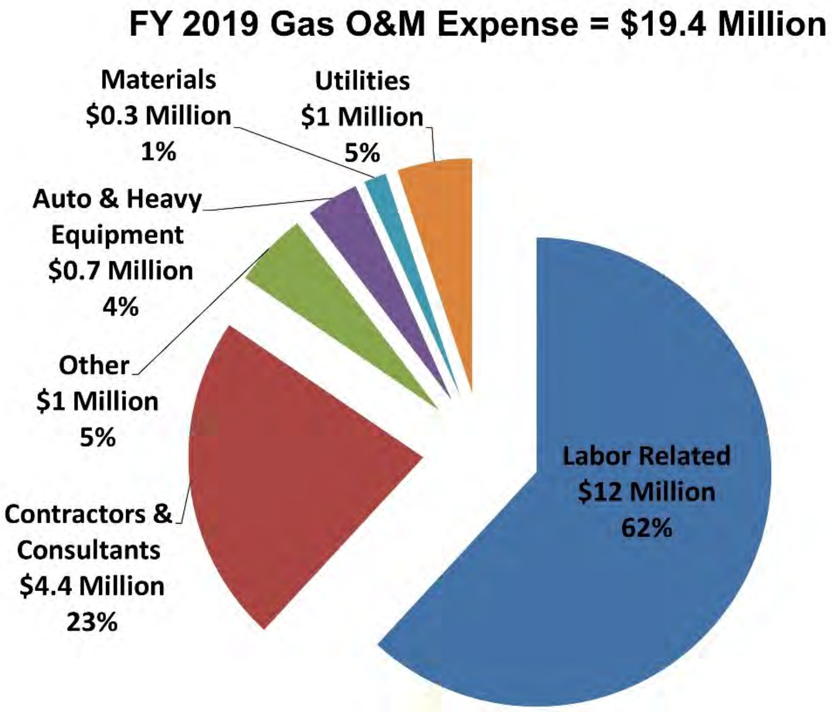


- Depreciation expense was consistent with the prior year.
- Taxes and tax equivalents were $0.2 million lower than the prior fiscal year.

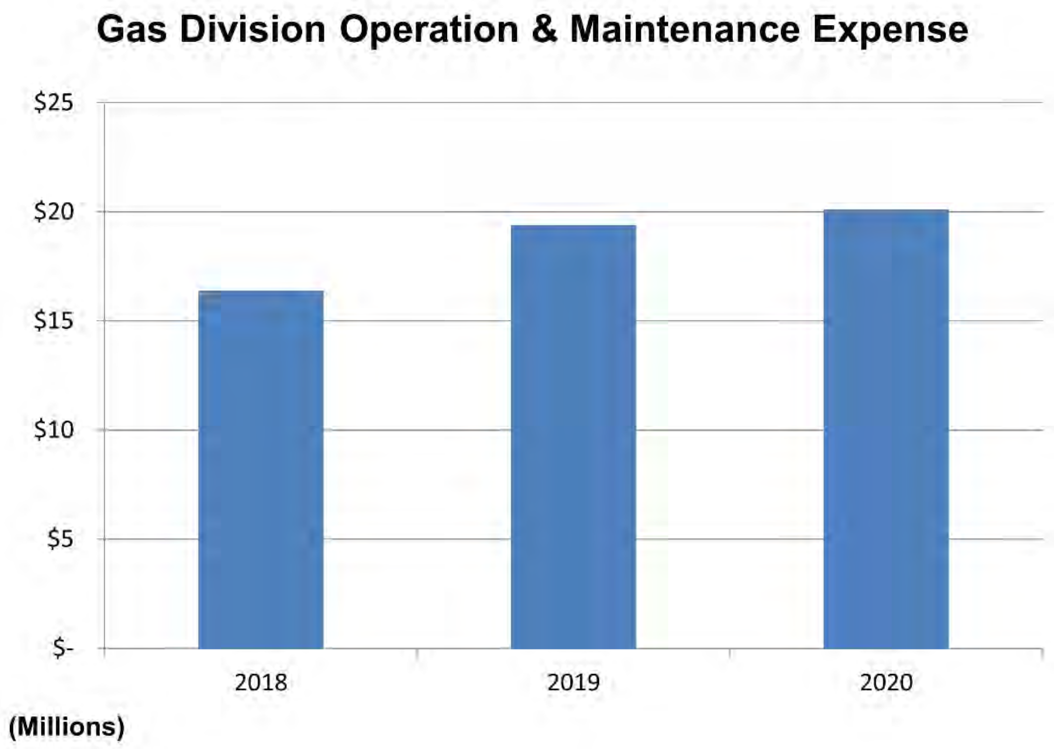
Fiscal Year 2019 Compared to Fiscal Year 2018

Operating expenses (excluding purchased gas expense) increased $3.5 million or 9.4 percent compared to fiscal year 2018. Operating expenses include operations and maintenance (O&M) expense, depreciation, and taxes/tax equivalents. O&M expenses can be further classified as distribution, customer service, and administrative and general.

- Distribution system O&M expenses were $1.1 million higher than the prior fiscal year due to an increase in outside contractors and consultants.
- Customer service expenses were $0.4 million higher than the prior fiscal year due to an increase in outside contractors and consultants.
- Administrative and general expenses increased $1.5 million, primarily due to labor related expenses including higher pension expenses, reflecting impact of investment losses on Pension Trust assets in 2018.



- Depreciation expense was $0.2 million higher than the prior year, primarily due to increased depreciation due to Century II replacement programs, including advanced meters.
- Taxes and tax equivalents were $0.2 million higher than the prior fiscal year.



Other Income and Expense

Fiscal Year 2020 Compared to Fiscal Year 2019

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

Interest expense decreased $0.3 million compared with the prior year, partially reflecting savings on refunding of outstanding bonds.

Other income (net) was consistent with the prior fiscal year.

Fiscal Year 2019 Compared to Fiscal Year 2018

Interest income was $0.5 million higher than the prior fiscal year, primarily due to higher short-term interest rates.

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

Other income (net) increased $0.3 million, primarily due to mark-to-market adjustments on investments.

Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

(in thousands of dollars)	**2020**	**2019**	**2018**
Distribution Plant			
Mains	$ 183,967	$ 184,081	$ 185,208
Services and Meters/Regulators	77,745	74,076	66,914
Other Accounts	910	917	841
Total Distribution Plant	262,622	259,074	252,963
Total General Plant	$ 10,591	$ 9,174	$ 9,953
Total Plant Assets	273,213	268,248	262,916
Work In Progress	35,509	23,842	15,179
Total Net Plant	$ 308,722	$ 292,090	$ 278,095

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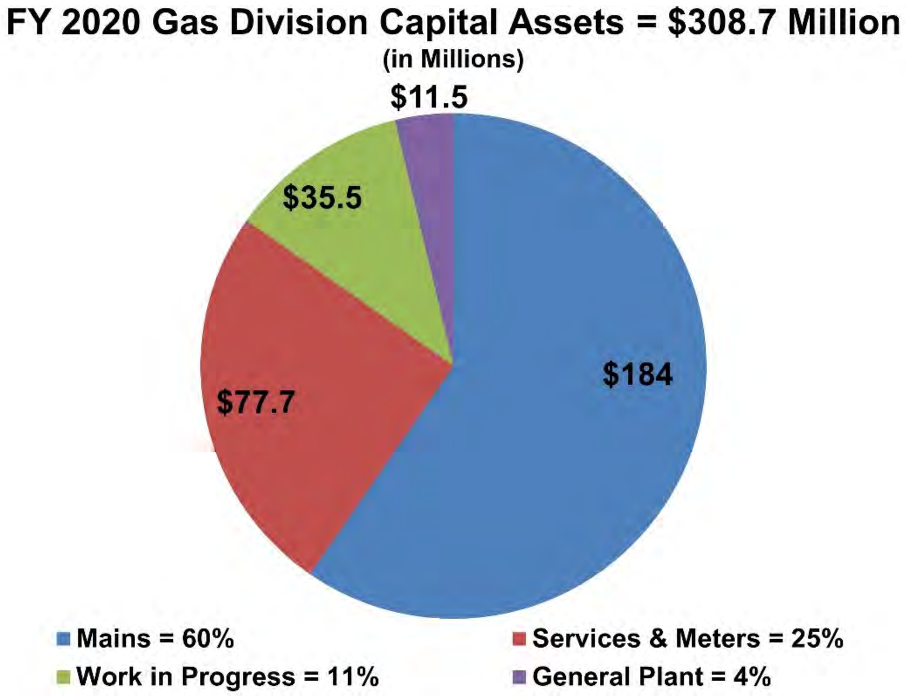
Fiscal Year 2020 Compared to Fiscal Year 2019

As of June 30, 2020, the Division had $308.7 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of $16.6 million or 5.7 percent over the end of last fiscal year.



Major capital asset expenditures during the year were as follows:

- $9.3 million for the construction of gas mains
- $6.5 million for service extensions
- $4.8 million for steel mains and services
- $1.3 million for deployment of advanced metering equipment

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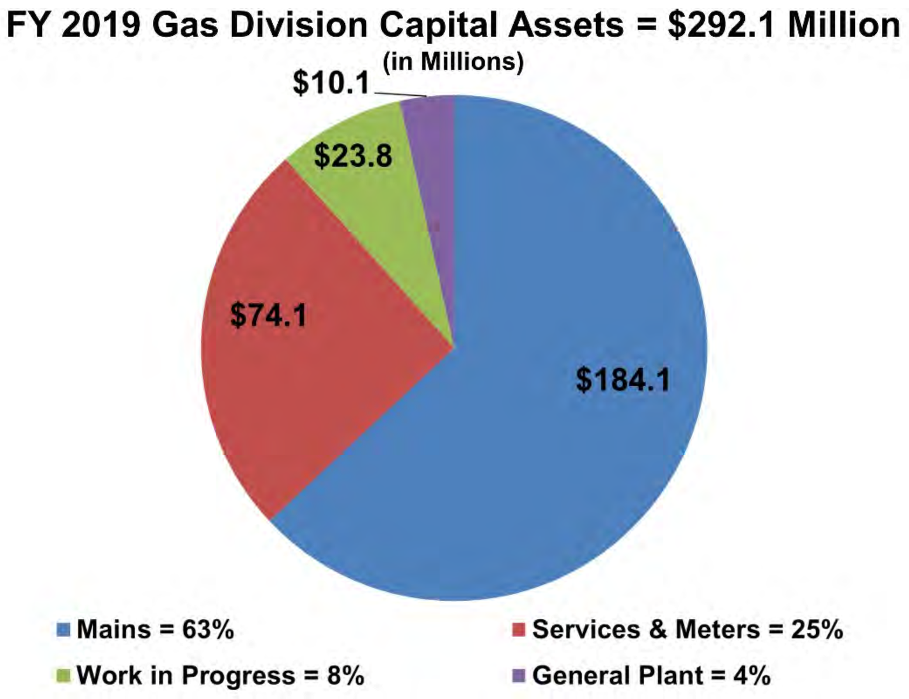
Fiscal Year 2019 Compared to Fiscal Year 2018

As of June 30, 2019, the Division had $292.1 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of $14 million or 5 percent over the end of last fiscal year.



Major capital asset expenditures during the year were as follows:

- $4.7 million for steel mains and services
- $4.6 million for replacement and relocation of gas system assets to accommodate TDOT highway improvement projects
- $4.6 million for service extensions
- $2.5 million for the construction of gas mains
- $2 million for deployment of advanced metering equipment

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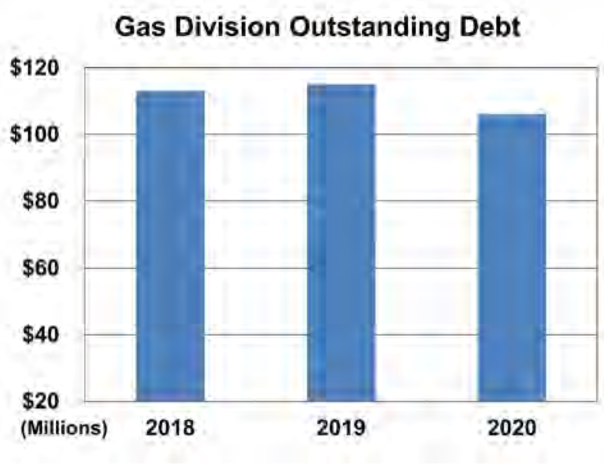
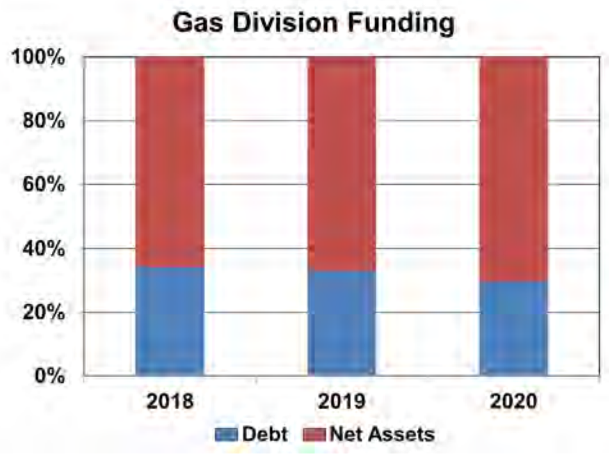
Debt Administration

As of June 30, 2020, the Gas Division had $105.5 million in outstanding gas system bonds. The bonds are secured solely by revenues of the Gas Division. Debt as a percentage of the Division's capital structure represented 29.7 percent in 2020, 32.9 percent in 2019, and 34.1 percent at the end of fiscal year 2018. KUB's Debt Management Policy limits the Division's debt ratio to 60 percent or less.

Outstanding Debt
As of June 30

(in thousands of dollars)	**2020**	**2019**	**2018**
Revenue bonds	$ 105,510	$ 114,940	$ 113,290
Total outstanding debt	$ 105,510	$ 114,940	$ 113,290





The Division will pay $69.6 million in principal payments over the next ten years, representing 66 percent of the outstanding bonds. KUB's Debt Management Policy requires a minimum of 30 percent of gas debt principal be repaid over the next ten years.

Fiscal Year 2020 Compared to Fiscal Year 2019

As of June 30, 2020, the Division had $105.5 million in outstanding debt (including current portions of revenue bonds), compared to $114.9 million last year, representing a decrease of $9.4 million or 8.2 percent. The decrease is attributable to gas system revenue refunding bonds issued during the fiscal year, which included a $2 million cash contribution offset by the refunded bonds and the scheduled repayment of debt. The Division's weighted average cost of debt as of June 30, 2020, was 3.67 percent.

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

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

Fiscal Year 2019 Compared to Fiscal Year 2018

As of June 30, 2019, the Division had $114.9 million in outstanding debt (including current portions of revenue bonds), compared to $113.3 million last year, representing an increase of $1.6 million or 1.5 percent. The increase is attributable to new revenue bonds issued during the fiscal year offset by the scheduled repayment of debt. The Division's weighted average cost of debt as of June 30, 2019, was 3.82 percent (3.66 percent including the impact of Build America Bonds rebates).

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

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2019, the Division's revenue bonds were rated AA by Standard & Poor's and Aa2 by Moody's Investors Service.

Impacts on Future Financial Position

KUB expects to add 1,150 new gas customers in fiscal year 2021.

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

KUB expects to receive reimbursements in fiscal year 2021 from the Federal Emergency Management Agency (FEMA) to partially offset the cost of the 2019 storm and flood event.

The Pension Plan actuarial valuation for the Plan year beginning January 1, 2019 resulted in an actuarially determined contribution of $3,167,680 for the fiscal year ending June 30, 2021, based on the Plan's current funding policy. The Gas Division's portion of this contribution is $538,506. Subsequent to June 30, 2020, the actuarial valuation for the Plan year beginning January 1, 2020 was completed. The actuarial valuation resulted in an actuarially determined contribution of $3,665,168 for the fiscal year ending June 30, 2022, based on the Plan's current funding policy. The Gas Division's portion of this contribution is $623,078. For the Plan year beginning January 1, 2020, the Plan's actuarial funded ratio is 101.61 percent.

The OPEB Plan actuarial valuation as of January 1, 2019 resulted in an actuarially determined contribution of $757,226 for the fiscal year ending June 30, 2021, based on the Plan's current funding policy. The Gas Division's portion of this contribution is $128,728. Subsequent to June 30, 2020, the actuarial valuation as of January 1, 2020 was completed. The actuarial valuation resulted in an actuarially determined contribution of $489,066 for the fiscal year ending June 30, 2022, based on the Plan's current funding policy. The Gas Division's portion of this contribution is $83,141. The Plan's actuarial funded ratio is 97.68 percent.

GASB Statement No. 84, *Fiduciary Activities*, is effective for fiscal years beginning after December 15, 2019. GASB Statement No. 87, *Leases*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period,* is effective for fiscal years beginning after December 15, 2020. GASB Statement No. 90, *Major Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, is effective for fiscal years beginning after December 15, 2019. GASB Statement No. 91, *Conduit Debt Obligations*, is effective for fiscal years beginning after December 15, 2021. GASB Statement No. 92, *Omnibus 2020*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 93, *Replacement of Interbank Offered Rates*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 97, *Certain Component Unit Criteria, and*

Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, is effective for fiscal years beginning after June 15, 2021. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on the Division's financial position or results of operations during fiscal year 2020.

Financial Contact

The Division's financial statements are designed to present users (citizens, customers, investors, and creditors) with a general overview of the Division's financial position and results of operations for the fiscal years ended June 30, 2020 and 2019. If you have questions about the statements or need additional financial information, contact KUB's Chief Financial Officer at 445 South Gay Street, Knoxville, Tennessee 37902.

Knoxville Utilities Board Gas Division
Statements of Net Position
June 30, 2020 and 2019

	2020	2019
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	$ 24,154,798	$ 31,187,947
Short-term contingency fund investments	18,035,654	14,806,601
Other current assets	1,123,260	734,244
Accrued interest receivable	1,041	12,553
Accounts receivable, less allowance of uncollectible accounts of $30,424 in 2020 and $35,670 in 2019	6,090,065	5,938,135
Inventories	890,890	2,073,199
Gas storage	6,296,386	7,251,486
Prepaid expenses	53,533	57,540
Total current assets	56,645,627	62,061,705
Restricted assets:		
Gas bond fund	3,332,601	3,634,403
Other funds	257	4,152
Total restricted assets	3,332,858	3,638,555
Gas plant in service	427,853,251	411,396,942
Less accumulated depreciation	(154,640,730)	(143,148,925)
	273,212,521	268,248,017
Retirement in progress	483,050	328,740
Construction in progress	35,026,235	23,512,964
Net plant in service	308,721,806	292,089,721
Other assets:		
Net pension asset	3,250,634	-
Long-term contingency fund investments	2,286,094	4,478,957
Under recovered purchased gas costs	1,513,434	1,339,422
Other	1,657,551	1,808,314
Total other assets	8,707,713	7,626,693
Total assets	377,408,004	365,416,674
Deferred outflows of resources:		
Pension outflow	1,380,924	2,932,948
OPEB outflow	710,381	423,841
Unamortized bond refunding costs	968,434	887,036
Total deferred outflows of resources	3,059,739	4,243,825
Total assets and deferred outflows of resources	$ 380,467,743	$ 369,660,499

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

Knoxville Utilities Board Gas Division
Statements of Net Position
June 30, 2020 and 2019

	2020	2019
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	$ 6,745,000	$ 6,510,000
Sales tax collections payable	92,249	97,619
Accounts payable	4,042,961	3,369,918
Accrued expenses	1,384,492	1,335,042
Customer deposits plus accrued interest	4,315,982	4,216,102
Accrued interest on revenue bonds	1,219,723	1,464,303
Total current liabilities	17,800,407	16,992,984
Other liabilities:		
Accrued compensated absences	1,923,437	1,731,060
Customer advances for construction	2,112,184	1,809,840
Net pension liability	3,440	1,169,879
Net OPEB liability	1,290,206	246,116
Other	43,461	71,813
Total other liabilities	5,372,728	5,028,708
Long-term debt:		
Gas revenue bonds	98,765,000	108,430,000
Unamortized premiums/discounts	4,893,568	4,193,696
Total long-term debt	103,658,568	112,623,696
Total liabilities	126,831,703	134,645,388
Deferred inflows of resources:		
Pension inflow	3,496,660	653,375
Total deferred inflows of resources	3,496,660	653,375
Total liabilities and deferred inflows of resources	130,328,363	135,298,763
Net position		
Net investment in capital assets	198,777,130	173,773,732
Restricted for:		
Debt service	2,112,878	2,170,100
Other	257	4,152
Unrestricted	49,249,115	58,413,752
Total net position	250,139,380	234,361,736
Total liabilities, deferred inflows, and net position	$ 380,467,743	$ 369,660,499

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

Knoxville Utilities Board Gas Division
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2020 and 2019

	2020	2019
Operating revenues	$ 102,565,268	$ 108,551,679
Operating expenses		
Purchased gas	43,117,323	49,664,494
Distribution	10,099,893	9,757,364
Customer service	2,468,491	2,887,626
Administrative and general	7,556,812	6,804,856
Provision for depreciation	12,910,308	12,877,969
Taxes and tax equivalents	7,629,000	7,863,381
Total operating expenses	83,781,827	89,855,690
Operating income	18,783,441	18,695,989
Non-operating revenues (expenses)		
Contributions in aid of construction	610,598	484,617
Interest income	834,141	1,167,245
Interest expense	(4,177,200)	(4,524,560)
Amortization of debt costs	164,557	157,636
Write-down of plant for costs recovered through contributio	(610,598)	(484,617)
Other	172,705	131,589
Total non-operating revenues (expenses)	(3,005,797)	(3,068,090)
Change in net position before capital contributions	15,777,644	15,627,899
Capital contributions	-	29,791
Change in net position	15,777,644	15,657,690
Net position, beginning of year	234,361,736	218,704,046
Net position, end of year	$ 250,139,380	$ 234,361,736

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

Knoxville Utilities Board Gas Division
Statements of Cash Flows
June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash receipts from customers	$ 101,938,139	$ 108,762,332
Cash receipts from other operations	711,726	1,201,572
Cash payments to suppliers of goods or services	(51,036,805)	(63,240,984)
Cash payments to employees for services	(9,438,485)	(8,617,381)
Payment in lieu of taxes	(6,828,101)	(7,150,052)
Net cash provided by operating activities	35,346,474	30,955,487
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	-	7,899,292
Principal paid on revenue bonds	(8,510,000)	(6,350,000)
Interest paid on revenue bonds	(4,421,780)	(4,509,512)
Acquisition and construction of gas plant	(30,667,633)	(27,862,864)
Changes in gas bond fund, restricted	301,802	(138,381)
Customer advances for construction	324,185	210,925
Proceeds received on disposal of plant	140	1,797
Cash received from developers and individuals for capital purposes	610,598	484,617
Net cash used in capital and related financing activities	(42,362,688)	(30,264,126)
Cash flows from investing activities:		
Purchase of investment securities	(15,814,376)	(6,627,561)
Maturities of investment securities	14,811,150	4,632,545
Interest received	880,433	1,141,072
Other property and investments	105,858	(85,524)
Net cash used in provided by investing activities	(16,935)	(939,468)
Net decrease in cash and cash equivalents	(7,033,149)	(248,107)
Cash and cash equivalents, beginning of year	31,187,947	31,436,054
Cash and cash equivalents, end of year	$ 24,154,798	$ 31,187,947
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 18,783,441	$ 18,695,989
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	13,402,969	13,324,058
Changes in operating assets and liabilities:		
Accounts receivable	(151,930)	719,632
Inventories	1,182,309	645,347
Prepaid expenses	959,107	(215,398)
Other assets	(372,224)	427,234
Sales tax collections payable	(5,370)	5,746
Accounts payable and accrued expenses	1,650,656	(124,925)
Underrecovered gas costs	(174,012)	(2,806,145)
Customer deposits plus accrued interest	99,880	234,155
Other liabilities	(28,352)	49,794
Net cash provided by operating activities	$ 35,346,474	$ 30,955,487
Noncash capital activities:		
Acquisition of plant assets through developer contributions	$ -	$ 29,791

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

1. Description of Business

Knoxville Utilities Board (KUB), comprised of Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions, including setting rates. The Gas Division (Division) provides services to certain customers in Knox County and portions of Anderson and Loudon counties. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Gas Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2020 and 2019, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

2. Significant Accounting Policies

Basis of Accounting

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

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

Recently Adopted New Accounting Pronouncements

In May 2020, the GASB issued GASB Statement No. 95 (Statement No. 95), *Postponement of the Effective Dates of Certain Authoritative Guidance.* The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for fiscal years beginning after June 15, 2018. The requirements of this Statement are effective immediately.

Gas Plant

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

The provision for depreciation of gas plant in service is based on the estimated useful lives of the assets, which range from three to thirty-three years, and is computed using the straight-line method. Pursuant to FERC, the caption "Provision for depreciation" in the Statements of Revenues, Expenses and Changes in Net Position does not include depreciation for transportation equipment of $492,661 in fiscal year 2020 and $446,089 in fiscal year 2019. Under regulatory accounting, interest costs are expensed as incurred with construction of plant assets.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of the KUB Gas Division. Operating revenue is recorded when the service is rendered, on a cycle basis, and includes an estimate of unbilled revenue. Revenues are reported net of bad debt expense of $126,228 in fiscal year 2020 and $102,786 in fiscal year 2019.

Non-operating Revenue

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

Expense

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

Net Position

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

These classifications are defined as follows:

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

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

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

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

OPEB Plan

KUB's employees hired prior to July 1, 1999, who are retired and who (prior to retirement) qualified for retiree medical insurance by meeting the Rule of 80 (age plus years of service) with a minimum of 20 years of service and were enrolled in medical coverage on their last day, are eligible for post-employment health care. KUB's OPEB Trust was established by KUB's Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. KUB's policy is to fully fund the annual actuarially determined contributions, which are determined by actuarial valuation. As required by GASB Statement No. 75, KUB measures net OPEB liability as total OPEB liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2020 and 2019 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a June 30, 2020 and 2019 measurement date, respectively. The net OPEB liability is $7,589,447 (Division's share $1,290,206) as of June 30, 2020 and $1,447,742 (Division's share $246,116) as of June 30, 2019.

Pension Plan and Qualified Excess Benefit Arrangement

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 10). KUB's policy is to fully fund the annual actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2020 and 2019 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a December 31, 2019 and 2018 measurement date, respectively. The net pension asset is $19,121,375 (Division's share $3,250,634) as of June 30, 2020, and the net pension liability was $6,649,756 (Division's share $1,130,459) as of June 30, 2019.

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, 2020 and 2019 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a December 31, 2019 and 2018 measurement date, respectively. The total pension liability of the QEBA is $20,236 (Division’s share $3,440) as of June 30, 2020 and $231,883 (Division’s share $39,420) as of June 30, 2019.

Investments

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

Self-Insurance

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

Estimates

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

Restricted and Designated Assets

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

Cash Equivalents

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

Deferred Outflows and Inflows of Resources

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

Debt Premium/Discount

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

Debt Issuance Costs

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

Deferred Gain/Loss on Refunding of Debt

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

Compensated Absences

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

Subsequent Events

KUB has evaluated events and transactions through October 29, 2020, the date these financial statements were issued, for items that should potentially be recognized or disclosed.

Purchased Gas Adjustment

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

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

Under the PGA mechanism, KUB tracks the actual over/(under) recovered amount in the Over/(Under) Recovered Purchased Gas Cost accounts. These accounts are rolled into the PGA rate adjustment on June 30 of each year thereby ensuring that any over/(under) recovered amounts are passed on to KUB’s gas system customers. The amount of over/(under) recovered cost was ($1,513,434) at June 30, 2020, and ($1,339,422) at June 30, 2019.

Recently Issued Accounting Pronouncements

In January 2017, the GASB issued GASB Statement No. 84 (Statement No. 84), *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 is effective for fiscal years beginning after December 15, 2019.

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

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

In August 2018, the GASB issued GASB Statement No. 90 (Statement No. 90), *Major Equity Interests – an amendment of GASB Statements No. 14 and No. 61.* The objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Statement No. 90 is effective for fiscal years beginning after December 15, 2019.

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

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

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

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

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

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

Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Statement No. 97 is effective for fiscal years beginning after June 15, 2021.

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

3. Deposits and Investments

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

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

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

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

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

Classification of deposits and investments per Statement of Net Position:

	2020	**2019**
Current assets		
Cash and cash equivalents	$ 24,154,798	$ 31,187,947
Short-term contingency fund investments	18,033,524	14,806,601
Other assets		
Long-term contingency fund investments	2,230,654	4,388,736
Restricted assets		
Gas bond fund	3,332,601	3,634,403
Other funds	257	4,152
	$ 47,751,834	$ 54,021,839

The above amounts do not include accrued interest of $57,570 in fiscal year 2020 and $90,221 in fiscal year 2019. 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, 2020:

	Deposit and Investment Maturities (in Years)		
	Fair Value	**Less Than 1**	**1-5**
Supersweep NOW and Other Deposits	$ 25,480,195	$ 25,480,195	$ -
State Treasurer's Investment Pool	11,857,806	11,857,806	-
Agency Bonds	11,738,873	9,508,219	2,230,654
	$ 49,076,874	$ 46,846,220	$ 2,230,654

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, 2020:

- U.S. Agency bonds of $2,230,654, which have a maturity at purchase of greater than one year, are valued using quoted market prices (Level 1 inputs)

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

4. Accounts Receivable

Accounts receivable consists of the following:

	2020	2019
Wholesale and retail customers		
Billed services	$ 4,305,138	$ 4,178,373
Unbilled services	1,495,765	1,490,875
Other	319,586	304,557
Allowance for uncollectible accounts	(30,424)	(35,670)
	$ 6,090,065	$ 5,938,135

5. Accounts Payable and Accruals

Accounts payable and accruals were composed of the following:

	2020	2019
Trade accounts	$ 4,042,961	$ 3,369,918
Salaries and wages	681,052	541,591
Self-insurance liabilities	292,505	324,957
Other current liabilities	410,935	468,494
	$ 5,427,453	$ 4,704,960

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6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2019	Additions	Payments	Defeased	Balance June 30, 2020	Amounts Due Within One Year
P-2010 - 3.3 - 6.2%	$ 10,295,000	$ -	$ 620,000	$ 9,675,000	$ -	$ -
Q-2012 - 2.0 - 4.0%	16,265,000	-	2,260,000	-	14,005,000	2,350,000
R-2012 - 2.0 - 4.0%	8,150,000	-	450,000	-	7,700,000	475,000
S-2013 - 2.0 - 4.0%	9,650,000	-	645,000	-	9,005,000	695,000
T-2013 - 2.0 - 4.6%	22,900,000	-	500,000	-	22,400,000	500,000
U-2015 - 2.0 - 5.0%	10,305,000	-	680,000	-	9,625,000	710,000
V-2016 - 2.125 - 5.0%	11,300,000	-	250,000	-	11,050,000	250,000
W-2017 - 5.0%	6,720,000	-	705,000	-	6,015,000	735,000
X-2017 - 2.0 - 5.0%	11,565,000	-	245,000	-	11,320,000	260,000
Y-2018 - 3.0 - 5.0%	7,790,000	-	155,000	-	7,635,000	160,000
Z-2020 - 4.0 - 5.0%	-	6,755,000	-	-	6,755,000	610,000
Total bonds	$ 114,940,000	$ 6,755,000	$ 6,510,000	$ 9,675,000	$ 105,510,000	$ 6,745,000
Unamortized Premium	4,193,696	1,164,700	397,369	67,459	4,893,568	-
Total long term debt	$ 119,133,696	$ 7,919,700	$ 6,907,369	$ 9,742,459	$ 110,403,568	$ 6,745,000

	Balance June 30, 2018	Additions	Payments	Defeased	Balance June 30, 2019	Amounts Due Within One Year
P-2010 - 3.3 - 6.2%	$ 10,890,000	$ -	$ 595,000	$ -	$ 10,295,000	$ 620,000
Q-2012 - 2.0 - 4.0%	18,455,000	-	2,190,000	-	16,265,000	2,260,000
R-2012 - 2.0 - 4.0%	8,575,000	-	425,000	-	8,150,000	450,000
S-2013 - 2.0 - 4.0%	10,265,000	-	615,000	-	9,650,000	645,000
T-2013 - 2.0 - 4.6%	23,400,000	-	500,000	-	22,900,000	500,000
U-2015 - 2.0 - 5.0%	10,965,000	-	660,000	-	10,305,000	680,000
V-2016 - 2.125 - 5.0%	11,550,000	-	250,000	-	11,300,000	250,000
W-2017 - 5.0%	7,390,000	-	670,000	-	6,720,000	705,000
X-2017 - 2.0 - 5.0%	11,800,000	-	235,000	-	11,565,000	245,000
Y-2018 - 3.0 - 5.0%	-	8,000,000	210,000	-	7,790,000	155,000
Total bonds	$ 113,290,000	$ 8,000,000	$ 6,350,000	$ -	$ 114,940,000	$ 6,510,000
Unamortized Premium	4,510,823	70,169	387,296	-	4,193,696	-
Total long term debt	$ 117,800,823	$ 8,070,169	$ 6,737,296	$ -	$ 119,133,696	$ 6,510,000

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

Fiscal Year	**Principal**	**Total Interest**	**Grand Total**
2021	$ 6,745,000	$ 3,802,180	$ 10,547,180
2022	6,930,000	3,582,735	10,512,735
2023	7,230,000	3,295,336	10,525,336
2024	7,495,000	3,016,873	10,511,873
2025	6,875,000	2,729,173	9,604,173
2026 - 2030	34,295,000	9,778,097	44,073,097
2031 - 2035	19,670,000	4,613,361	24,283,361
2036 - 2040	6,130,000	2,200,962	8,330,962
2041 - 2045	7,150,000	1,194,759	8,344,759
2046 - 2048	2,990,000	164,425	3,154,425
Total	$ 105,510,000	$ 34,377,901	$ 139,887,901

The Division has pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet bond principal and interest payments when due. The requirements for the bonds are being met through monthly deposits to the Gas Bond Fund, as required by the bond covenants. As of June 30, 2020, these bond covenant requirements had been satisfied.

During fiscal year 2019, KUB's Gas Division issued Series Y 2018 bonds to fund gas system capital improvements.

During fiscal year 2020, KUB's Gas Division issued Series Z 2020 bonds to retire a portion of outstanding Series P 2010 bonds as follows. On May 22, 2020, $6.8 million in revenue refunding bonds with an average interest rate of 4.7 percent were issued to currently refund $9.7 million of outstanding bonds with an average interest rate of 6.1 percent. The net proceeds of $9.8 million (after payment of $0.1 million in issuance costs plus premium of $1.1 million and an additional issuer equity contribution of $2 million) were used to refund the bonds. As a result, the bonds are considered to be refunded and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments over the next 12 years by $1.8 million resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $1.3 million.

Other liabilities consist of the following:

	Balance June 30, 2019	**Increase**	**Decrease**	**Balance June 30, 2020**
Accrued compensated absences	$ 1,731,060	$ 2,727,640	(2,535,263)	$ 1,923,437
Customer advances for construction	1,809,840	1,193,128	(890,784)	2,112,184
Other	71,813	70,734	(99,086)	43,461
	$ 3,612,713	$ 3,991,502	$ (3,525,133)	$ 4,079,082

	Balance June 30, 2018	**Increase**	**Decrease**	**Balance June 30, 2019**
Accrued compensated absences	$ 1,577,505	$ 2,830,882	$ (2,677,327)	$ 1,731,060
Customer advances for construction	1,686,824	848,614	(725,598)	1,809,840
Other	22,019	143,433	(93,639)	71,813
	$ 3,286,348	$ 3,822,929	$ (3,496,564)	$ 3,612,713

7. Lease Commitments

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

2021	$ 67,032
2022	17,919
2023	2,650
2024	2,331
2025	2,331
Total operating minimum lease payments	$ 92,263

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8. Capital Assets

Capital asset activity was as follows:

	Balance June 30, 2019	**Increase**	**Decrease**	**Balance June 30, 2020**
Production Plant	$ 14,640	$ -	$ -	$ 14,640
Distribution Plant				
Mains	274,494,508	8,221,680	(1,318,466)	281,397,722
Services and Meters/Regulators	102,041,728	7,233,015	(803,351)	108,471,392
Other Accounts	1,616,728	25,239	(5,000)	1,636,967
Total Distribution Plant	$ 378,152,964	$ 15,479,934	$ (2,126,817)	$ 391,506,081
Total General Plant	33,229,338	3,304,534	(201,342)	36,332,530
Total Plant Assets	$ 411,396,942	$ 18,784,468	$ (2,328,159)	$ 427,853,251
Less Accumulated Depreciation	(143,148,925)	(13,959,978)	2,468,173	(154,640,730)
Net Plant Assets	$ 268,248,017	$ 4,824,490	$ 140,014	$ 273,212,521
Work In Progress	23,841,704	29,756,261	(18,088,680)	35,509,285
Total Net Plant	$ 292,089,721	$ 34,580,751	$ (17,948,666)	$ 308,721,806

	Balance June 30, 2018	**Increase**	**Decrease**	**Balance June 30, 2019**
Production Plant	$ 14,640	$ -	$ -	$ 14,640
Distribution Plant				
Mains	269,916,632	7,029,840	(2,451,964)	274,494,508
Services and Meters/Regulators	93,642,488	10,285,447	(1,886,207)	102,041,728
Other Accounts	1,474,036	148,692	(6,000)	1,616,728
Total Distribution Plant	$ 365,033,156	$ 17,463,979	$ (4,344,171)	$ 378,152,964
Total General Plant	32,490,309	1,100,613	(361,584)	33,229,338
Total Plant Assets	$ 397,538,105	$ 18,564,592	$ (4,705,755)	$ 411,396,942
Less Accumulated Depreciation	(134,622,473)	(13,332,813)	4,806,361	(143,148,925)
Net Plant Assets	$ 262,915,632	$ 5,231,779	$ 100,606	$ 268,248,017
Work In Progress	15,179,815	27,287,408	(18,625,519)	23,841,704
Total Net Plant	$ 278,095,447	$ 32,519,187	$ (18,524,913)	$ 292,089,721

9. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. At June 30, 2020 and June 30, 2019, the amount of these liabilities was $292,505 and $324,957, respectively, resulting from the following changes:

	2020	2019
Balance, beginning of year	$ 324,957	$ 309,857
Current year claims and changes in estimates	2,536,475	2,920,440
Claims payments	(2,568,927)	(2,905,340)
Balance, end of year	$ 292,505	$ 324,957

10. Pension Plan

Description of Plan

The Knoxville Utilities Board Pension Plan (the Plan) is a governmental plan as defined by the Employee Retirement Income Security Act of 1974 (ERISA or the Act), is not subject to any of the provisions of the Act, and was revised January 1, 2020 to include all prior approved amendments. The Plan is a single-employer contributory, defined benefit pension plan established by Knoxville Utilities Board Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville §1107(J). The Plan is designed to provide retirement, disability, and death benefits to KUB employees. KUB administers the Plan through an Administrative Committee consisting of seven KUB employees that are appointed by KUB's President and CEO. Any amendments to the Plan involving costs not approved in the operating budget must be adopted by KUB's Board of Commissioners, upon recommendation by KUB's President and CEO. All other amendments to the Plan may be approved by KUB's President and CEO upon 60 days notification to the Board's Audit and Finance Committee. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017. For purposes of this disclosure, presentation is on a consolidated basis unless division's share is specified.

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

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

	2019	2018
Inactive plan members:		
Terminated vested participants	18	21
Retirees and beneficiaries	592	588
Active plan members	551	592
Total	1,161	1,201

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

Plan Funding

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

Investments

The Plan's investments are held by State Street Bank and Trust Company (the "Trustee"). The Plan's policy in regard to the allocation of invested assets is established by the Retirement System Investment Committee and approved by the KUB Board of Commissioners and may only be amended by the KUB Board of Commissioners. It is the policy of the Retirement System Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Plan's adopted asset allocation policy as of December 31, 2019:

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

Contributions of $2,585,824 and $3,156,661 for 2018 and 2017, respectively, were made during the Plan sponsor's fiscal years ended June 30, 2020 and 2019, respectively. Of these amounts, $439,590 and $536,632 are attributable to the Gas Division. The fiscal year 2020 contribution was determined as part of the January 1, 2018 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability, or death.

Net Pension Liability

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB 68"), which requires measurement of the net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a December 31, 2019 and 2018 measurement date, respectively. The Division's share of the net pension asset at June 30, 2020 is $3,250,634, and the net pension liability at June 30, 2019 is $1,130,459.

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

	2019	2018
Total pension liability	$ 226,818,557	$ 212,157,951
Plan fiduciary net position	(245,939,932)	(205,508,195)
Plan's net pension liability (asset)	$ (19,121,375)	$ 6,649,756
Plan fiduciary net position as a percentage of the total pension liability	108.43%	96.87%

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Changes in Net Pension Liability are as follows:

		Total Pension Liability (a)		Increase (Decrease) Plan Fiduciary Net Position (b)		Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2018	$	212,157,951	$	205,508,195	$	6,649,756
Changes for the year:						
Service cost		6,142,213		-		6,142,213
Interest		16,030,626		-		16,030,626
Changes of Benefits		163,199		-		163,199
Differences between Expected and Actual Experience		(1,054,117)		-		(1,054,117)
Changes of Assumptions		8,473,160		-		8,473,160
Contributions - employer		-		2,871,241		(2,871,241)
Contributions - rollovers		-		3,167,836		(3,167,836)
Contributions - member		-		2,989		(2,989)
Net investment income		-		49,951,894		(49,951,894)
Benefit payments		(15,094,475)		(15,094,475)		-
Administrative expense		-		(467,748)		467,748
Net changes		14,660,606		40,431,737		(25,771,131)
Balances at December 31, 2019	$	226,818,557	$	245,939,932	$	(19,121,375)

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, 2019, rolled forward to December 31, 2019; January 1, 2018, rolled forward to December 31, 2018
Discount rate	7.25% as of December 31, 2019; 7.50% as of December 31, 2018
Salary increase	From 2.50% to 5.65%, based on years of service as of December 31, 2019; from 2.80% to 5.15%, based on years of service as of December 31, 2018
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, 2019; Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA as of December 31, 2018
Inflation	2.5% as of December 31, 2019; 2.8% as of December 31, 2018

The actuarial assumptions used in the December 31, 2019 valuation were based on an actuarial experience study covering the period January 1, 2014 through December 31, 2018. The discount rate was subsequently reduced from 7.5 percent to 7.25 percent as of the December 31, 2019 measurement date. The Plan was amended to provide automatic increases to retirees for benefits limited under Code §415(d), effective January 1, 2020.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013. Subsequent revisions to lump sum and post-disability assumptions were based upon updated experience through December 31, 2015 and to retirement and termination rates and expense assumptions based upon updated experience through December 31, 2016.

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, 2019 and 2018 are summarized in the following table. The real rate of return reported for fixed income is for aggregate fixed income. The Plan has both aggregate and long duration fixed income.

	Long Term Expected Real Rate of Return	
Asset Class	**2019**	**2018**
Domestic equity	5.5%	5.8%
Non-U.S. equity	6.4%	6.9%
Real estate equity	5.9%	6.0%
Debt securities	1.5%	1.7%
Cash and deposits	0.6%	0.7%

Discount rate
The discount rate used to measure the total pension liability was 7.25 percent as of December 31, 2019, and 7.5 percent as of December 31, 2018. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate
The following presents the net pension liability of the Plan as of December 31, 2019, calculated using the discount rate of 7.25 percent, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one percent lower (6.25 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 (surplus)	$ 946,692	$ (19,121,375)	$ (36,452,396)

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

For the year ended June 30, 2020, KUB recognized pension expense of $2,673,376 (Division's share $454,474).

The impact of experience gains or losses and assumption changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2018, this average was 5.00 years. During the measurement year, there was an experience gain of $1,054,117, with $210,822 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $843,295 (Division's share $143,360). Unrecognized experience gains from prior periods were $2,408,388, of which $1,163,381 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,245,007 (Division's share $211,651).

During the measurement year, there was an assumption change loss of $8,473,160, with $1,694,632 of that recognized in the current year and each of the next four years, resulting in a deferred outflow of $6,778,528 (Division's share $1,152,350). Unrecognized assumption change decreases from prior periods were $1,387,733, of which $658,104 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $729,629 (Division's share $124,037).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of $34,889,331, of which $6,977,866 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were $15,614,774, of which $5,418,519 was recognized as an increase in pension expense in the current year. The combination of unrecognized investment gains this year along with the net unrecognized investment losses from prior periods results in a net difference between projected and actual earnings on pension plan investments as of December 31, 2019 of $17,715,210 (Division's share $3,011,586). The following table summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years. In addition, KUB recorded a deferred outflow of resources of $1,292,915 (Division's share $219,795) at June 30, 2020 for employer contributions made between December 31, 2019 and June 30, 2020.

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,088,302
Changes in assumptions	6,778,528	729,629
Net difference between projected and actual earnings on pension plan investments	-	17,715,210
Contributions subsequent to measurement date	1,292,915	-
Total	$ 8,071,443	$ 20,533,141
Division's share	$ 1,372,145	$ 3,490,634

$1,292,915 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, 2021. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2021	$ (4,595,539)
2022	(3,722,647)
2023	57,633
2024	(5,494,060)
Thereafter	-

For the year ended June 30, 2019, KUB recognized pension expense of $4,128,608 (Division's share $701,863).

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, 2017, this average was 5.00 years. During the measurement year, there was an experience gain of $605,649, with $121,129 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $484,520 (Division's share $82,368). Unrecognized experience gains from prior periods were $2,966,120, of which $1,042,251 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,923,868 (Division's share $327,058).

During the measurement year, there were no benefit changes or assumption changes. Unrecognized assumption change decreases from prior periods were $2,045,837, of which $658,103 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,387,733 (Division's share $235,915).

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 $28,364,098, of which $5,672,818 was recognized in the current year and an identical amount will be recognized in each of the next four years. Net unrecognized investment gains from prior periods were $8,925,385, of which $1,848,879 was recognized as a decrease in pension expense in the current year. The combination of unrecognized investment losses 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, 2018 of $15,614,774 (Division's share $2,654,512).

The following table summarizes the current balances of deferred outflows and deferred inflows of resources. In addition, KUB recorded a deferred outflow of resources of $1,578,332 (Division's share $268,316) at June 30, 2019 for employer contributions made between December 31, 2018 and June 30, 2019.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,408,388
Changes in assumptions	-	1,387,733
Net difference between projected and actual earnings on pension plan investments	15,614,774	-
Contributions subsequent to measurement date	1,578,332	-
Total	$ 17,193,106	$ 3,796,121
Division's share	$ 2,922,828	$ 645,341

11. Qualified Excess Benefit Arrangement

Description

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

As of June 30, 2020, there are 532 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. There is currently one member receiving benefits under the QEBA. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the KUB Pension Plan. The KUB Pension Plan was amended to include the provision of QEBA benefits; therefore, amendments to the QEBA require the same authority as amendments to the KUB Pension Plan. As required by federal tax law, the QEBA is unfunded within the meaning of the federal tax laws. KUB may not pre-fund the QEBA to cover future liabilities beyond the current year. KUB has established procedures to pay for these benefits on a pay-as-you-go basis, funded by KUB. There are no assets accumulated in a trust that meets the GASB's criteria.

Total Pension Liability of the QEBA

The below summarizes the disclosures of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"). GASB 73 extends a similar approach of financial reporting to plans meeting specific criteria that are not administered through trusts that GASB 68 established for pension plans. GASB 73 requires measurement of the total pension liability of the QEBA. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a December 31, 2019 and 2018 measurement date, respectively. The Division's share of the total pension liability was $3,440 at June 30, 2020, and $39,420 at June 30, 2019.

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

	2019	**2018**
Total pension liability	$20,236	$231,883
Deferred outflows	(45,559)	(52,287)
Deferred inflows	35,445	47,260
Net impact on Statement of Net Position	$10,122	$226,856
Covered payroll	$40,276,197	$42,150,040
Total pension liability as a % of covered payroll	0.05%	0.55%

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

	Increase (Decrease)	
	Total Pension Liability	
Balances at December 31, 2018	$	231,883
Changes for the year:		
Service cost		-
Interest		9,181
Changes of Benefits		(218,272)
Differences between Expected and Actual Experience		34
Changes of Assumptions		13,342
Benefit payments		(15,932)
Net changes		(211,647)
Balances at December 31, 2019	$	20,236

Actuarial Assumptions

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

Valuation dates	December 31, 2019 and December 31, 2018
Actuarial cost method	Individual entry age
Salary increase	From 2.80% to 5.15%, based on years of service
Mortality	115% and 110% of the Public Sector General Healthy Annuitant Mortality Table (PubG-2010), for males and females, respectively, using the Public Sector General Employee Table for ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of December 31, 2019; Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA as of December 31, 2018

Inflation	2.5% as of December 31, 2019, and 2.8% as of December 31, 2018

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2014 through December 31, 2018. The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013. Subsequent revisions to lump sum and post-disability assumptions were based upon updated experience through December 31, 2015 and to retirement and termination rates and expense assumptions based upon updated experience through December 31, 2016.

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 2.74% at December 31, 2019.

Sensitivity of the total pension liability to changes in the discount rate
The following presents the total pension liability of the QEBA as of December 31, 2019, calculated using the discount rate of 2.74 percent, as well as what the QEBA's total pension liability would be if it were calculated using a discount rate that is one percent lower (1.74 percent) or one percent higher (3.74 percent) than the current rate:

	1% Decrease (1.74%)	Current Discount Rate (2.74%)	1% Increase (3.74%)
QEBA's total pension liability	$ 20,423	$ 20,236	$ 20,053

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

For the year ended June 30, 2020, KUB recognized pension expense of ($199,098) for the QEBA (Division's share $33,847). This amount is not expected to be the same as KUB's contribution to the QEBA ($17,636), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [$10,122 - $226,856 + $17,636].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2018, this average was 5 years. During the measurement year, there was an experience loss of $34, with $7 recognized in the current year and each of the next four years, resulting in a deferred outflow of $27 (Division's share $5). There was a deferred inflow at the end of the measurement year of $21,675 (Division's share $3,685) from experience gains in prior years and a deferred outflow of $5,473 (Division's share $930) from experience losses in prior years.

During the measurement year, the Plan was amended to provide automatic increases to retirees for benefits limited under Code §415(d), resulting in a change in benefits of $218,272 that was recognized in the current year (Division's share $37,106). There was an increase in the total pension liability due to assumption changes of $13,342, with $2,668 recognized in the current year and each of the next four years, resulting in a deferred outflow of $10,674 (Division's share $1,815). There was a deferred inflow at the end of the measurement year of $13,770 (Division's share $2,341) and a deferred outflow of $29,385 (Division's share $4,995) from assumption changes in prior years. In addition, KUB recorded a deferred outflow of resources of $6,083 at June 30, 2020 for contributions between December 31, 2019 and June 30, 2020 (Division's share $1,034).

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

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual experience	$	5,500	$	21,675
Changes in assumptions		40,059		13,770
Contributions subsequent to measurement date		6,083		-
Total	$	51,642	$	35,445
Division's share	$	8,779	$	6,026

$6,083 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total pension liability in the year ended June 30, 2021 (Division's share $1,034). Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:		
2021	$	8,289
2022		8,289
2023		(9,140)
2024		2,676
Thereafter		-

For the year ended June 30, 2019, KUB recognized pension expense of $29,543 for the QEBA (Division's share $5,022). This amount is not expected to be the same as KUB's contribution to the QEBA ($13,312), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [$226,856 - $210,625 + $13,312].

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, 2017, this average was 5 years. During the measurement year, there was an experience gain of $36,125, with $7,225 recognized in the current year and each of the next four years, resulting in a deferred inflow of $28,900 (Division's share $4,913). There was a deferred outflow at the end of the measurement year of $8,210 from experience losses in prior years (Division's share $1,396).

During the measurement year, there were no benefit changes. There was a decrease in the total pension liability due to assumption changes of $22,950, with $4,590 recognized in the current year and each of the next four years, resulting in a deferred inflow of $18,360 (Division's share $3,121). There was a deferred outflow at the end of the measurement year of $44,077 from assumption changes in prior years (Division's share $7,493). In addition, KUB recorded a deferred outflow of resources of $7,242 at June 30, 2019 for contributions between December 31, 2018 and June 30, 2019 (Division's share $1,231).

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	$ 8,210	$ 28,900
Changes in assumptions	44,077	18,360
Contributions subsequent to measurement date	7,242	-
Total	$ 59,529	$ 47,260
Division's share	$ 10,120	$ 8,034

12. Defined Contribution Plan

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

KUB funded 401(k) matching contributions and nonelective contributions of $2,469,273 (Division's share $419,776) and $2,410,201 (Division's share $409,734), respectively, for the years ended June 30, 2020 and 2019.

13. Other Post-Employment Benefits (OPEB)

Description of Trust

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

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

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

	2020	2019
Retirees	555	554
Dependents of retirees	576	550
Eligible active employees	181	288
Total	1,312	1,392

Benefits

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

Contributions and Plan Funding

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

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

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

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

Investments

The Trust holds investments in a balanced fund, which invests in passively managed common trust index funds, managed and sponsored by State Street Global Advisors (SSgA), with an asset allocation mirroring the asset allocation of the Trust and rebalanced monthly. The Trust's Investment Policy was established and may only be amended by the KUB Board of Commissioners. The Trust’s Investment Policy is to invest in a manner that will provide sufficient investment return to meet current and future retiree health benefits, while conforming to all governing State and Federal statutes. It allows investment of Trust assets in any type of security instrument allowed for in T.C.A 8-50-1203. The following was the Trust’s adopted investment target allocations as set forth in the Trust’s Investment Policy as of June 30, 2020:

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

An actuarially determined contribution of $311,324 was made to the OPEB Trust in fiscal year ended June 30, 2020 (Division’s share $52,925). No contribution was made to the OPEB Trust for the fiscal year ended June 30, 2019. These were based on the OPEB Plan’s actuarial valuations as of January 1, 2018, and 2017.

Net OPEB Liability

The below summarizes the disclosures of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“GASB 75”), which requires measurement of the net OPEB liability as total OPEB liability less the amount of the Trust’s fiduciary net position. The amounts reported as of June 30 are based on the reporting date for the KUB Other Post-Employment Benefits Plan which is June 30. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2020 and 2019 and the Total OPEB Liability as of the valuation date, January 1, 2019 updated to June 30, 2020, and January 1, 2018 updated to June 30, 2019, respectively. The Division’s share of the total net OPEB liability was $1,290,206 at June 30, 2020 and $246,116 at June 30, 2019. There was one significant event between the valuation date and the measurement date for June 30, 2020 where the discount rate was reduced from 7.5% to 7.25%.

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

	2020	2019
Total OPEB liability	$ 54,544,240	$ 50,197,938
Plan fiduciary net position	46,954,793	48,750,196
Net OPEB liability	$ 7,589,447	$ 1,447,742
Plan fiduciary net position as a percentage of the total OPEB liability	86.09%	97.12%

Changes in Net OPEB Liability are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2019	$ 50,197,938	$ 48,750,196	$ 1,447,742
Changes for the year:			
Service cost	256,270	-	256,270
Interest	3,672,291	-	3,672,291
Changes of Benefits	(202,408)	-	(202,408)
Differences between Expected and Actual Experience	43,902	-	43,902
Changes of Assumptions	3,604,843	-	3,604,843
Contributions - employer	-	311,324	(311,324)
Contributions - member	-	-	-
Net investment income	-	975,155	(975,155)
Benefit payments	(3,028,596)	(3,028,596)	-
Administrative expense	-	(53,286)	53,286
Net changes	4,346,302	(1,795,403)	6,141,705
Balances at June 30, 2020	$ 54,544,240	$ 46,954,793	$ 7,589,447

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, 2019, updated to June 30, 2020; January 1, 2018, updated to June 30, 2019
Discount rate:	7.25% as of January 1, 2019; 7.5% as of January 1, 2018
Healthcare cost trend rates:	Pre-Medicare: 7.83% grading down to 4.50% over 19 years as of January 1, 2019; 8.00% grading down to 4.50% over 20 years as of January 1, 2018 Medicare: 6.88% grading down to 4.50% over 19 years as of January 1, 2019; 7.00% grading down to 4.50% over 20 years as of January 1, 2018 Administrative expenses: 3.0% per year

Salary increases:	From 2.50% to 5.65%, based on years of service as of January 1, 2019; From 2.80% to 5.15%, based on years of service as of January 1, 2018
Mortality:	115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), for males and females, respectively, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational as of January 1, 2019; Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA as of January 1, 2018
Inflation:	2.5% as of January 1, 2019; 2.8% as of January 1, 2018

The actuarial assumptions used in the January 1, 2019 and January 1, 2018 valuations were based on the results of actuarial experience studies for the periods January 1, 2014 through December 31, 2018 and January 1, 2009 through December 31, 2013, respectively. The discount rate was subsequently reduced to 7.25 percent from 7.50 percent as of January 1, 2020; therefore, the new rate was used to calculate the OPEB liability as of June 30, 2020.

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

	Long Term Expected Real Rate of Return	
Asset Class	**2020**	**2019**
Domestic equity	5.4%	5.5%
International equity	6.4%	6.4%
Real estate equity	5.8%	5.9%
Debt securities	0.2%	1.5%
Cash and deposits	(0.2%)	0.6%

Discount rate

The discount rate used to measure the total OPEB liability was 7.25 percent and 7.5 percent as of June 30, 2020 and 2019, respectively. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate.
The following presents the net OPEB liability of the Trust as of June 30, 2020, calculated using the discount rate of 7.25 percent, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is 1 percent lower (6.25 percent) or 1 percent higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	**Current Discount Rate (7.25%)**	**1% Increase (8.25%)**
Net OPEB liability	$ 12,643,555	$ 7,589,447	$ 3,282,461

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.
The following presents the net OPEB liability of the Trust as of June 30, 2020, as well as what the Trust's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percent lower or 1 percent higher than the current rate:

	1% Decrease	**Baseline Trends**	**1% Increase**
Net OPEB liability	$ 2,482,856	$ 7,589,447	$ 13,485,387

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

For the year ended June 30, 2020, KUB recognized OPEB expense of $4,767,499 (Division's share $810,475).

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was 2.0 years. During the measurement year, there was an experience loss of $43,902, with $21,951 of that recognized in the current year and the remaining amount will be recognized in the next year, resulting in a deferred outflow of resources of $21,951 (Division's share $3,732). Unrecognized experience losses from prior periods were $499,549, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there were benefit changes that decreased the expense by $202,408. There was an increase in the Total OPEB Liability due to assumption changes of $3,604,843, with $1,802,422 of that recognized in the current year and in the next year, resulting in a deferred outflow of $1,802,421 (Division's share $306,412). Unrecognized assumption changes from prior periods were $1,615,800, of which the entire amount is recognized as an increase in OPEB expense in the current year.

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment loss of $2,579,092, of which $515,818 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred outflow of resources as of June 30, 2020 of $2,063,274 (Division's share $350,757). Net unrecognized investment losses from prior periods were $377,831, of which $86,767 was recognized as an increase in OPEB expense in the current year and resulting in a net deferred outflow of $291,064 (Division's share $49,480). The table below summarizes the current balances of deferred outflows and deferred inflows of resources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 21,951	$ -
Changes in assumptions	1,802,421	-
Net difference between projected and actual earnings on OPEB plan investments	2,354,338	-
Total	$ 4,178,710	$ -
Division's share	$ 710,381	$ -

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

Year ended June 30:	
2021	$ 2,426,957
2022	602,586
2023	633,347
2024	515,820
2025	-
Thereafter	-

For the year ended June 30, 2019, KUB recognized OPEB expense of $3,046,377 (Division's share $517,884).

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 $999,098, with $499,549 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 $499,549 (Division's share $84,924). Unrecognized experience losses from prior periods were $662,384, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there were no benefit changes. There was an increase in the Total OPEB Liability due to assumption changes of $3,231,601, with $1,615,801 of that recognized in the current year and in the next year, resulting in a deferred outflow of $1,615,800 (Division's share $274,686). Unrecognized assumption changes from prior periods were ($198,590), 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 $587,645, of which $117,529 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 $123,047, of which $30,762 was recognized as a decrease in OPEB expense in the current year. The combination of unrecognized investment losses this year along with the net unrecognized investment gains from prior periods results in a net difference between projected and actual earnings on OPEB plan investments as of June 30, 2019 of $377,831 (Division's share $64,231). The following table summarizes the current balances of deferred outflows and deferred inflows of resources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 499,549	$ -
Changes in assumptions	1,615,800	-
Net difference between projected and actual earnings on OPEB plan investments	377,831	-
Total	$ 2,493,180	$ -
Division's share	$ 423,841	$ -

14. Related Party Transactions

The Division, in the normal course of operations, is involved in transactions with the City of Knoxville and with other divisions of KUB. Such transactions for the years ended June 30, 2020 and 2019 are summarized as follows:

	2020	2019
City of Knoxville		
Amounts billed by the Division for utilities and related services	$ 724,773	$ 735,158
Payments by the Division in lieu of property tax	3,818,100	3,875,482
Payments by the Division for services provided	27,439	568,679
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	300,025	235,615
Interdivisional rental expense	1,126,977	469,520
Amounts billed to the Division by other divisions for utilities services provided	330,854	306,382

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

	2020	2019
Accounts receivable	$ 9,726	$ 6,335

15. Natural Gas Supply Contract Commitments

For fiscal year 2020, the Gas Division hedged 36 percent of its total gas purchases via gas supply contracts. As of June 30, 2020, the Gas Division had hedged the price on approximately 4 percent of its anticipated gas purchases for fiscal year 2021.

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

Firm obligations related to purchased gas - demand

	2021	**2022**	**2023**	**2024**	**2025**
Transportation					
Tennessee Gas Pipeline	$ 3,343,892	$ 3,381,612	$ 3,381,612	$ 3,381,612	$ 3,381,612
East Tennessee Natural Gas	9,664,040	9,664,040	9,664,040	9,664,040	9,664,040
Texas Eastern	328,500	328,500	328,500	328,500	328,500
Storage					
Tennessee Gas Pipeline	1,600,272	1,600,272	1,600,272	1,600,272	1,600,272
East Tennessee Natural Gas	727,385	727,385	727,385	727,385	727,385
Saltville Natural Gas	2,000,160	2,000,160	1,655,130	620,040	465,030
Bobcat	156,000	162,000	54,000	-	-
Demand Total	$ 17,820,249	$ 17,863,969	$ 17,410,939	$ 16,321,849	$ 16,166,839

Firm obligations related to purchased gas - commodity

	2021	**2022**	**2023**	**2024**	**2025**
Baseload					
ConocoPhillips	$ 279,000	$ -	$ -	$ -	$ -
Shell Energy	460,920	-	-	-	-
CNX Gas	2,367,573	-	-	-	-
NJR Energy Services	1,599,632	-	-	-	-
Commodity Total	$ 4,707,125	$ -	$ -	$ -	$ -

The total commodity values presented here are based upon firm supply obligations with each individual natural gas supplier. The firm obligations value for ConocoPhillips and Shell Energy are based upon firm supply obligations and locked prices with those suppliers. The firm obligations value for CNX Gas and NJR Energy Services are based upon firm supply obligations and the applicable NYMEX strip prices on June 30, 2020.

16. Other Commitments and Contingencies

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

17. Risks and Uncertainties

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

Knoxville Utilities Board Gas Division
Required Supplemental Information - Schedule of Changes in Net Pension Liability and Related Ratios
June 30, 2020

	*Year ended December 31					
	2019	**2018**	**2017**	**2016**	**2015**	**2014**
Total pension liability						
Service cost	$ 6,142,213	$ 5,095,488	$ 4,607,486	$ 4,226,985	$ 4,157,062	$ 4,092,808
Interest	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	(1,054,117)	(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	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)	(15,533,167)
Net change in total pension liability	14,660,606	4,559,218	3,207,995	(111,612)	1,728,586	3,258,298
Total pension liability - beginning	212,157,951	207,598,733	204,390,738	204,502,350	202,773,764	199,515,466
Total pension liability - ending (a)	$ 226,818,557	$ 212,157,951	$ 207,598,733	$ 204,390,738	$ 204,502,350	$ 202,773,764
Plan fiduciary net position						
Contributions - employer	$ 2,871,241	$ 3,456,475	$ 4,286,597	$ 5,243,146	$ 5,991,887	$ 5,908,541
Contributions - participants	3,170,825	2,081,125	1,488,632	555,075	487,546	475,854
Net investment income	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)	22,292,369
Other additions	13,579	62,616	82,239	45,848	30,879	29,733
Benefit payments, including refunds of member contributions	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)	(15,405,167)
Administrative expense	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)	(378,085)
Death benefits	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)	(128,000)
Net change in plan fiduciary net position**	40,431,737	(21,868,910)	22,862,426	5,052,489	(9,333,204)	12,795,245
Plan fiduciary net position - beginning**	205,508,195	227,377,105	204,514,679	199,462,190	208,795,394	196,000,149
Plan fiduciary net position - ending (b)**	$ 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)	$ (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	108.43%	96.87%	109.53%	100.06%	97.54%	102.97%
Covered payroll	$ 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	(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.

Knoxville Utilities Board Gas Division
Required Supplementary Information – Schedule of Employer Pension Contributions
June 30, 2020

	*Year ended December 31					
	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 2,871,241	$ 3,456,475	$ 4,286,597	$ 5,243,146	$ 5,991,887	$ 5,908,541
Contribution in relation to the actuarially determined contribution	2,871,241	3,456,475	4,286,597	5,243,146	5,991,887	5,908,541
Contribution deficiency	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 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	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, 2018 and January 1, 2017

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 23 years remaining (24 years as of January 1, 2017), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2018, the unfunded liability was negative.
Discount rate:	7.5%
Salary increases:	2.80% to 5.15%, based on years of service
Mortality:	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation:	2.8%

* 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.

Knoxville Utilities Board Gas Division
Required Supplementary Information – Schedule of Changes in Net OPEB Liability and Related Ratios
June 30, 2020

	*Year ended June 30 2020	2019	2018
Total OPEB liability			
Service cost	$ 256,270	$ 270,515	$ 202,603
Interest	3,672,291	3,624,737	3,295,240
Change of benefit terms	(202,408)	-	-
Differences between expected and actual experience	43,902	999,098	1,324,769
Changes of assumptions	3,604,843	3,231,601	(397,180)
Benefit payments	(3,028,596)	(3,532,444)	(3,298,739)
Net change in total OPEB liability	4,346,302	4,593,507	1,126,693
Total OPEB liability - beginning	50,197,938	45,604,431	44,477,738
Total OPEB liability - ending (a)	$ 54,544,240	$ 50,197,938	$ 45,604,431
Plan fiduciary net position			
Contributions - employer	$ 311,324	$ -	$ -
Net investment income	975,155	2,981,928	3,705,473
Benefit payments	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	(53,286)	(54,787)	(51,668)
Net change in plan fiduciary net position	(1,795,403)	(605,303)	355,066
Plan fiduciary net position - beginning	48,750,196	49,355,499	49,000,433
Plan fiduciary net position - ending (b)	$ 46,954,793	$ 48,750,196	$ 49,355,499
Net OPEB liability (asset) - ending (a) - (b)	$ 7,589,447	$ 1,447,742	$ (3,751,068)
Plan fiduciary net position as a percentage of the total OPEB liability	86.09%	97.12%	108.23%
Covered employee payroll	$ 23,363,536	$ 24,346,735	$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	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.

Knoxville Utilities Board Gas Division
Required Supplementary Information – Schedule of Employer OPEB Contributions
June 30, 2020

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

Notes to Schedule:

Valuation Date:	January 1, 2018 and January 1, 2017
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 18 years remaining as of January 1, 2018 (19 years as of January 1, 2017), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2018, the unfunded liability was negative
Discount rate:	7.5%
Healthcare cost trend rate:	Pre-Medicare: 8% grading down to 4.5% over 20 years as of January 1, 2018; 7.83% to 4.5% over 19 years as of January 1, 2017 Medicare: 7% grading down to 4.5% over 20 years as of January 1, 2018; 6.88% to 4.5% over 19 years as of January 1, 2017 Administrative expenses: 3.0% per year
Salary increases:	From 2.8% to 5.15%, based on years of service
Mortality:	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation:	2.8%
Investment rate of return:	7.5%
Retirement age:	2% at ages 50-57 at January 1, 2018 and January 1, 2017, respectively, 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.

Knoxville Utilities Board Gas Division
Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement
Schedule of Changes in Total Pension Liability and Related Ratios
June 30, 2020

	*Year ended December 31			
	2019	2018	2017	2016
Total pension liability				
Service cost	$ -	$ 941	$ 584	$ -
Interest (includes interest on service cost)	9,181	9,676	7,535	-
Changes of benefit terms	(218,272)	-	-	185,077
Differences between expected and actual experience	34	(36,125)	13,684	-
Changes of assumptions	13,342	(22,950)	73,461	-
Benefit payments, including refunds of member contributions	(15,932)	-	-	-
Net change in total pension liability	(211,647)	(48,458)	95,264	185,077
Total pension liability - beginning	231,883	280,341	185,077	-
Total pension liability - ending	$ 20,236	$ 231,883	$ 280,341	$ 185,077
Covered payroll	$ 40,276,197	$ 42,150,040	$ 43,309,374	$ 44,437,747
Total pension liability as a percentage of covered payroll	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.

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Federal Awards and State Financial Assistance
June 30, 2020

Federal Grantor/ Pass-Through Grantor	Program Name	CFDA Number	Pass-Through Entity Identifying Number	Expenditures
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	PA-04-TN-4427-PW-00434	$ 105,150
		Total Program 97.036		$ 105,150
		Total Federal Awards		$ 105,150

NOTE 1 - BASIS OF PRESENTATION

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

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2020

Continued on Next Page

	Q-2012		R-2012		S-2013		T-2013		U-2015		V-2016	
FY	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
20-21	2,350,000	524,748	475,000	222,781	695,000	277,100	500,000	936,825	710,000	323,387	250,000	335,094
21-22	2,445,000	430,748	475,000	203,781	715,000	249,300	500,000	916,825	740,000	287,887	275,000	322,594
22-23	2,540,000	332,948	500,000	184,781	730,000	227,850	500,000	901,825	795,000	250,888	300,000	308,844
23-24	2,645,000	231,348	525,000	169,781	745,000	205,950	500,000	886,200	805,000	233,000	325,000	293,844
24-25	760,000	125,548	550,000	159,281	790,000	183,600	1,550,000	869,950	845,000	208,850	325,000	280,844
25-26	780,000	102,748	575,000	142,781	800,000	159,900	1,600,000	813,763	880,000	183,500	350,000	267,844
26-27	800,000	79,348	575,000	130,560	840,000	135,900	1,650,000	749,763	895,000	154,900	350,000	253,844
27-28	830,000	54,348	600,000	117,625	875,000	110,700	1,700,000	683,763	985,000	123,573	375,000	243,344
28-29	855,000	27,788	625,000	99,625	905,000	84,450	1,750,000	615,763	975,000	89,100	375,000	232,094
29-30			650,000	84,000	940,000	57,300	1,950,000	543,575	955,000	59,850	375,000	220,844
30-31			675,000	64,500	970,000	29,100	2,000,000	460,700	1,040,000	31,200	400,000	212,875
31-32			725,000	44,250			2,000,000	373,200			400,000	203,875
32-33			750,000	22,500			2,000,000	283,200			425,000	194,375
33-34							2,100,000	193,200			425,000	183,750
34-35							2,100,000	96,600			425,000	173,125
35-36											450,000	162,500
36-37											450,000	150,686
37-38											475,000	138,312
38-39											475,000	125,250
39-40											500,000	112,188
40-41											525,000	98,438
41-42											525,000	84,000
42-43											550,000	68,250
43-44											550,000	51,750
44-45											575,000	35,250
45-46											600,000	18,000
46-47												
47-48												
Total	$ 14,005,000	$ 1,909,572	$ 7,700,000	$ 1,646,246	$ 9,005,000	$ 1,721,150	$ 22,400,000	$ 9,325,152	$ 9,625,000	$ 1,946,135	$ 11,050,000	$ 4,771,814

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2020

Continued from Previous Page

	W-2017		X-2017		Y-2018		Z-2020		Totals		Grand Total (P + I)
FY	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	
20-21	735,000	300,750	260,000	367,669	160,000	267,531	610,000	246,295	6,745,000	3,802,180	10,547,180
21-22	780,000	264,000	270,000	354,669	170,000	259,531	560,000	293,400	6,930,000	3,582,735	10,512,735
22-23	815,000	225,000	285,000	341,169	180,000	251,031	585,000	271,000	7,230,000	3,295,336	10,525,336
23-24	850,000	184,250	300,000	326,919	185,000	243,831	615,000	241,750	7,495,000	3,016,873	10,511,873
24-25	900,000	141,750	315,000	311,919	195,000	236,431	645,000	211,000	6,875,000	2,729,173	9,604,173
25-26	940,000	96,750	330,000	296,168	200,000	228,631	675,000	178,750	7,130,000	2,470,835	9,600,835
26-27	995,000	49,750	340,000	286,268	210,000	220,631	710,000	145,000	7,365,000	2,205,964	9,570,964
27-28			345,000	279,469	215,000	214,331	745,000	109,500	6,670,000	1,936,653	8,606,653
28-29			355,000	272,138	220,000	207,881	785,000	72,250	6,845,000	1,701,089	8,546,089
29-30			360,000	263,706	230,000	201,281	825,000	33,000	6,285,000	1,463,556	7,748,556
30-31			375,000	252,906	235,000	194,381			5,695,000	1,245,662	6,940,662
31-32			385,000	241,656	240,000	187,331			3,750,000	1,050,312	4,800,312
32-33			395,000	230,106	250,000	180,131			3,820,000	910,312	4,730,312
33-34			410,000	218,256	260,000	172,319			3,195,000	767,525	3,962,525
34-35			420,000	205,956	265,000	163,869			3,210,000	639,550	3,849,550
35-36			435,000	193,356	275,000	155,256			1,160,000	511,112	1,671,112
36-37			445,000	180,306	285,000	146,319			1,180,000	477,311	1,657,311
37-38			460,000	166,956	295,000	136,700			1,230,000	441,968	1,671,968
38-39			475,000	152,582	305,000	126,744			1,255,000	404,576	1,659,576
39-40			490,000	137,738	315,000	116,069			1,305,000	365,995	1,670,995
40-41			505,000	122,425	325,000	105,044			1,355,000	325,907	1,680,907
41-42			520,000	106,644	335,000	93,669			1,380,000	284,313	1,664,313
42-43			535,000	90,394	350,000	81,944			1,435,000	240,588	1,675,588
43-44			550,000	73,675	360,000	69,694			1,460,000	195,119	1,655,119
44-45			570,000	56,488	375,000	57,094			1,520,000	148,832	1,668,832
45-46			585,000	38,675	385,000	43,500			1,570,000	100,175	1,670,175
46-47			605,000	19,662	400,000	29,544			1,005,000	49,206	1,054,206
47-48					415,000	15,044			415,000	15,044	430,044
Total	$ 6,015,000	$ 1,262,250	$ 11,320,000	$ 5,587,875	$ 7,635,000	$ 4,405,762	$ 6,755,000	$ 1,801,945	$ 105,510,000	$ 34,377,901	$ 139,887,901

Knoxville Utilities Board Gas Division
Supplemental Information - Schedule of Changes in Long-term Debt by Individual Issue
June 30, 2020

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding Balance 7/1/2019	Issued During Period	Paid/Matured During Period	Refunded During Period	Outstanding Balance 6/30/2020
Business-Type Activities									
BONDS PAYABLE									
Payable through Gas Fund									
Revenue Bond, Series P-2010	12,000,000	3.3-6.2	12/08/10	03/01/32	$ 10,295,000	$	$ 620,000	$ 9,675,000	$ -
Revenue Bond Refunding, Series Q-2012	24,920,000	2.0-4.0	04/20/12	03/01/29	16,265,000		2,260,000		14,005,000
Revenue Bond, Series R-2012	10,000,000	2.0-4.0	12/18/12	03/01/33	8,150,000		450,000		7,700,000
Revenue Bond Refunding, Series S-2013	11,580,000	2.0-4.0	03/15/13	03/01/31	9,650,000		645,000		9,005,000
Revenue Bond, Series T-2013	25,000,000	2.0-4.6	10/01/13	03/01/35	22,900,000		500,000		22,400,000
Revenue Bond Refunding, Series U-2015	11,780,000	2.0-5.0	05/01/15	03/01/31	10,305,000		680,000		9,625,000
Revenue Bond, Series V-2016	12,000,000	2.125-5.0	08/05/16	03/01/46	11,300,000		250,000		11,050,000
Revenue Bond Refunding, Series W-2017	8,065,000	5.0	04/07/17	03/01/27	6,720,000		705,000		6,015,000
Revenue Bond, Series X-2017	12,000,000	2.0-5.0	09/15/17	03/01/47	11,565,000		245,000		11,320,000
Revenue Bond, Series Y-2018	8,000,000	3.0-5.0	09/14/18	03/01/48	7,790,000		155,000		7,635,000
Revenue Bond Refunding, Series Z-2020	6,755,000	4.0-5.0	05/22/20	03/01/30	-	6,755,000	-		6,755,000
					$ 114,940,000	$ 6,755,000	$ 6,510,000	$ 9,675,000	$ 105,510,000

Knoxville Utilities Board Gas Division
Statistical Information - Schedule of Insurance in Force
June 30, 2020
(Unaudited)

Insurance coverage is for KUB as a consolidated entity.

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

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

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

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

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

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

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

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

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

Employee Health Plan Stop Loss Coverage
KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses in excess of $575,000 per individual participant.

Knoxville Utilities Board Gas Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2020
(Unaudited)

Rate Class	Base Charge	Number of Customers
Residential (G-2)	For the regular monthly billing period for the months of November to April, inclusive: Customer charge per month $10.90 First 30 therms per month at $0.9437 per therm Excess over 30 therms per month at $0.7315 per therm For the regular monthly billing periods for the months of May to October, inclusive: Customer charge per month $10.90 First 50 therms per month $0.7650 per therm Excess over 50 therms per month at $0.6464 per therm	94,852
Commercial (G-4)	Available to any commercial or industrial customer: Customer charge per month $31.00 First 250 therms per month at $0.9188 per therm Excess over 250 therms per month at $0.7997 per therm	9,332
Commercial (G-6)	Available to any commercial or industrial customer incurring a demand of twenty-seven therms or more during the current monthly billing period or during any of the eleven net preceding monthly billing periods. The net rate is the sum of the following demand and commodity charges: Customer charge: $185.00 per month Demand charge: $2.05 per therm of demand Commodity charge: First 30,000 therms per month at $0.5564 per therm Excess over 30,000 therms per month at $0.4584 per therm	223
Industrial (G-7)	Service under Rate Schedule G-7 shall be available to any customer who meets the following conditions: (a) Customer's annual Interruptible Gas use, on an actual or projected basis, shall not be less than 25,000 dekatherms; (b) Customer shall be permitted to purchase only one (1) dekatherm of Firm Gas under Rate Schedule G-7 for each two (2) dekatherms of Interruptible Gas which are purchased; (c) Customer must have standby equipment of sufficient capacity capable of providing the customer's normal gas service requirements for a period of five (5) working days without replenishment when Interruptible Gas is completely interrupted. Customer shall maintain such equipment ready for operation at any time and shall utilize a fuel other than gas furnished by KUB and shall be subject to periodic inspections by KUB to ensure compliance with this provision; and (d) KUB must determine that its existing distribution system facilities are adequate and available for the requested service.	10

Knoxville Utilities Board Gas Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2020
(Unaudited)

Rate Class	Base Charge	Number of Customers

The net rate is the sum of the following demand and commodity charges:

Customer charge:	$575.00 per month
Demand charge:	$20.50 per month per dekatherm of demand
Commodity charge:	(a) Firm Gas - $4.584 per dekatherm (b) Interruptible Gas - (i) First 3,000 dekatherms per month at $4.275 per dekatherm; excess of 3,000 to 20,000 dekatherms per month at $3.652 per dekatherm; plus excess over 20,000 to 50,000 dekatherms per month at $2.821 per dekatherm; excess over 50,000 dekatherms per month at $2.541 per dekatherm (c) Supplemental Gas - The Commodity Charge for Supplemental Gas shall be the total of: (a) the cost per dekatherm to KUB for the applicable Day of acquiring Supplemental Gas on the open market, subject to the approval of the Customer to purchase Supplemental Gas at or above such price and (b) the costs incurred by KUB in transporting such Supplemental Gas via connecting pipelines to one or more of KUB's delivery points.
Transportation charge:	$2.449 per dekatherm for the first 3,000 dekatherms of gas Redelivered plus Unauthorized Gas; plus $1.826 per dekatherm for each dekatherm from 3,000 to and including 20,000 dekatherms of gas Redelivered plus Unauthorized Gas; plus $.995 per dekatherm for each dekatherm from 20,000 to and including 50,000 dekatherms of gas Redelivered plus Unauthorized Gas; plus $.715 per dekatherm for the excess over 50,000 dekatherms of gas Redelivered plus Unauthorized Gas.
Unauthorized Gas charge:	$25.00 per dekatherm of Unauthorized Gas as a penalty, plus the total of: (a) the cost per dekatherm of obtaining such gas on the open market as determined by the higher of (1) the applicable Gulf Coast Price Index for the applicable Day as published in *Gas Daily* or, if *Gas Daily* is no longer published, in a comparable reliable source for natural gas prices or (2) the applicable first of the month Gulf Coast Price Index as published in *Inside FERC*, or if *Inside FERC* is no longer published, in a comparable reliable source for natural gas prices and (b) the costs incurred by KUB in transporting such Unauthorized Gas via connecting pipelines to one or more of KUB's delivery points.

Knoxville Utilities Board Gas Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2020
(Unaudited)

Rate Class	**Base Charge**	**Number of Customers**
G-11	Service under Rate Schedule G-11 shall be available to any customer who meets the following conditions: (a) Customer's annual gas usage (excluding Firm Gas), on an actual or projected basis, shall not be less than 25,000 dekatherms; (b) Customer shall be permitted to purchase only one (1) dekatherm of Firm Gas under Rate Schedule G-11 for each two (2) dekatherms of Transport Gas delivered by KUB to the Customer; (c) Customer must have standby equipment of sufficient capacity capable of providing the customer's normal gas service requirements for a period of five (5) working days without replenishment when Transport Gas is completely interrupted. Customer shall maintain such equipment ready for operation at any time and shall utilize a fuel other than gas furnished by KUB and shall be subject to periodic inspections by KUB to ensure compliance with this provision; (d) Customer's use under this rate shall not work a hardship on any other customers of KUB, nor adversely affect any other class of KUB's customers and further provided the Customer's use under this rate shall not adversely affect KUB's gas purchase plans and/or effective utilization of the daily demands under KUB's gas purchase contracts with its suppliers, as solely determined by KUB. (e) KUB must determine that its existing distribution system facilities are adequate and available for the requested service; and (f) Customer must execute a Transportation Service Agreement for interruptible transportation gas service. The net rate is the sum of the following charges: Customer charge: $750.00 Demand charge: $20.50 per dekatherm of demand Firm Gas charge: $4.584 per dekatherm Transportation charge: $2.449 per dekatherm for the first 3,000 dekatherms of non-Firm gas delivered to Customer; plus $1.826 per dekatherm for each dekatherm from 3,000 to and including 20,000 dekatherms of non-Firm gas delivered to Customer; plus $.995 per dekatherm for each dekatherm from 20,000 to and including 50,000 dekatherms of non-Firm gas delivered to Customer; plus $.715 per dekatherm for the excess over 50,000 dekatherms of non-Firm gas delivered to Customer. Unauthorized Gas charge: $25.00 per dekatherm of Unauthorized Gas as a penalty, plus (a), the total cost per dekatherm of obtaining such gas on the open market, as defined below, plus (b), the costs incurred by KUB in transporting such Unauthorized Gas via connecting pipelines to one or more of KUB's delivery points. The cost per dekatherm of obtaining such gas on the open market, (a) above, is defined as an index price based on the High Common price for "Transco zone 5 delivered" or "Tennessee 500 Leg," whichever is higher for the applicable Day as published in *Gas Daily.* If *Gas Daily* is no longer published, or one of the aforementioned indeces is not published, or for any other reason as determined by KUB, KUB will select an industry recognized index at its sole discretion. Other charges: Imbalance Charges, and any pipeline scheduling, balancing, transportation, or other similar charges incurred by KUB in connection with the transportation of gas on behalf of the Customer, as applicable.	13

Knoxville Utilities Board Gas Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2020
(Unaudited)

Rate Class	Base Charge	Number of Customers
G-12	Service under Rate Schedule G-12 shall be available to any customer when the following conditions are met: (a) Customer's annual gas usage, on an actual or projected basis, shall not be less than 12,500 dekatherms; (b) KUB must determine that its existing distribution system facilities are adequate and available for the requested service; (c) Customer must execute a Transportation Service Agreement for firm transportation gas service; and (d) Customer's use under this rate shall not work a hardship on any other customers of KUB, nor adversely affect any other class of KUB's customers and further provided the Customer's use under this rate shall not adversely affect KUB's gas purchase plans and/or effective utilization of the daily demands under KUB's gas purchase contracts with its suppliers, as solely determined by KUB. The net rate is the sum of the following charges: Customer charge: $750.00 Demand charge: $6.60 per dekatherm of demand Transportation charge: $2.768 per dekatherm for the first 3,000 dekatherms of gas delivered to Customer; plus $1.977 per dekatherm for each dekatherm from 3,000 to and including 20,000 dekatherms of gas delivered to Customer; plus $1.057 per dekatherm for each dekatherm from 20,000 to and including 50,000 dekatherms of gas delivered to Customer; plus $.956 per dekatherm for the excess over 50,000 dekatherms of gas delivered to Customer. Unauthorized Gas charge: $25.00 per dekatherm of Unauthorized Gas as a penalty, plus (a), the total cost per dekatherm of obtaining such gas on the open market, as defined below, plus (b), the costs incurred by KUB in transporting such Unauthorized Gas via connecting pipelines to one or more of KUB's delivery points. The cost per dekatherm of obtaining such gas on the open market, (a) above, is defined as an index price based on the High Common price for "Transco zone 5 delivered" or "Tennessee 500 Leg," whichever is higher for the applicable Day as published in *Gas Daily.* If *Gas Daily* is no longer published, or one of the aforementioned indeces is not published, or for any other reason as determined by KUB, KUB will select an industry recognized index at its sole discretion. Other charges: Imbalance Charges, and any pipeline scheduling, balancing, transportation, or other similar charges incurred by KUB in connection with the transportation of gas on behalf of the Customer, as applicable.	3

9717 Cogdill Road
Suite 201
Knoxville, TN 37932

C&J COULTER & JUSTUS, P.C.

phone: (865) 637-4161
fax: (865) 524-2952
web: cj-pc.com

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Gas Division (the Division) of the Knoxville Utilities Board, a component unit of the City of Knoxville, Tennessee, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Division’s basic financial statements, and have issued our report thereon dated October 29, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Division’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Division’s internal control.

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Coulter & Justus, P.C.

Knoxville, Tennessee
October 29, 2020

Knoxville Utilities Board Gas Division
Schedule of Findings and Questioned Costs
June 30, 2020

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

2019-03

In May 2019, it was discovered that an employee in the KUB Gas Engineering Department in the Gas Division had falsified timesheets resulting in $2,740.50 of overpayments for false time reported. The employee resigned in lieu of termination. The employee paid full restitution of $2,740.50 to KUB.

Water Division

Financial Statements and Supplemental Information
June 30, 2020 and 2019

KUB Board of Commissioners

Management

Knoxville Utilities Board Water Division
Index
June 30, 2020 and 2019

9717 Cogdill Road
Suite 201
Knoxville, TN 37932

COULTER & JUSTUS, P.C.

phone: (865) 637-4161
fax: (865) 524-2952
web: cj-pc.com

Independent Auditor's Report

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

We have audited the accompanying financial statements of the Water Division (the Division) of the Knoxville Utilities Board, a component unit of the City of Knoxville, Tennessee, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the index.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Division of the Knoxville Utilities Board as of June 30, 2020 and 2019, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 25 and the required supplementary information on pages 62 through 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Division's basic financial statements. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

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

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water Division and do not purport to, and do not, present fairly the financial position of the Knoxville Utilities Board, as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2020, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.

Coulter & Justus, P.C.

Knoxville, Tennessee
October 29, 2020

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. The Water Division (Division) provides services to certain customers in Knox County and in two surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners (NARUC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Water Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2020 and 2019, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Division's Management Discussion and Analysis (MD&A) focuses on the fiscal year ended June 30, 2020 activities, resulting changes and current known facts, and should be read in conjunction with the Division's financial statements.

Water Division Highlights

System Highlights

KUB serves 80,961 water system customers over a 188 square mile service area. KUB maintains 1,410 miles of service mains, 28 storage facilities, 25 booster pump stations, and one treatment plant, which provided 12.7 billion gallons of water to KUB's water customers in fiscal year 2020. The average daily flow for fiscal year 2020 was 34.8 million gallons.

For the second year in a row, KUB's system was impacted by excessive rainfall. After record setting levels in 2019, KUB experienced sustained rainfall amounts exceeding Knoxville's ten-year average for eight months of fiscal year 2020. Despite the record rainfall levels, KUB's water system functioned well. The excess rainfall levels resulted in higher costs at KUB's treatment plant, as intake water required additional treatment.

During March 2020, a global pandemic was declared related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). The pandemic has significantly impacted the economic conditions across the nation.

As a result of the pandemic, KUB quickly responded with changes to lessen the economic burden on customers by deferring proposed rate increases and suspending disconnections for nonpayment. To offset the reduced revenues, KUB delayed projects to create more financial liquidity. KUB plans to enroll customers with past due balances in repayment plans and resume disconnects for nonpayment.

The water system has added 1,519 customers over the past three years representing annual growth of less than one percent. In fiscal year 2020, 512 customers were added.

The Division generated $3.3 million of additional revenue during the fiscal year as a result of the July 2019 water rate increase, which was adopted by the KUB Board to help fund the Division's Century II infrastructure program.

The typical residential water customer's average monthly bill was $27.95 as of June 30, 2020 (based on monthly use of 500 cubic feet or 3,740 gallons). The monthly bill increased 6.5 percent or $1.50 compared to the prior fiscal year, the result of the July 2019 water rate increase.

Water sales volumes have been impacted by more efficient appliances and the conservation efforts of customers. Based on historical trends, water sales volumes are anticipated to have an annual decline of one percent per year for both residential and non-residential customers.

Century II Infrastructure Program

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

In fiscal year 2015, KUB concluded the smart grid pilot project, of which a portion of the project was funded by a United States Department of Energy Smart Grid Investment Grant (SGIG). This grant was received by KUB in 2009 as part of the American Reinvestment and Recovery Act (ARRA). Based upon the success of that pilot, KUB formed a plan to move forward with a Century II Grid Modernization initiative, which includes advanced metering for all KUB customers, a telecommunication system linking critical KUB infrastructure, and an increased investment in automation technology to help operate KUB's energy and water distribution systems. Over the course of ten years, KUB plans to spend $124.4 million in this effort, of which the Water Division's share is $25.1 million. The deployment is funded in large part by debt issues and system revenues. In fiscal year 2020, KUB completed the final year of the four-year advanced meter deployment, spending $20.9 million. The project was completed on time and under budget.

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

In June 2017, the Board approved the next phase of water rate increases to support the Century II program. The three approved water rate increases went into effect July 2017, July 2018, and July 2019 generating $3.1 million, $3.1 million, and $3.3 million in additional annual Water Division revenue, respectively.

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

KUB remains on track with its Century II water system infrastructure program. In fiscal year 2020, KUB replaced 8.1 miles of galvanized water main and 5.7 miles of cast iron main while staying within the Water Division's total capital budget.

KUB is currently in the process of implementing a Water Plant Redundancy initiative to ensure that high quality, reliable water service will be provided to customers over the long term. KUB maintains a single water treatment plant for its system. In lieu of building a second treatment facility to ensure capacity will be available to meet the needs of current and future water customers, KUB will invest approximately $149 million in various redundant facilities at the site of its existing Mark B. Whitaker Water Treatment Plant over a 15-year period that began in fiscal year 2017. Construction of a new generator building with three 2,500 kW diesel generators and associated switchgear is nearing completion at the Mark B. Whitaker Water Treatment Plant. Startup is scheduled for October 2020.

Financial Highlights

Fiscal Year 2020 Compared to Fiscal Year 2019

The Division’s net position increased $14.3 million in fiscal year 2020, which was $4.1 million higher than the prior fiscal year. Comparatively, net position increased $10.2 million in fiscal year 2019.

Operating revenue increased $4.4 million or 7.6 percent, the result of additional revenue from the water rate increase effective July 2019.

Operating expenses decreased $1.4 million or 3.3 percent. Operating and maintenance expenses (O&M) decreased $1 million compared to the prior year. Depreciation expense was $0.3 million lower than the prior year. Taxes and tax equivalents were $0.1 million lower than the prior year.

Interest income was consistent with the prior fiscal year. Interest expense was $0.3 million higher than the prior year, due to interest expense on new revenue bonds sold during the fiscal year.

Capital contributions were $0.5 million lower than the prior fiscal year, the result of a decrease in assets contributed by developers.

Total plant assets (net) increased $22.6 million or 6.6 percent due to treatment plant improvements, water main replacements, and system improvements.

During fiscal year 2020, KUB sold $20 million in water system revenue bonds for the purpose of funding water system capital improvements and also sold $19.5 million in water system revenue refunding bonds for the purpose of refinancing existing water system revenue bonds at lower interest rates. KUB will realize a total debt service savings of $3.9 million over the life of the bonds ($3.1 million on a net present value basis).

Long-term debt represented 50.3 percent of the Division’s capital structure as of June 30, 2020, as compared to 50.6 percent last year. Capital structure equals long-term debt (which includes the current and long-term portion of revenue bonds) plus net position.

The Division’s bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division’s outstanding bonds. Current year debt coverage for the fiscal year was 2.53. Maximum debt service coverage was 2.48.

Fiscal Year 2019 Compared to Fiscal Year 2018

The Division’s net position increased $10.2 million in fiscal year 2019, which was $2 million higher than the prior fiscal year. Comparatively, net position increased $8.2 million in fiscal year 2018. A restatement to the fiscal year 2018 beginning net position, based on a change in method of accounting for Other Post-Employment Benefits (OPEB), increased the total net position by $0.6 million during fiscal year 2018. The change resulted in a total increase of $8.8 million in the Division’s net position.

Operating revenue increased $3.7 million or 6.8 percent, the result of additional revenue from the water rate increase effective July 2018.

Operating expenses increased $2.4 million or 6.1 percent. Operating and maintenance expenses (O&M) increased $2.2 million compared to the prior year. Depreciation expense was $0.1 million lower than the prior year. Taxes and tax equivalents were $0.3 million higher than the prior year.

Interest income was up $0.3 million from the prior fiscal year. Interest expense was $0.5 million higher than the prior year, due to interest expense on new revenue bonds sold during the fiscal year.

Capital contributions were $0.5 million higher than the prior fiscal year, the result of increased assets contributed by developers.

Total plant assets (net) increased $22.4 million or 7.1 percent due to treatment plant improvements, water main replacements, and the replacement and relocation of water system assets to accommodate Tennessee Department of Transportation (TDOT) highway improvement projects.

During fiscal year 2019, KUB sold $20 million in water system revenue bonds for the purpose of funding water system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.46 percent.

Long-term debt represented 50.6 percent of the Division's capital structure as of June 30, 2019, as compared to 50.2 percent last year. Capital structure equals long-term debt (which includes the current and long-term portion of revenue bonds) plus net position.

The Division's bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division's outstanding bonds. Current year debt coverage for the fiscal year was 2.31. Maximum debt service coverage was 2.24.

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Knoxville Utilities Board Water Division - Financial Statements

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

Statement of Net Position

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

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

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

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

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

Statement of Revenues, Expenses and Changes in Net Position

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

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

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

Statement of Cash Flows

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

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

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

Condensed Financial Statements

Statement of Net Position

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

Statements of Net Position
As of June 30

(in thousands of dollars)	**2020**	**2019**	**2018**
Current, restricted and other assets	$ 59,102	$ 49,922	$ 50,268
Capital assets, net	363,225	340,619	318,177
Deferred outflows of resources	4,534	5,538	3,538
Total assets and deferred outflows of resources	426,861	396,079	371,983
Current and other liabilities	16,191	15,346	13,195
Long-term debt outstanding	205,659	192,222	179,094
Deferred inflows of resources	2,674	500	1,854
Total liabilities and deferred inflows of resources	224,524	208,068	194,143
Net position			
Net investment in capital assets	155,729	147,252	138,682
Restricted	2,240	2,151	1,941
Unrestricted	44,368	38,608	37,217
Total net position	$ 202,337	$ 188,011	$ 177,840

Normal Impacts on Statement of Net Position

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

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

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

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

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

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

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

Impacts and Analysis

Current, Restricted and Other Assets

Fiscal Year 2020 Compared to Fiscal Year 2019

Current, restricted and other assets increased $9.2 million or 18.4 percent. This reflects a $7.5 million increase in the Division's general fund cash (consisting of cash and cash equivalents, short-term investments, and long-term investments) and an increase in the actuarially determined net pension asset of $2.5 million.

Fiscal Year 2019 Compared to Fiscal Year 2018

Current, restricted and other assets decreased $0.3 million or 0.7 percent. This reflects a decrease in the actuarially determined net pension asset of $2.6 million, offset by a $1.1 million increase in the Division's general fund cash (consisting of cash and cash equivalents, short-term investments, and long-term investments) and a $1.2 million increase in operating contingency reserves.

Capital Assets

Fiscal Year 2020 Compared to Fiscal Year 2019

Capital assets, net of depreciation, increased $22.6 million or 6.6 percent. Capital expenditures included $9.6 million for water main replacement, $8 million for water plant redundancy program, $5.3 million for system improvements, $3.3 million for building improvements, and $1.9 million for deployment of advanced metering equipment. During the fiscal year, $11.1 million of water system assets were retired.

Fiscal Year 2019 Compared to Fiscal Year 2018

Capital assets, net of depreciation, increased $22.4 million or 7.1 percent. Capital expenditures included $11.3 million for treatment plant and system improvements, $4.7 million for water main replacement, $3.7 million for the replacement, relocation of water system assets to accommodate TDOT highway improvement projects, and $2.9 million for deployment of advanced metering equipment. During the fiscal year, $3.8 million of water system assets were retired.

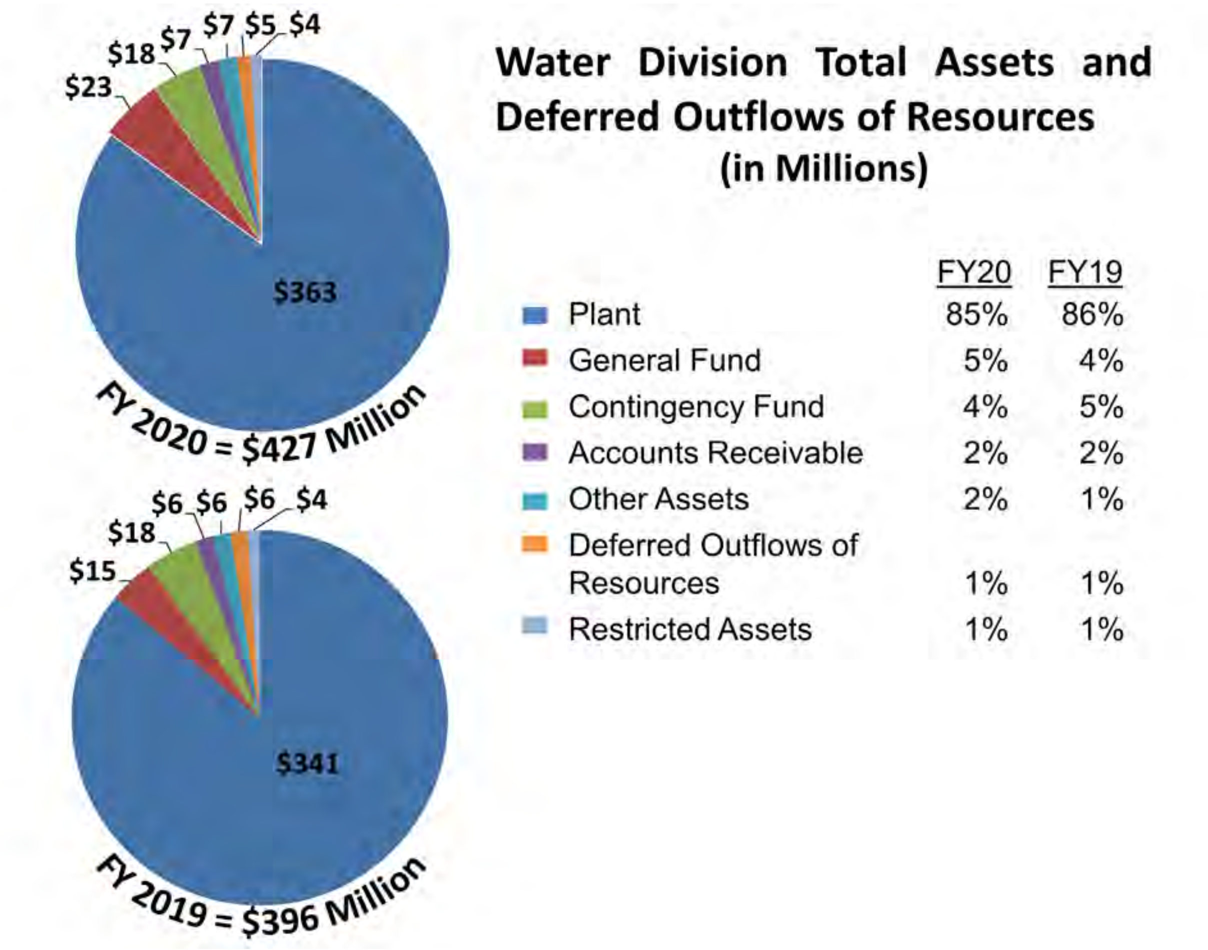
Deferred Outflows of Resources

Fiscal Year 2020 Compared to Fiscal Year 2019

Deferred outflows of resources decreased $1 million compared to the prior fiscal year due to a decrease in pension outflow.

Fiscal Year 2019 Compared to Fiscal Year 2018

Deferred outflows of resources increased $2 million compared to the prior fiscal year due to an increase in pension outflow.



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

Current and Other Liabilities

Fiscal Year 2020 Compared to Fiscal Year 2019

Current and other liabilities increased $0.8 million compared to the prior fiscal year. This increase reflects a $0.7 million increase in the current portion of revenue bonds, a $0.8 million increase in net OPEB liability, and a $0.2 million increase in accrued compensated absences offset by a $0.9 million decrease in net pension liability.

Fiscal Year 2019 Compared to Fiscal Year 2018

Current and other liabilities increased $2.2 million compared to the prior fiscal year. This increase reflects a $0.9 million increase in net pension liability, a $0.6 million increase in the current portion of revenue bonds and a $0.2 million increase in net OPEB liability.

Long-Term Debt

Fiscal Year 2020 Compared to Fiscal Year 2019

Long-term debt increased $13.4 million or 7 percent. This increase is due to $20 million in water system revenue bonds, sold in July 2019, and water system revenue refunding bonds of $19.5 million, sold in April 2020, offset by the refunded bonds and the scheduled repayment of debt.

Fiscal Year 2019 Compared to Fiscal Year 2018

Long-term debt increased $13.1 million or 7.3 percent. Water system revenue bonds of $20 million, sold in August 2018, were offset by the scheduled repayment of debt.

Deferred Inflows of Resources

Fiscal Year 2020 Compared to Fiscal Year 2019

Deferred inflows increased $2.2 million compared to the prior fiscal year due to differences in pension inflows.

Fiscal Year 2019 Compared to Fiscal Year 2018

Deferred inflows decreased $1.4 million compared to the prior fiscal year due to differences in pension inflows.

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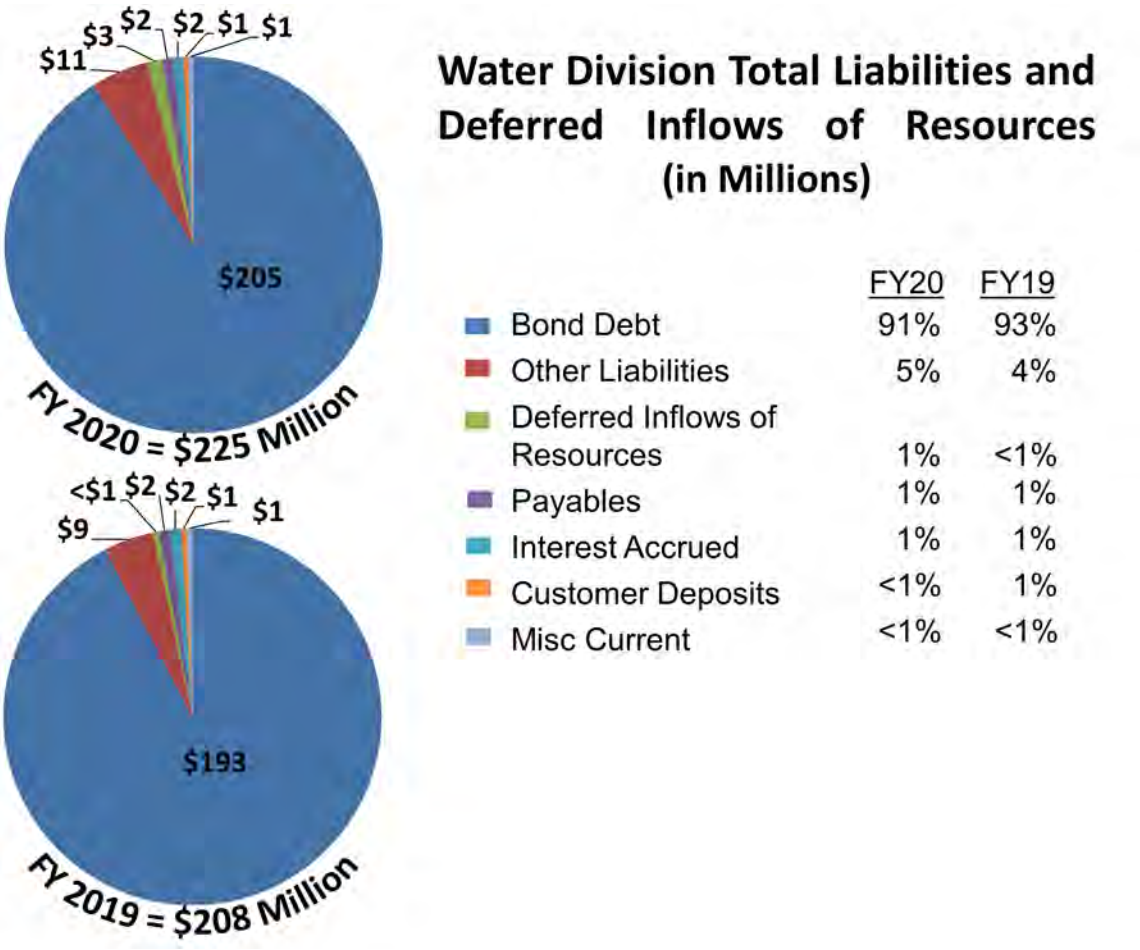

Net Position

Fiscal Year 2020 Compared to Fiscal Year 2019

Net position increased $14.3 million in fiscal year 2020. Unrestricted net position increased $5.8 million, primarily due to a $7.5 million increase in the Division's general fund cash (consisting of cash and cash equivalents, short-term investments, and long-term investments). Net investment in capital assets increased $8.5 million, the result of $22.6 million in net plant additions offset by an increase in current portion of revenue bonds and total long-term debt of $14.1 million. Restricted assets increased $0.1 million due to increases in bond fund reserves.

Fiscal Year 2019 Compared to Fiscal Year 2018

Net position increased $10.2 million in fiscal year 2019. Unrestricted net position increased $1.4 million, primarily due to a $2 million increase in deferred outflows of resources compared to the prior fiscal year. Net investment in capital assets increased $8.6 million due to an increase in current portion of revenue bonds and total long-term debt of $13.8 million offset by an increase to net plant in service of $22.4 million. Restricted assets increased $0.2 million due to additional funds restricted for debt service.

Statement of Revenues, Expenses and Changes in Net Position

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

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

(in thousands of dollars)	2020	2019	2018
Operating revenues	$ 62,474	$ 58,073	$ 54,365
Operating expenses			
Treatment	3,644	3,984	4,352
Distribution	15,176	15,418	14,940
Customer service	1,659	1,887	1,612
Administrative and general	6,397	6,633	4,776
Depreciation	10,040	10,315	10,380
Taxes and tax equivalents	4,327	4,418	4,151
Total operating expenses	41,243	42,655	40,211
Operating income	21,231	15,418	14,154
Interest income	842	886	588
Interest expense	(7,132)	(6,840)	(6,340)
Other income/(expense)	(671)	143	(233)
Change in net position before capital contributions	14,270	9,607	8,169
Capital Contributions	56	564	49
Change in net position	$ 14,326	$ 10,171	$ 8,218

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

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

- Operating revenues are largely determined by the volumes of water sold during the fiscal year. Any change (increase/decrease) in retail water rates would also be a cause of change in operating revenue.

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

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

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

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

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

- Other income/(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 2020 Compared to Fiscal Year 2019

The Division's Change in Net Position increased $14.3 million in fiscal year 2020. Comparatively, net position increased by $10.2 million in fiscal year 2019.

Fiscal Year 2019 Compared to Fiscal Year 2018

The Division's Change in Net Position increased $10.2 million in fiscal year 2019. Comparatively, net position increased by $8.2 million in fiscal year 2018. A restatement to the fiscal year 2018 beginning net position, based on a change in method of accounting for OPEB, increased the total net position by an additional $0.6 million. The change resulted in a total increase of $8.8 million in the Division's net position.

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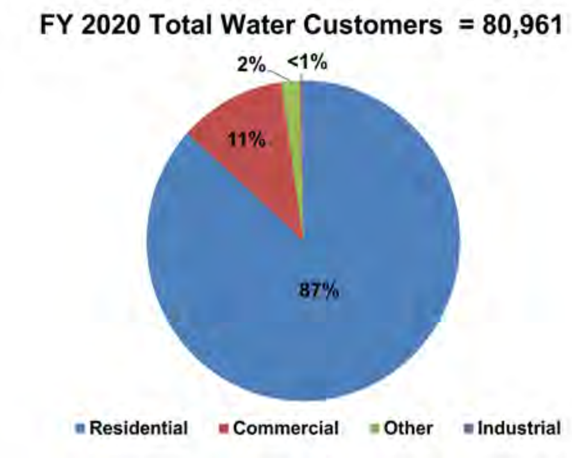
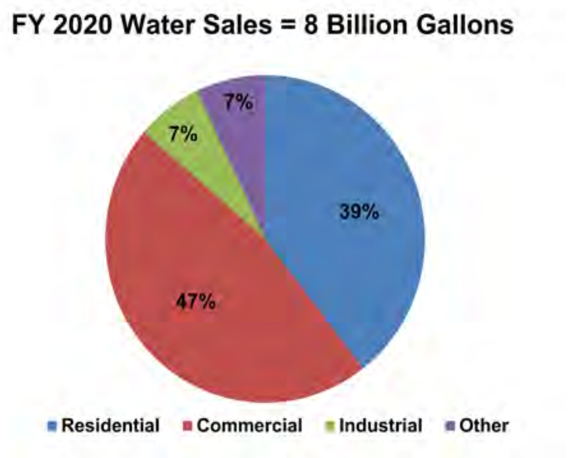
Margin from Sales

Fiscal Year 2020 Compared to Fiscal Year 2019

Operating revenues increased $4.4 million or 7.6 percent. This reflects additional revenue from the 6.5 percent water rate increase effective July 2019 offset by a 1.2 percent decline in billed water sales volumes, as commercial and industrial sales volumes were lower.





Residential customers represented 87 percent of water customers and accounted for 39 percent of water sales volumes for the year. Commercial and industrial customers accounted for the largest portion (54 percent) of total sales volumes during the year.

KUB's ten largest water customers accounted for 24 percent of KUB's billed water volumes. Those ten customers represent one industrial, seven commercial, and two water utility districts. Within the top ten, eight governmental customers are represented.

KUB has added 1,519 water customers over the past three years, representing annual growth of less than one percent. Water system growth is up slightly due to increased new housing construction.

Residential water sales volumes increased 2.7 percent compared to the prior fiscal year.

Commercial water sales volumes decreased 3.4 percent compared to the prior year. Industrial sales volumes decreased 13.2 percent compared to the prior year, due to the closure of a large industrial customer late in the prior fiscal year.

Other water sales volumes (i.e. utility districts) were 6 percent higher than the prior year.

Water consumption for the fiscal year was affected by higher than normal rainfall. Precipitation for the fiscal year was 36 percent higher than normal but 10.9 percent lower than the prior fiscal year.

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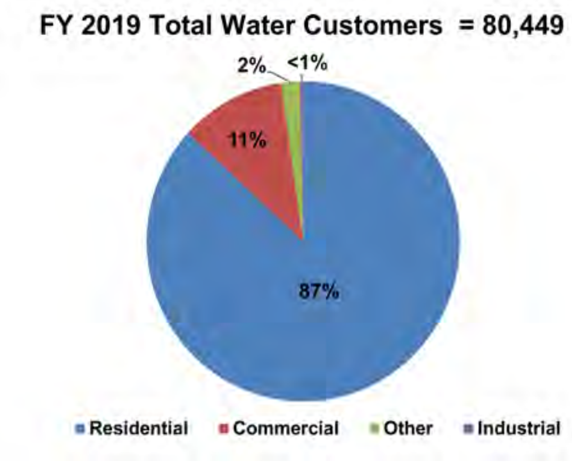
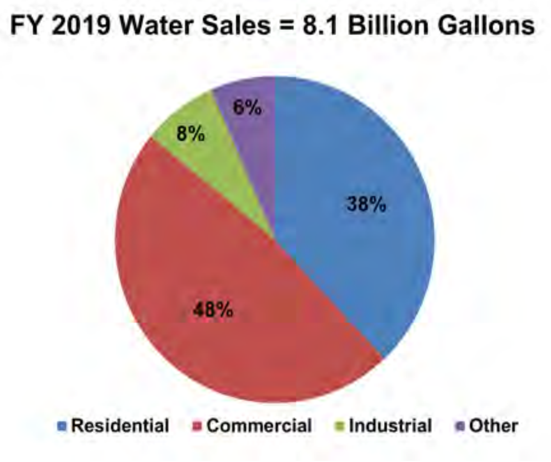
Fiscal Year 2019 Compared to Fiscal Year 2018

Operating revenues increased $3.7 million or 6.8 percent. This reflects additional revenue from the July 2018 water rate increase offset by a 1.1 percent decline in billed water sales volumes, as residential and industrial sales volumes were lower.





Residential customers represented 87 percent of water customers and accounted for 38 percent of water sales volumes for the year. Commercial and industrial customers accounted for the largest portion (56 percent) of total sales volumes during the year.

KUB's ten largest water customers accounted for 23 percent of KUB's billed water volumes. Those ten customers represent one industrial, seven commercial, and two water utility districts. Within the top ten, eight governmental customers are represented.

KUB has added 1,469 water customers over the past three years, representing annual growth of less than one percent. Water system growth is up slightly due to increased new housing construction.

Residential water sales volumes decreased 1.6 percent compared to the prior fiscal year.

Commercial water sales volumes increased 0.8 percent compared to the prior year. Industrial sales volumes decreased 6.1 percent compared to the prior year, partially due to the decrease in production and eventual closure of a large industrial customer.

Other water sales volumes (i.e. utility districts) were 5.6 percent lower than the prior year.

Water consumption for the fiscal year was affected by higher than normal rainfall. February 2019 was the wettest February on record for the service area. Precipitation for the fiscal year was 52.6 percent higher than normal and 43.5 percent higher than the prior fiscal year.

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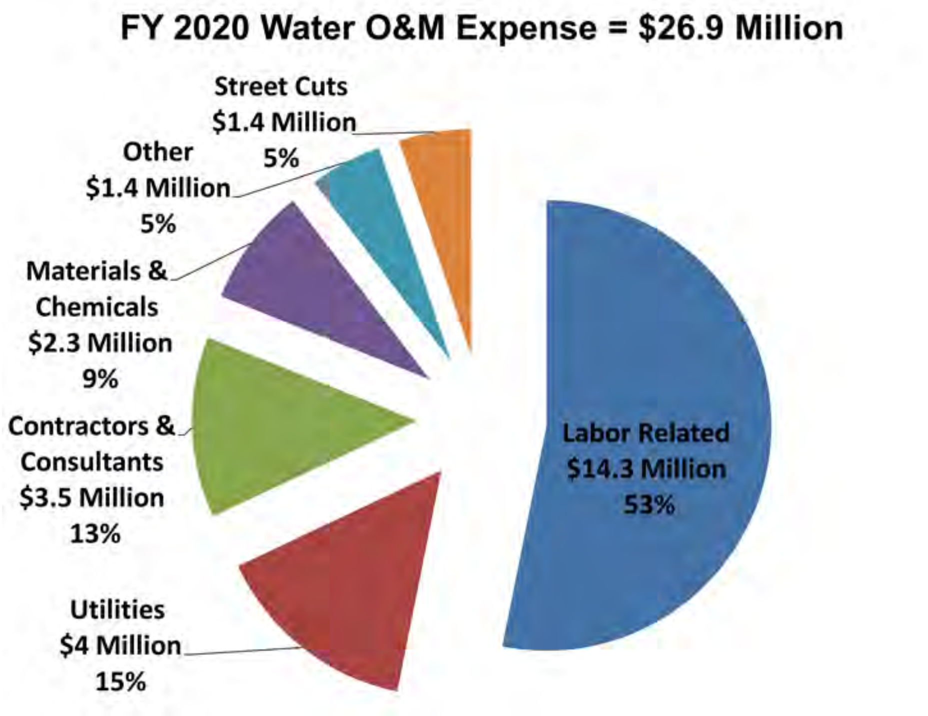
Operating Expenses

Fiscal Year 2020 Compared to Fiscal Year 2019

Operating expenses decreased $1.4 million or 3.3 percent. Operating expenses include operations and maintenance (O&M) expense, depreciation, and taxes/tax equivalents. O&M expenses can be further classified as treatment, distribution, customer service, and administrative and general.

- Treatment expenses were $0.3 million or 8.5 percent lower than the prior fiscal year due to a decrease in outside contractor costs.
- Distribution expenses were $0.2 million or 1.6 percent lower than the prior fiscal year due to a decrease in outside contractor and consultant costs offset by higher labor related expenses.
- Customer service expenses were $0.2 million lower than the prior fiscal year due to a decrease in outside contractor costs.
- Administrative and general expenses were $0.2 million lower than the prior fiscal year, primarily due to a decrease in insurance and consultant costs offset by higher labor related expenses.



- Depreciation expense was down $0.3 million, as the accelerated depreciation of existing meters replaced as part of KUB's system wide deployment of advanced metering equipment came to a close this year and $11.1 million of assets were retired.
- Taxes and tax equivalents were $0.1 million lower than the prior fiscal year.

Fiscal Year 2019 Compared to Fiscal Year 2018

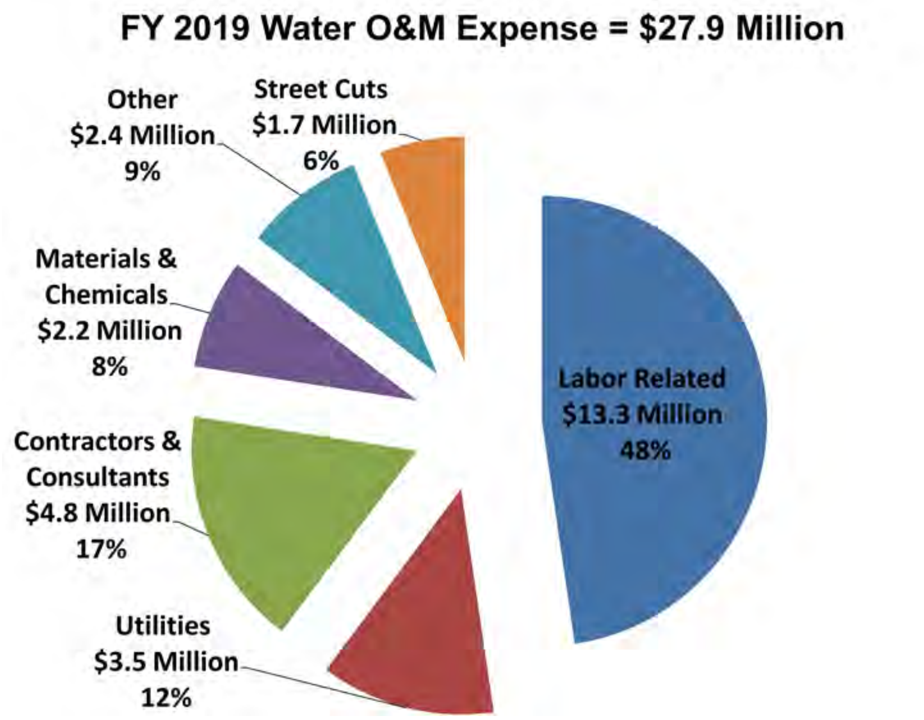
Operating expenses increased $2.4 million or 6.1 percent compared to fiscal year 2018. Operating expenses include operations and maintenance (O&M) expense, depreciation, and taxes/tax equivalents. O&M expenses can be further classified as treatment, distribution, customer service, and administrative and general.

- Treatment expenses were $0.4 million or 8.5 percent lower than the prior fiscal year due to a decrease in outside contractor costs and labor related expenses.

- Distribution expenses were $0.5 million or 3.2 percent higher than the prior fiscal year due to an increase in outside contractor costs.

- Customer service expenses were $0.3 million higher than the prior fiscal year.

- Administrative and general expenses were $1.9 million higher than the prior fiscal year, primarily due to labor related expenses including higher pension expenses, reflecting impact of investment losses on Pension Trust assets in 2018.



- Depreciation expense was down $0.1 million, primarily due the accelerated depreciation of existing meters that are to be replaced as part of KUB's system wide deployment of advanced metering equipment and the retirement of $3.8 million of assets during fiscal year 2019.

- Taxes and tax equivalents were $0.3 million higher than the prior fiscal year due to increased plant in service levels.

Other Income and Expense

Fiscal Year 2020 Compared to Fiscal Year 2019

Interest income was consistent with the prior fiscal year.

Interest expense increased $0.3 million, reflecting the net impact of interest expense from new revenue bonds sold during the fiscal year and savings on refunding of outstanding bonds.

Other income (net) was $0.8 million lower than the prior fiscal year, primarily due to losses on disposal of property.

Capital contributions decreased $0.5 million, the result of a decrease in donated utility assets from developers compared to the previous fiscal year.

Fiscal Year 2019 Compared to Fiscal Year 2018

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

Interest expense increased $0.5 million, reflecting the impact of interest expense from new revenue bonds sold during the fiscal year.

Other income (net) was $0.4 million higher than the prior fiscal year, primarily due to mark-to-market adjustments on investments.

Capital contributions increased $0.5 million, the result of an increase in donated utility assets from developers compared to the previous fiscal year.

Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

(in thousands of dollars)	**2020**	**2019**	**2018**
Production Plant	$ 7	$ 7	$ 57
Pumping & Treatment Plant	53,491	53,079	52,730
Distribution Plant			
Distribution Mains	$ 174,196	$ 165,540	$ 161,290
Transmission Mains	33,668	26,237	24,400
Services & Meters	40,570	36,813	31,151
Other Accounts	13,741	13,676	13,313
Total Distribution Plant	262,175	242,266	230,154
Total General Plant	$ 8,961	$ 9,265	$ 9,722
Total Water Plant	324,634	304,617	292,663
Work In Progress	38,591	36,002	25,514
Total Net Plant	$ 363,225	$ 340,619	$ 318,177

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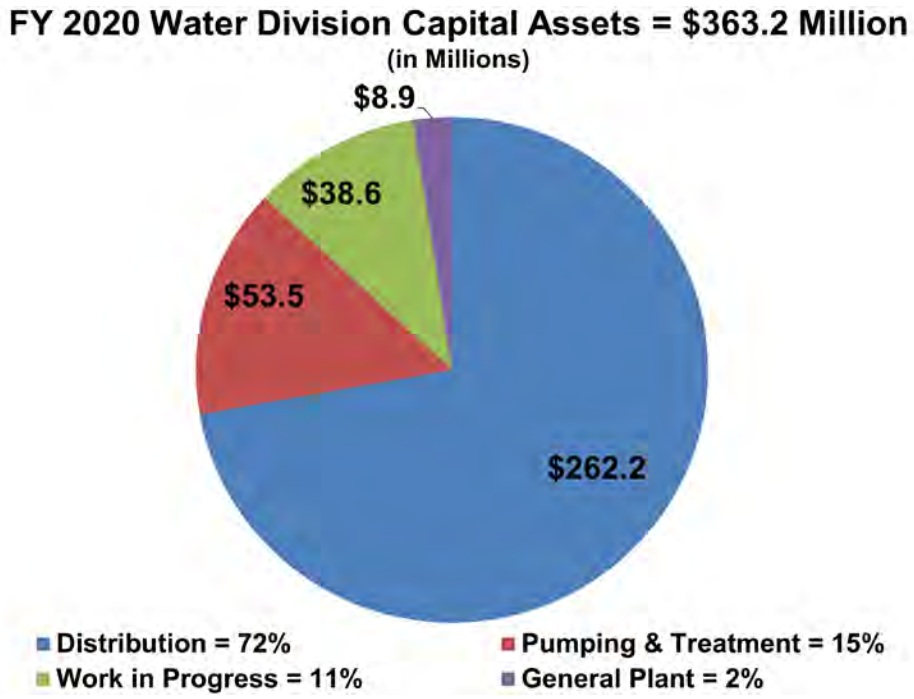
Fiscal Year 2020 Compared to Fiscal Year 2019

As of June 30, 2020, the Division had $363.2 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represented a net increase (including additions, retirements, and depreciation) of $22.6 million or 6.6 percent over the end of the last fiscal year.



Major capital asset expenditures during the year were as follows:

- $9.6 million for galvanized and cast iron water main replacement
- $8 million for water plant redundancy program
- $5.3 million for system improvements
- $3.3 million for building improvements including a new Engineering Building
- $1.9 million for deployment of advanced metering equipment

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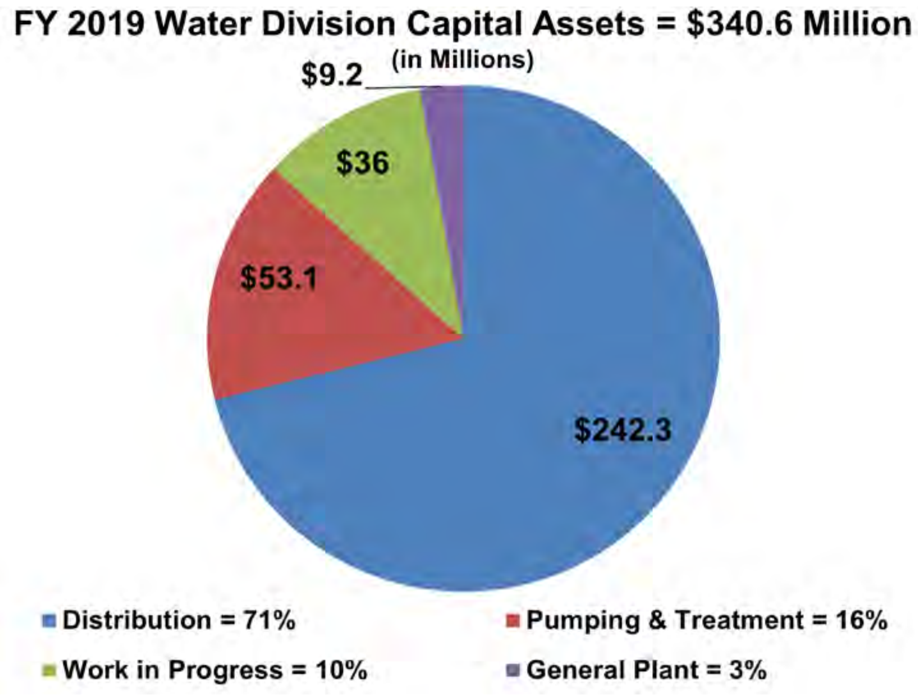
Fiscal Year 2019 Compared to Fiscal Year 2018

As of June 30, 2019, the Division had $340.6 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represented a net increase (including additions, retirements, and depreciation) of $22.4 million or 7.1 percent over the end of the last fiscal year.



Major capital asset expenditures during the year were as follows:

- $11.3 million for major plant and system improvements
- $4.7 million for galvanized and cast iron water main replacement
- $3.7 million for replacement and relocation of water system assets to accommodate TDOT highway improvement projects
- $2.9 million for deployment of advanced metering equipment

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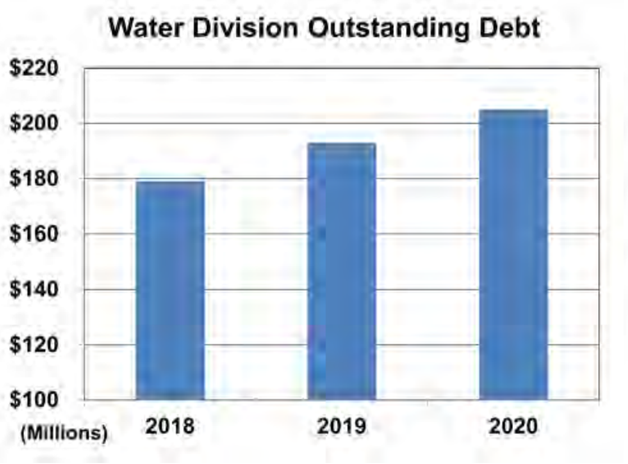
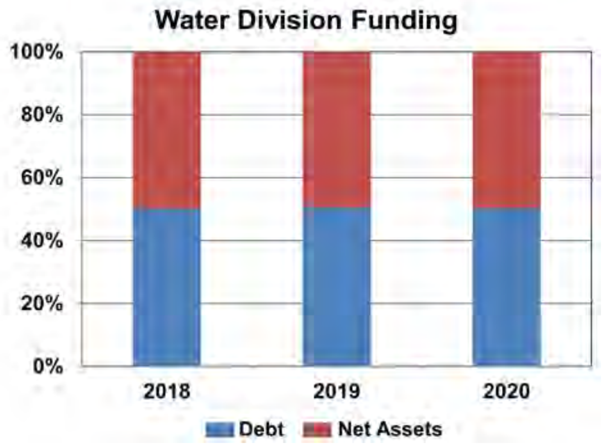
Debt Administration

As of June 30, 2020, the Water Division had $204.9 million in outstanding water system bonds. The bonds are secured solely by revenues of the Water Division. Debt as a percentage of the Division's capital structure was 50.3 percent in 2020, 50.6 percent in 2019, and 50.2 percent at the end of fiscal year 2018. KUB's Debt Management Policy limits the Division's debt ratio to 60 percent or less.

Outstanding Debt
As of June 30

(in thousands of dollars)	2020	2019	2018
Revenue bonds	$ 204,890	$ 192,820	$ 179,165
Total outstanding debt	$ 204,890	$ 192,820	$ 179,165





The Division will pay $84.4 million in principal payments over the next ten years, representing 41 percent of the outstanding bonds. KUB's Debt Management Policy requires a minimum of 30 percent of water debt principal be repaid over the next ten years.

Fiscal Year 2020 Compared to Fiscal Year 2019

As of June 30, 2020, the Division had $204.9 million in outstanding debt (including the current portion of revenue bonds), compared to $192.8 million last year, an increase of $12.1 million or 6.3 percent. The increase is attributable to new revenue and refunding bonds issued during the fiscal year offset by refunded bonds and the scheduled repayment of debt. As of June 30, 2020, the Division's weighted average cost of debt was 3.47 percent.

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

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

The Division’s outstanding debt is rated by Standard & Poor’s and Moody’s Investors Service. As of June 30, 2020, the Division’s revenue bonds were rated AAA by Standard & Poor’s and Aa1 by Moody’s Investors Service. The Standard and Poor’s water rating represents the highest credit rating available from Standard and Poor’s.

Fiscal Year 2019 Compared to Fiscal Year 2018

As of June 30, 2019, the Division had $192.8 million in outstanding debt (including the current portion of revenue bonds), compared to $179.2 million last year, an increase of $13.6 million or 7.6 percent. The increase is attributable to new revenue bonds issued during the fiscal year offset by the scheduled repayment of debt. As of June 30, 2019, the Division’s weighted average cost of debt was 3.55 percent.

KUB sold $20 million in water system revenue bonds in August 2018 for the purpose of funding water system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.46 percent.

The Division’s outstanding debt is rated by Standard & Poor’s and Moody’s Investors Service. As of June 30, 2019, the Division’s revenue bonds were rated AAA by Standard & Poor’s and Aa1 by Moody’s Investors Service. The Standard and Poor’s water rating represents the highest credit rating available from Standard and Poor’s.

Impacts on Future Financial Position

KUB anticipates adding 410 additional water system customers during fiscal year 2021.

During March 2020, a global pandemic was declared related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). While the disruption is currently expected to be temporary, there is uncertainty around its duration and the ultimate future impact, if any, on results of operations, financial position, liquidity or capital resources. In response to the COVID-19 pandemic, the Water Division chose to forego a proposed 5% rate increase for fiscal year 2021 to reduce financial impact on its customers.

KUB expects to receive reimbursements in fiscal year 2021 from the Federal Emergency Management Agency (FEMA) to partially offset the cost of the 2019 storm and flood event.

KUB sold $9 million in water system revenue bonds on October 7, 2020, with a scheduled closing on October 30, 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.

The Pension Plan actuarial valuation for the Plan year beginning January 1, 2019 resulted in an actuarially determined contribution of $3,167,680 for the fiscal year ending June 30, 2021, based on the Plan’s current funding policy. The Water Division’s portion of this contribution is $411,798. Subsequent to June 30, 2020, the actuarial valuation for the Plan year beginning January 1, 2020 was completed. The actuarial valuation resulted in an actuarially determined contribution of $3,665,168 for the fiscal year ending June 30, 2022, based on the Plan’s current funding policy. The Water Division’s portion of this contribution is $476,472. For the Plan year beginning January 1, 2020, the Plan’s actuarial funded ratio is 101.61 percent.

The OPEB Plan actuarial valuation as of January 1, 2019 resulted in an actuarially determined contribution of $757,226 for the fiscal year ending June 30, 2021, based on the Plan’s current funding policy. The Water Division's portion of this contribution is $98,439. Subsequent to June 30, 2020, the actuarial valuation as of January 1, 2020 was completed. The actuarial valuation resulted in an actuarially determined contribution of $489,066 for the fiscal year ending June 30, 2022, based on the Plan's current funding policy. The Water Division's portion of this contribution is $63,579. The Plan's actuarial funded ratio is 97.68 percent.

GASB Statement No. 84, *Fiduciary Activities*, is effective for fiscal years beginning after December 15, 2019. GASB Statement No. 87, *Leases*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period,* is effective for fiscal years beginning after December 15, 2020. GASB Statement No. 90, *Major Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, is effective for fiscal years beginning after December 15, 2019. GASB Statement No. 91, *Conduit Debt Obligations*, is effective for fiscal years beginning after December 15, 2021. GASB Statement No. 92, *Omnibus 2020*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 93, *Replacement of Interbank Offered Rates*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, is effective for fiscal years beginning after June 15, 2021. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on the Division's financial position or results of operations during fiscal year 2020.

Financial Contact

The Division's financial statements are designed to present users (citizens, customers, investors, and creditors) with a general overview of the Division's financial position and results of operations for the fiscal years ended June 30, 2020 and 2019. If you have questions about the statements or need additional financial information, contact KUB's Chief Financial Officer at 445 South Gay Street, Knoxville, Tennessee 37902.

Knoxville Utilities Board Water Division
Statements of Net Position
June 30, 2020 and 2019

	2020	2019
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	$ 20,235,168	$ 12,761,344
Short-term investments	2,520,675	2,495,500
Short-term contingency fund investments	15,185,165	14,317,711
Other current assets	260,228	258,782
Accrued interest receivable	15,248	21,889
Accounts receivable, less allowance of uncollectible accounts of $50,465 in 2020 and $57,429 in 2019	6,882,121	6,482,723
Inventories	1,875,987	3,199,517
Prepaid expenses	40,937	44,002
Total current assets	47,015,529	39,581,468
Restricted assets:		
Water bond fund	4,461,568	4,415,948
Other funds	197	2,793
Total restricted assets	4,461,765	4,418,741
Water plant in service	451,529,712	431,645,921
Less accumulated depreciation	(126,895,480)	(127,028,444)
	324,634,232	304,617,477
Retirement in progress	454,552	796,715
Construction in progress	38,136,374	35,205,185
Net plant in service	363,225,158	340,619,377
Other assets:		
Net pension asset	2,485,779	-
Long-term contingency fund investments	2,712,435	3,527,433
Other	2,426,652	2,394,210
Total other assets	7,624,866	5,921,643
Total assets	422,327,318	390,541,229
Deferred outflows of resources:		
Pension outflow	1,056,001	2,242,843
OPEB outflow	543,232	324,113
Unamortized bond refunding costs	2,935,130	2,970,897
Total deferred outflows of resources	4,534,363	5,537,853
Total assets and deferred outflows of resources	$ 426,861,681	$ 396,079,082

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

Knoxville Utilities Board Water Division
Statements of Net Position
June 30, 2020 and 2019

	2020	2019
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	$ 7,140,000	$ 6,445,000
Sales tax collections payable	363,281	343,619
Accounts payable	1,862,562	1,905,884
Accrued expenses	822,056	725,454
Customer deposits plus accrued interest	1,003,304	965,413
Accrued interest on revenue bonds	2,221,468	2,267,515
Total current liabilities	13,412,671	12,652,885
Other liabilities:		
Accrued compensated absences	1,753,547	1,559,945
Net pension liability	2,631	894,613
Net OPEB liability	986,628	188,207
Other	35,842	49,885
Total other liabilities	2,778,648	2,692,650
Long-term debt:		
Water revenue bonds	197,750,000	186,375,000
Unamortized premiums/discounts	7,909,293	5,847,325
Total long-term debt	205,659,293	192,222,325
Total liabilities	221,850,612	207,567,860
Deferred inflows of resources:		
Pension inflow	2,673,916	499,640
Total deferred inflows of resources	2,673,916	499,640
Total liabilities and deferred inflows of resources	224,524,528	208,067,500
Net position		
Net investment in capital assets	155,728,467	147,251,605
Restricted for:		
Debt service	2,240,100	2,148,433
Other	197	2,793
Unrestricted	44,368,389	38,608,751
Total net position	202,337,153	188,011,582
Total liabilities, deferred inflows, and net position	$ 426,861,681	$ 396,079,082

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

Knoxville Utilities Board Water Division

Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2020 and 2019

	2020	2019
Operating revenues	$ 62,473,524	$ 58,073,479
Operating expenses		
Treatment	3,644,360	3,984,176
Distribution	15,175,452	15,417,999
Customer service	1,659,209	1,886,682
Administrative and general	6,397,245	6,632,782
Provision for depreciation	10,039,955	10,315,031
Taxes and tax equivalents	4,327,074	4,418,426
Total operating expenses	41,243,295	42,655,096
Operating income	21,230,229	15,418,383
Non-operating revenues (expenses)		
Contributions in aid of construction	1,298,668	860,459
Interest income	841,842	885,864
Interest expense	(7,132,413)	(6,839,885)
Amortization of debt costs	47,518	13,027
Write-down of plant for costs recovered through contributio	(1,298,668)	(860,459)
Other	(717,993)	129,874
Total non-operating revenues (expenses)	(6,961,046)	(5,811,120)
Change in net position before capital contributions	14,269,183	9,607,263
Capital contributions	56,388	563,998
Change in net position	14,325,571	10,171,261
Net position, beginning of year	188,011,582	177,840,321
Net position, end of year	$ 202,337,153	$ 188,011,582

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

Knoxville Utilities Board Water Division
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash receipts from customers	$ 60,603,965	$ 56,627,540
Cash receipts from other operations	2,393,209	2,058,005
Cash payments to suppliers of goods or services	(15,101,087)	(17,315,860)
Cash payments to employees for services	(10,911,023)	(10,713,769)
Payment in lieu of taxes	(3,378,895)	(3,511,656)
Net cash provided by operating activities	33,606,169	27,144,260
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	21,021,438	20,225,143
Principal paid on revenue bonds	(6,845,000)	(6,340,000)
Interest paid on revenue bonds	(7,178,460)	(6,684,114)
Acquisition and construction of water plant	(35,341,943)	(33,579,785)
Changes in water bond fund, restricted	(45,620)	(365,771)
Proceeds received on disposal of plant	36,112	34,774
Cash received from developers and individuals for capital purposes	1,298,668	860,459
Net cash used in capital and related financing activities	(27,054,805)	(25,849,294)
Cash flows from investing activities:		
Purchase of investment securities	(16,862,541)	(9,965,693)
Maturities of investment securities	16,836,873	6,485,830
Interest received	884,709	864,635
Other property and investments	63,419	(68,408)
Net cash provided by (used in) investing activities	922,460	(2,683,636)
Net increase (decrease) in cash and cash equivalents	7,473,824	(1,388,670)
Cash and cash equivalents, beginning of year	12,761,344	14,150,014
Cash and cash equivalents, end of year	$ 20,235,168	$ 12,761,344
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 21,230,229	$ 15,418,383
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	10,588,166	10,806,412
Changes in operating assets and liabilities:		
Accounts receivable	(399,398)	(473,102)
Inventories	1,323,530	38,871
Prepaid expenses	3,065	(1,179)
Other assets	7,526	512,719
Sales tax collections payable	19,662	31,298
Accounts payable and accrued expenses	809,541	717,003
Customer deposits plus accrued interest	37,891	60,822
Other liabilities	(14,043)	33,033
Net cash provided by operating activities	$ 33,606,169	$ 27,144,260
Noncash capital activities:		
Acquisition of plant assets through developer contributions	$ 56,388	$ 563,998

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

1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions, including setting rates. The Water Division (Division) provides services to certain customers in Knox County and in two surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners (NARUC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Water Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2020 and 2019, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

2. Significant Accounting Policies

Basis of Accounting

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

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

Recently Adopted New Accounting Pronouncements

In May 2020, the GASB issued GASB Statement No. 95 (Statement No. 95), *Postponement of the Effective Dates of Certain Authoritative Guidance.* The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for fiscal years beginning after June 15, 2018. The requirements of this Statement are effective immediately.

Water Plant

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

The provision for depreciation of water plant in service is based on the estimated useful lives of the assets, which range from three to sixty-seven years, and is computed using the straight-line method. Pursuant to NARUC, the caption "Provision for depreciation" in the Statements of Revenues, Expenses and Changes in Net Position does not include depreciation for transportation equipment of $548,211 in fiscal year 2020 and $491,381 in fiscal year 2019. Under regulatory accounting, interest costs are expensed as incurred with construction of plant assets.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of the KUB Water Division. Operating revenue is recorded when the service is rendered, on a cycle basis, and includes an estimate of unbilled revenue. Revenues are reported net of bad debt expense of $121,068 in fiscal year 2020 and $152,993 in fiscal year 2019.

Non-operating Revenue

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

Expense

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

Net Position

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

These classifications are defined as follows:

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

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

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

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

OPEB Plan

KUB's employees hired prior to July 1, 1999, who are retired and who (prior to retirement) qualified for retiree medical insurance by meeting the Rule of 80 (age plus years of service) with a minimum of 20 years of service and were enrolled in medical coverage on their last day, are eligible for post-employment health care. KUB's OPEB Trust was established by KUB's Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. KUB's policy is to fully fund the annual actuarially determined contributions, which are determined by actuarial valuation. As required by GASB Statement No. 75, KUB measures net OPEB liability as total OPEB liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2020 and 2019 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a June 30, 2020 and 2019 measurement date, respectively. The net OPEB liability is $7,589,447 (Division's share $986,628) as of June 30, 2020 and $1,447,742 (Division's share $188,207) as of June 30, 2019.

Pension Plan and Qualified Excess Benefit Arrangement

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 10). KUB's policy is to fully fund the annual actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2020 and 2019 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a December 31, 2019 and 2018 measurement date, respectively. The net pension asset is $19,121,375 (Division's share $2,485,779) as of June 30, 2020, and the net pension liability was $6,649,756 (Division's share $864,468) as of June 30, 2019.

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, 2020 and 2019 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a December 31, 2019 and 2018 measurement date, respectively. The total pension liability of the

QEBA is $20,236 (Division’s share $2,631) as of June 30, 2020 and $231,883 (Division’s share $30,145) as of June 30, 2019.

Investments

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

Self-Insurance

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

Estimates

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

Restricted and Designated Assets

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

Cash Equivalents

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

Deferred Outflows and Inflows of Resources

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

Debt Premium/Discount

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

Debt Issuance Costs

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

Deferred Gain/Loss on Refunding of Debt

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

Compensated Absences

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

Subsequent Events

KUB has evaluated events and transactions through October 29, 2020, the date these financial statements were issued, for items that should potentially be recognized or disclosed. KUB sold $9,045,000 in water system revenue bonds on October 7, 2020, with a scheduled closing on October 30, 2020, for the purpose of funding water system capital improvements in fiscal year 2021. The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.36 percent. Annual debt service payments including principal and interest range from $313,539 to $470,050 with final maturity in fiscal year 2050.

Recently Issued Accounting Pronouncements

In January 2017, the GASB issued GASB Statement No. 84 (Statement No. 84), *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 is effective for fiscal years beginning after December 15, 2019.

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

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

In August 2018, the GASB issued GASB Statement No. 90 (Statement No. 90), *Major Equity Interests – an amendment of GASB Statements No. 14 and No. 61.* The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Statement No. 90 is effective for fiscal years beginning after December 15, 2019.

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

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

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

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

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

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

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

3. Deposits and Investments

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

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

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

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

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

Classification of deposits and investments per Statement of Net Position:

	2020	**2019**
Current assets		
Cash and cash equivalents	$ 20,235,168	$ 12,761,344
Short-term investments	2,520,675	2,495,500
Short-term contingency fund investments	15,182,861	14,317,711
Other assets		
Long-term contingency fund investments	2,660,098	3,438,870
Restricted assets		
Water bond fund	4,461,568	4,415,948
Other funds	197	2,793
	$ 45,060,567	$ 37,432,166

The above amounts do not include accrued interest of $54,641 in fiscal year 2020 and $88,563 in fiscal year 2019. 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, 2020:

	Deposit and Investment Maturities (in Years)		
	Fair Value	**Less Than 1**	**1-5**
Supersweep NOW and Other Deposits	$ 21,341,227	$ 21,341,227	$ -
State Treasurer's Investment Pool	13,433,352	13,433,352	-
Agency Bonds	11,391,750	8,731,652	2,660,098
	$ 46,166,329	$ 43,506,231	$ 2,660,098

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, 2020:

- U.S. Agency bonds of $2,660,098, which have a maturity at purchase of greater than one year, are valued using quoted market prices (Level 1 inputs)

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

4. Accounts Receivable

Accounts receivable consists of the following:

	2020	**2019**
Wholesale and retail customers		
Billed services	$ 4,449,302	$ 4,172,874
Unbilled services	2,305,223	2,065,114
Other	178,061	302,164
Allowance for uncollectible accounts	(50,465)	(57,429)
	$ 6,882,121	$ 6,482,723

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5. Accounts Payable and Accruals

Accounts payable and accruals were composed of the following:

	2020	2019
Trade accounts	$ 1,862,562	$ 1,905,884
Salaries and wages	598,375	476,958
Self-insurance liabilities	223,681	248,496
	$ 2,684,618	$ 2,631,338

6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2019	Additions	Payments	Defeased	Balance June 30, 2020	Amounts Due Within One Year
W-2011 - 2.0 - 5.0%	$ 21,150,000	$ -	$ 550,000	$ 20,600,000	$ -	$ -
X-2012 - 3.0 - 5.0%	7,050,000	-	590,000	-	6,460,000	625,000
Y-2013 - 3.0 - 4.0%	8,070,000	-	340,000	-	7,730,000	350,000
Z-2013 - 2.0 - 5.0%	22,150,000	-	550,000	-	21,600,000	575,000
AA-2014 - 2.0 - 4.0%	7,275,000	-	175,000	-	7,100,000	175,000
BB-2015 - 2.0 - 5.0%	20,985,000	-	950,000	-	20,035,000	960,000
CC-2015 - 2.0 - 4.0%	18,450,000	-	425,000	-	18,025,000	450,000
DD-2016 - 3.0 - 5.0%	23,750,000	-	525,000	-	23,225,000	550,000
EE-2016 - 2.0 - 5.0%	20,675,000	-	1,090,000	-	19,585,000	1,155,000
FF-2017 - 3.0 - 5.0%	4,375,000	-	475,000	-	3,900,000	495,000
GG-2017 - 2.125 - 5.0%	19,420,000	-	395,000	-	19,025,000	415,000
HH-2018 - 3.0 - 5.0%	19,470,000	-	380,000	-	19,090,000	395,000
II-2019 - 3.0 - 5.0%	-	19,995,000	400,000	-	19,595,000	365,000
JJ-2020 - 3.0 - 5.0%	-	19,520,000	-	-	19,520,000	630,000
Total bonds	$ 192,820,000	$ 39,515,000	$ 6,845,000	$ 20,600,000	$ 204,890,000	$ 7,140,000
Unamortized Premium	5,847,325	2,660,942	402,958	196,016	7,909,293	-
Total long term debt	$ 198,667,325	$ 42,175,942	$ 7,247,958	$ 20,796,016	$ 212,799,293	$ 7,140,000

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	Balance June 30, 2018	Additions	Payments	Defeased	Balance June 30, 2019	Amounts Due Within One Year
U-2009 - 3.0 - 4.5%	$ 950,000	$ -	$ 950,000	$ -	$ -	$ -
W-2011 - 2.0 - 5.0%	21,700,000	-	550,000	-	21,150,000	550,000
X-2012 - 3.0 - 5.0%	7,615,000	-	565,000	-	7,050,000	590,000
Y-2013 - 3.0 - 4.0%	8,390,000	-	320,000	-	8,070,000	340,000
Z-2013 - 2.0 - 5.0%	22,675,000	-	525,000	-	22,150,000	550,000
AA-2014 - 2.0 - 4.0%	7,425,000	-	150,000	-	7,275,000	175,000
BB-2015 - 2.0 - 5.0%	21,870,000	-	885,000	-	20,985,000	950,000
CC-2015 - 2.0 - 4.0%	18,875,000	-	425,000	-	18,450,000	425,000
DD-2016 - 3.0 - 5.0%	24,250,000	-	500,000	-	23,750,000	525,000
EE-2016 - 2.0 - 5.0%	20,775,000	-	100,000	-	20,675,000	1,090,000
FF-2017 - 3.0 - 5.0%	4,840,000	-	465,000	-	4,375,000	475,000
GG-2017 - 2.125 - 5.0%	19,800,000	-	380,000	-	19,420,000	395,000
HH-2018 - 3.0 - 5.0%	-	19,995,000	525,000	-	19,470,000	380,000
Total bonds	$ 179,165,000	$ 19,995,000	$ 6,340,000	$ -	$ 192,820,000	$ 6,445,000
Unamortized Premium	5,743,978	467,809	364,462	-	5,847,325	-
Total long term debt	$ 184,908,978	$ 20,462,809	$ 6,704,462	$ -	$ 198,667,325	$ 6,445,000

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

Fiscal	Total		Grand
Year	Principal	Interest	Total
2021	$ 7,140,000	$ 6,962,664	$ 14,102,664
2022	7,335,000	6,824,393	14,159,393
2023	7,625,000	6,511,744	14,136,744
2024	7,910,000	6,198,693	14,108,693
2025	8,235,000	5,894,944	14,129,944
2026 - 2030	46,120,000	25,056,779	71,176,779
2031 - 2035	42,460,000	17,494,372	59,954,372
2036 - 2040	36,970,000	11,161,042	48,131,042
2041 - 2045	30,830,000	4,920,131	35,750,131
2046 - 2049	10,265,000	651,352	10,916,352
Total	$ 204,890,000	$ 91,676,114	$ 296,566,114

The Division has pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet bond principal and interest payments when due. The requirements for the bonds are being met through monthly deposits to the Water Bond Fund, as required by the bond covenants. As of June 30, 2020, these bond covenants had been satisfied.

During fiscal year 2019, KUB’s Water Division issued Series HH 2018 bonds to fund water system capital improvements.

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

Other liabilities consist of the following:

	Balance June 30, 2019	**Increase**	**Decrease**	**Balance June 30, 2020**
Accrued compensated absences	$ 1,559,945	$ 2,480,441	$ (2,286,839)	$ 1,753,547
Other	49,885	74,105	(88,148)	35,842
	$ 1,609,830	$ 2,554,546	$ (2,374,987)	$ 1,789,389

	Balance June 30, 2018	**Increase**	**Decrease**	**Balance June 30, 2019**
Accrued compensated absences	$ 1,515,405	$ 2,623,467	$ (2,578,927)	$ 1,559,945
Other	16,852	81,879	(48,846)	49,885
	$ 1,532,257	$ 2,705,346	$ (2,627,773)	$ 1,609,830

7. Lease Commitments

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

2021	$ 37,730
2022	13,703
2023	2,026
2024	1,783
2025	1,783
Total operating minimum lease payments	$ 57,025

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8. Capital Assets

Capital asset activity was as follows:

	Balance June 30, 2019	Increase	Decrease	Balance June 30, 2020
Production Plant	$ 727,863	$ -	$ -	$ 727,863
Pumping & Treatment Plant	87,716,345	3,211,555	(748,488)	90,179,412
Distribution Plant				
Distribution Mains	202,473,173	12,223,598	(2,661,562)	212,035,209
Transmission Mains	35,242,896	8,154,901	(282,002)	43,115,795
Services & Meters	49,554,143	5,362,127	(6,349,660)	48,566,610
Other Accounts	27,075,049	886,655	(550,980)	27,410,724
Total Distribution Plant	$ 314,345,261	$ 26,627,281	$ (9,844,204)	$ 331,128,338
Total General Plant	28,856,452	1,101,522	(463,875)	29,494,099
Total Water Plant	$ 431,645,921	$ 30,940,358	$ (11,056,567)	$ 451,529,712
Less Accumulated Depreciation	(127,028,444)	(10,596,213)	10,729,177	(126,895,480)
Net Plant Assets	$ 304,617,477	$ 20,344,145	$ (327,390)	$ 324,634,232
Work In Progress	36,001,900	34,212,147	(31,623,121)	38,590,926
Total Net Plant	$ 340,619,377	$ 54,556,292	$ (31,950,511)	$ 363,225,158

	Balance June 30, 2018	Increase	Decrease	Balance June 30, 2019
Production Plant	$ 727,863	$ -	$ -	$ 727,863
Pumping & Treatment Plant	84,704,278	3,221,112	(209,045)	87,716,345
Distribution Plant				
Distribution Mains	196,587,374	7,202,772	(1,316,973)	202,473,173
Transmission Mains	33,301,968	2,483,590	(542,662)	35,242,896
Services & Meters	42,680,113	8,252,605	(1,378,575)	49,554,143
Other Accounts	25,981,224	1,164,600	(70,775)	27,075,049
Total Distribution Plant	$ 298,550,679	$ 19,103,567	$ (3,308,985)	$ 314,345,261
Total General Plant	28,217,439	966,769	(327,756)	28,856,452
Total Water Plant	$ 412,200,259	$ 23,291,448	$ (3,845,786)	$ 431,645,921
Less Accumulated Depreciation	(119,537,309)	(10,815,514)	3,324,379	(127,028,444)
Net Plant Assets	$ 292,662,950	$ 12,475,934	$ (521,407)	$ 304,617,477
Work In Progress	25,514,290	31,598,956	(21,111,346)	36,001,900
Total Net Plant	$ 318,177,240	$ 44,074,890	$ (21,632,753)	$ 340,619,377

9. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. At June 30, 2020 and June 30, 2019, the amount of these liabilities was $223,681 and $248,496, respectively, resulting from the following changes:

	2020	2019
Balance, beginning of year	$ 248,496	$ 236,949
Current year claims and changes in estimates	1,939,659	2,233,278
Claims payments	(1,964,474)	(2,221,731)
Balance, end of year	$ 223,681	$ 248,496

10. Pension Plan

Description of Plan

The Knoxville Utilities Board Pension Plan (the Plan) is a governmental plan as defined by the Employee Retirement Income Security Act of 1974 (ERISA or the Act), is not subject to any of the provisions of the Act, and was revised January 1, 2020 to include all prior approved amendments. The Plan is a single-employer contributory, defined benefit pension plan established by Knoxville Utilities Board Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville §1107(J). The Plan is designed to provide retirement, disability, and death benefits to KUB employees. KUB administers the Plan through an Administrative Committee consisting of seven KUB employees that are appointed by KUB's President and CEO. Any amendments to the Plan involving costs not approved in the operating budget must be adopted by KUB's Board of Commissioners, upon recommendation by KUB's President and CEO. All other amendments to the Plan may be approved by KUB's President and CEO upon 60 days notification to the Board's Audit and Finance Committee. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017. For purposes of this disclosure, presentation is on a consolidated basis unless division's share is specified.

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

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

	2019	**2018**
Inactive plan members:		
Terminated vested participants	18	21
Retirees and beneficiaries	592	588
Active plan members	551	592
Total	1,161	1,201

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

Plan Funding

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

Investments

The Plan's investments are held by State Street Bank and Trust Company (the "Trustee"). The Plan's policy in regard to the allocation of invested assets is established by the Retirement System Investment Committee and approved by the KUB Board of Commissioners and may only be amended by the KUB Board of Commissioners. It is the policy of the Retirement System Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Plan's adopted asset allocation policy as of December 31, 2019:

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

Contributions of $2,585,824 and $3,156,661 for 2018 and 2017, respectively, were made during the Plan sponsor's fiscal years ended June 30, 2020 and 2019, respectively. Of these amounts, $336,157 and $410,366 are attributable to the Water Division. The fiscal year 2020 contribution was determined as part of the January 1, 2018 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability, or death.

Net Pension Liability

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB 68"), which requires measurement of the net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a December 31, 2019 and 2018 measurement date, respectively. The Division's share of the net pension asset at June 30, 2020 is $2,485,779, and the net pension liability at June 30, 2019 is $864,468.

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

	2019	2018
Total pension liability	$ 226,818,557	$ 212,157,951
Plan fiduciary net position	(245,939,932)	(205,508,195)
Plan's net pension liability (asset)	$ (19,121,375)	$ 6,649,756
Plan fiduciary net position as a percentage of the total pension liability	108.43%	96.87%

Changes in Net Pension Liability are as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2018	$ 212,157,951	$ 205,508,195	$ 6,649,756
Changes for the year:			
Service cost	6,142,213	-	6,142,213
Interest	16,030,626	-	16,030,626
Changes of Benefits	163,199	-	163,199
Differences between Expected and Actual Experience	(1,054,117)	-	(1,054,117)
Changes of Assumptions	8,473,160	-	8,473,160
Contributions - employer	-	2,871,241	(2,871,241)
Contributions - rollovers	-	3,167,836	(3,167,836)
Contributions - member	-	2,989	(2,989)
Net investment income	-	49,951,894	(49,951,894)
Benefit payments	(15,094,475)	(15,094,475)	-
Administrative expense	-	(467,748)	467,748
Net changes	14,660,606	40,431,737	(25,771,131)
Balances at December 31, 2019	$ 226,818,557	$ 245,939,932	$ (19,121,375)

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, 2019, rolled forward to December 31, 2019; January 1, 2018, rolled forward to December 31, 2018
Discount rate	7.25% as of December 31, 2019; 7.50% as of December 31, 2018
Salary increase	From 2.50% to 5.65%, based on years of service as of December 31, 2019; from 2.80% to 5.15%, based on years of service as of December 31, 2018
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, 2019; Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA as of December 31, 2018
Inflation	2.5% as of December 31, 2019; 2.8% as of December 31, 2018

The actuarial assumptions used in the December 31, 2019 valuation were based on an actuarial experience study covering the period January 1, 2014 through December 31, 2018. The discount rate was subsequently reduced from 7.5 percent to 7.25 percent as of the December 31, 2019 measurement date. The Plan was amended to provide automatic increases to retirees for benefits limited under Code §415(d), effective January 1, 2020.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013. Subsequent revisions to lump sum and post-disability assumptions were based upon updated experience through December 31, 2015 and to retirement and termination rates and expense assumptions based upon updated experience through December 31, 2016.

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, 2019 and 2018 are summarized in the following table. The real rate of return reported for fixed income is for aggregate fixed income. The Plan has both aggregate and long duration fixed income.

	Long Term Expected Real Rate of Return	
Asset Class	**2019**	**2018**
Domestic equity	5.5%	5.8%
Non-U.S. equity	6.4%	6.9%
Real estate equity	5.9%	6.0%
Debt securities	1.5%	1.7%
Cash and deposits	0.6%	0.7%

Discount rate

The discount rate used to measure the total pension liability was 7.25 percent as of December 31, 2019, and 7.5 percent as of December 31, 2018. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate
The following presents the net pension liability of the Plan as of December 31, 2019, calculated using the discount rate of 7.25 percent, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one percent lower (6.25 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 (surplus)	$ 946,692	$ (19,121,375)	$ (36,452,396)

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

For the year ended June 30, 2020, KUB recognized pension expense of $2,673,376 (Division's share $347,539).

The impact of experience gains or losses and assumption changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2018, this average was 5.00 years. During the measurement year, there was an experience gain of $1,054,117, with $210,822 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $843,295 (Division's share $109,628). Unrecognized experience gains from prior periods were $2,408,388, of which $1,163,381 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,245,007 (Division's share $161,851).

During the measurement year, there was an assumption change loss of $8,473,160, with $1,694,632 of that recognized in the current year and each of the next four years, resulting in a deferred outflow of $6,778,528 (Division's share $881,209). Unrecognized assumption change decreases from prior periods were $1,387,733, of which $658,104 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $729,629 (Division's share $94,852).

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The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of $34,889,331, of which $6,977,866 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were $15,614,774, of which $5,418,519 was recognized as an increase in pension expense in the current year. The combination of unrecognized investment gains this year along with the net unrecognized investment losses from prior periods results in a net difference between projected and actual earnings on pension plan investments as of December 31, 2019 of $17,715,210 (Division's share $2,302,977). The following table summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years. In addition, KUB recorded a deferred outflow of resources of $1,292,915 (Division's share $168,079) at June 30, 2020 for employer contributions made between December 31, 2019 and June 30, 2020.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,088,302
Changes in assumptions	6,778,528	729,629
Net difference between projected and actual earnings on pension plan investments	-	17,715,210
Contributions subsequent to measurement date	1,292,915	-
Total	$ 8,071,443	$ 20,533,141
Division's share	$ 1,049,288	$ 2,669,308

$1,292,915 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, 2021. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2021	$ (4,595,539)
2022	(3,722,647)
2023	57,633
2024	(5,494,060)
Thereafter	-

For the year ended June 30, 2019, KUB recognized pension expense of $4,128,608 (Division's share $536,719).

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, 2017, this average was 5.00 years. During the measurement year, there was an experience gain of $605,649, with $121,129 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $484,520 (Division's share $62,988). Unrecognized experience gains from prior periods were $2,966,120, of which $1,042,251 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,923,868 (Division's share $250,103).

During the measurement year, there were no benefit changes or assumption changes. Unrecognized assumption change decreases from prior periods were $2,045,837, of which $658,104 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,387,733 (Division's share $180,405).

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 $28,364,098, of which $5,672,818 was recognized in the current year and an identical amount will be recognized in each of the next four years. Net unrecognized investment gains from prior periods were $8,925,385, of which $1,848,878 was recognized as a decrease in pension expense in the current year. The combination of unrecognized investment losses 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, 2018 of $15,614,774 (Division's share $2,029,921).

The following table summarizes the current balances of deferred outflows and deferred inflows of resources. In addition, KUB recorded a deferred outflow of resources of $1,578,332 (Division's share $205,183) at June 30, 2019 for employer contributions made between December 31, 2018 and June 30, 2019.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,408,388
Changes in assumptions	-	1,387,733
Net difference between projected and actual earnings on pension plan investments	15,614,774	-
Contributions subsequent to measurement date	1,578,332	-
Total	$ 17,193,106	$ 3,796,121
Division's share	$ 2,235,104	$ 493,496

11. Qualified Excess Benefit Arrangement

Description

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

As of June 30, 2020, there are 532 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. There is currently one member receiving benefits under the QEBA. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the KUB Pension Plan. The KUB Pension Plan was amended to include the provision of QEBA benefits; therefore, amendments to the QEBA require the same authority as amendments to the KUB Pension Plan. As required by federal tax law, the QEBA is unfunded within the meaning of the federal tax laws. KUB may not pre-fund the QEBA to cover future liabilities beyond the current year. KUB has established procedures to pay for these benefits on a pay-as-you-go basis, funded by KUB. There are no assets accumulated in a trust that meets the GASB's criteria.

Total Pension Liability of the QEBA

The below summarizes the disclosures of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"). GASB 73 extends a similar approach of financial reporting to plans meeting specific criteria that are not administered through trusts that GASB 68 established for pension plans. GASB 73 requires measurement of the total pension liability of the QEBA. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a December 31, 2019 and 2018 measurement date, respectively. The Division's share of the total pension liability was $2,631 at June 30, 2020, and $30,145 at June 30, 2019.

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

	2019	**2018**
Total pension liability	$20,236	$231,883
Deferred outflows	(45,559)	(52,287)
Deferred inflows	35,445	47,260
Net impact on Statement of Net Position	$10,122	$226,856
Covered payroll	$40,276,197	$42,150,040
Total pension liability as a % of covered payroll	0.05%	0.55%

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

	Increase (Decrease) Total Pension Liability
Balances at December 31, 2018	$ 231,883
Changes for the year:	
Service cost	-
Interest	9,181
Changes of Benefits	(218,272)
Differences between Expected and Actual Experience	34
Changes of Assumptions	13,342
Benefit payments	(15,932)
Net changes	(211,647)
Balances at December 31, 2019	$ 20,236

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

Valuation dates	December 31, 2019 and December 31, 2018
Actuarial cost method	Individual entry age
Salary increase	From 2.80% to 5.15%, based on years of service
Mortality	115% and 110% of the Public Sector General Healthy Annuitant Mortality Table (PubG-2010), for males and females, respectively, using the Public Sector General Employee Table for ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of December 31, 2019; Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA as of December 31, 2018
Inflation	2.5% as of December 31, 2019, and 2.8% as of December 31, 2018

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2014 through December 31, 2018. The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013. Subsequent revisions to lump sum and post-disability assumptions were based upon updated experience through December 31, 2015 and to retirement and termination rates and expense assumptions based upon updated experience through December 31, 2016.

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 2.74% at December 31, 2019.

Sensitivity of the total pension liability to changes in the discount rate
The following presents the total pension liability of the QEBA as of December 31, 2019, calculated using the discount rate of 2.74 percent, as well as what the QEBA's total pension liability would be if it were calculated using a discount rate that is one percent lower (1.74 percent) or one percent higher (3.74 percent) than the current rate:

	1% Decrease (1.74%)	Current Discount Rate (2.74%)	1% Increase (3.74%)
QEBA's total pension liability	$ 20,423	$ 20,236	$ 20,053

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

For the year ended June 30, 2020, KUB recognized pension expense of ($199,098) for the QEBA (Division's share $25,883). This amount is not expected to be the same as KUB's contribution to the QEBA ($17,636), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [$10,122 - $226,856 + $17,636].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2018, this average was 5 years. During the measurement year, there was an experience loss of $34, with $7 recognized in the current year and each of the next four years, resulting in a deferred outflow of $27 (Division’s share $4). There was a deferred inflow at the end of the measurement year of $21,675 (Division’s share $2,818) from experience gains in prior years and a deferred outflow of $5,473 (Division’s share $711) from experience losses in prior years.

During the measurement year, the Plan was amended to provide automatic increases to retirees for benefits limited under Code §415(d), resulting in a change in benefits of $218,272 that was recognized in the current year (Division’s share $28,375). There was an increase in the total pension liability due to assumption changes of $13,342, with $2,668 recognized in the current year and each of the next four years, resulting in a deferred outflow of $10,674 (Division’s share $1,387). There was a deferred inflow at the end of the measurement year of $13,770 (Division’s share $1,790) and a deferred outflow of $29,385 (Division’s share $3,820) from assumption changes in prior years. In addition, KUB recorded a deferred outflow of resources of $6,083 at June 30, 2020 for contributions between December 31, 2019 and June 30, 2020 (Division’s share $791).

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 5,500	$ 21,675
Changes in assumptions	40,059	13,770
Contributions subsequent to measurement date	6,083	-
Total	$ 51,642	$ 35,445
Division's share	$ 6,713	$ 4,608

$6,083 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total pension liability in the year ended June 30, 2021 (Division’s share $791). Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2021	$ 8,289
2022	8,289
2023	(9,140)
2024	2,676
Thereafter	-

For the year ended June 30, 2019, KUB recognized pension expense of $29,543 for the QEBA (Division’s share $3,841). This amount is not expected to be the same as KUB’s contribution to the QEBA ($13,312), but instead represents the change in the net impact on KUB’s Statement of Net Position plus employer contributions [$226,856 - $210,625 + $13,312].

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, 2017, this average was 5 years. During the measurement year, there was an experience gain of $36,125, with $7,225 recognized in the current year and each of the next four years, resulting in a deferred inflow of $28,900 (Division's share $3,757). There was a deferred outflow at the end of the measurement year of $8,210 from experience losses in prior years (Division's share $1,067).

During the measurement year, there were no benefit changes. There was a decrease in the total pension liability due to assumption changes of $22,950, with $4,590 recognized in the current year and each of the next four years, resulting in a deferred inflow of $18,360 (Division's share $2,387). There was a deferred outflow at the end of the measurement year of $44,077 from assumption changes in prior years (Division's share $5,730). In addition, KUB recorded a deferred outflow of resources of $7,242 at June 30, 2019 for contributions between December 31, 2018 and June 30, 2019 (Division's share $942).

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	$ 8,210	$ 28,900
Changes in assumptions	44,077	18,360
Contributions subsequent to measurement date	7,242	-
Total	$ 59,529	$ 47,260
Division's share	$ 7,739	$ 6,144

12. Defined Contribution Plan

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

KUB funded 401(k) matching contributions and nonelective contributions of $2,469,273 (Division's share $321,006) and $2,410,201 (Division's share $313,326), respectively, for the years ended June 30, 2020 and 2019.

13. Other Post-Employment Benefits (OPEB)

Description of Trust

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

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

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

	2020	**2019**
Retirees	555	554
Dependents of retirees	576	550
Eligible active employees	181	288
Total	1,312	1,392

Benefits

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

Contributions and Plan Funding

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

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

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

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

Investments

The Trust holds investments in a balanced fund, which invests in passively managed common trust index funds, managed and sponsored by State Street Global Advisors (SSgA), with an asset allocation mirroring the asset allocation of the Trust and rebalanced monthly. The Trust's Investment Policy was established and may only be amended by the KUB Board of Commissioners. The Trust’s Investment Policy is to invest in a manner that will provide sufficient investment return to meet current and future retiree health benefits, while conforming to all governing State and Federal statutes. It allows investment of Trust assets in any type of security instrument allowed for in T.C.A 8-50-1203. The following was the Trust’s adopted investment target allocations as set forth in the Trust’s Investment Policy as of June 30, 2020:

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

An actuarially determined contribution of $311,324 was made to the OPEB Trust in fiscal year ended June 30, 2020 (Division’s share $40,472). No contribution was made to the OPEB Trust for the fiscal year ended June 30, 2019. These were based on the OPEB Plan’s actuarial valuations as of January 1, 2018, and 2017.

Net OPEB Liability

The below summarizes the disclosures of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“GASB 75”), which requires measurement of the net OPEB liability as total OPEB liability less the amount of the Trust’s fiduciary net position. The amounts reported as of June 30 are based on the reporting date for the KUB Other Post-Employment Benefits Plan which is June 30. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2020 and 2019 and the Total OPEB Liability as of the valuation date, January 1, 2019 updated to June 30, 2020, and January 1, 2018 updated to June 30, 2019, respectively. The Division’s share of the total net OPEB liability was $986,628 at June 30, 2020 and $188,207 at June 30, 2019. There was one significant event between the valuation date and the measurement date for June 30, 2020 where the discount rate was reduced from 7.5% to 7.25%.

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

	2020	**2019**
Total OPEB liability	$ 54,544,240	$ 50,197,938
Plan fiduciary net position	46,954,793	48,750,196
Net OPEB liability	$ 7,589,447	$ 1,447,742
Plan fiduciary net position as a percentage of the total OPEB liability	86.09%	97.12%

Changes in Net OPEB Liability are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2019	$ 50,197,938	$ 48,750,196	$ 1,447,742
Changes for the year:			
Service cost	256,270	-	256,270
Interest	3,672,291	-	3,672,291
Changes of Benefits	(202,408)	-	(202,408)
Differences between Expected and Actual Experience	43,902	-	43,902
Changes of Assumptions	3,604,843	-	3,604,843
Contributions - employer	-	311,324	(311,324)
Contributions - member	-	-	-
Net investment income	-	975,155	(975,155)
Benefit payments	(3,028,596)	(3,028,596)	-
Administrative expense	-	(53,286)	53,286
Net changes	4,346,302	(1,795,403)	6,141,705
Balances at June 30, 2020	$ 54,544,240	$ 46,954,793	$ 7,589,447

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, 2019, updated to June 30, 2020; January 1, 2018, updated to June 30, 2019
Discount rate:	7.25% as of January 1, 2019; 7.5% as of January 1, 2018
Healthcare cost trend rates:	Pre-Medicare: 7.83% grading down to 4.50% over 19 years as of January 1, 2019; 8.00% grading down to 4.50% over 20 years as of January 1, 2018 Medicare: 6.88% grading down to 4.50% over 19 years as of January 1, 2019; 7.00% grading down to 4.50% over 20 years as of January 1, 2018 Administrative expenses: 3.0% per year

Salary increases:	From 2.50% to 5.65%, based on years of service as of January 1, 2019; From 2.80% to 5.15%, based on years of service as of January 1, 2018
Mortality:	115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), for males and females, respectively, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational as of January 1, 2019; Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA as of January 1, 2018
Inflation:	2.5% as of January 1, 2019; 2.8% as of January 1, 2018

The actuarial assumptions used in the January 1, 2019 and January 1, 2018 valuations were based on the results of actuarial experience studies for the periods January 1, 2014 through December 31, 2018 and January 1, 2009 through December 31, 2013, respectively. The discount rate was subsequently reduced to 7.25 percent from 7.50 percent as of January 1, 2020; therefore, the new rate was used to calculate the OPEB liability as of June 30, 2020.

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

	Long Term Expected Real Rate of Return	
Asset Class	**2020**	**2019**
Domestic equity	5.4%	5.5%
International equity	6.4%	6.4%
Real estate equity	5.8%	5.9%
Debt securities	0.2%	1.5%
Cash and deposits	(0.2%)	0.6%

Discount rate

The discount rate used to measure the total OPEB liability was 7.25 percent and 7.5 percent as of June 30, 2020 and 2019, respectively. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate.
The following presents the net OPEB liability of the Trust as of June 30, 2020, calculated using the discount rate of 7.25 percent, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is 1 percent lower (6.25 percent) or 1 percent higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	**Current Discount Rate (7.25%)**	**1% Increase (8.25%)**
Net OPEB liability	$ 12,643,555	$ 7,589,447	$ 3,282,461

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.
The following presents the net OPEB liability of the Trust as of June 30, 2020, as well as what the Trust's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percent lower or 1 percent higher than the current rate:

	1% Decrease	**Baseline Trends**	**1% Increase**
Net OPEB liability	$ 2,482,856	$ 7,589,447	$ 13,485,387

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

For the year ended June 30, 2020, KUB recognized OPEB expense of $4,767,499 (Division's share $619,775).

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was 2.0 years. During the measurement year, there was an experience loss of $43,902, with $21,951 of that recognized in the current year and the remaining amount will be recognized in the next year, resulting in a deferred outflow of resources of $21,951 (Division's share $2,854). Unrecognized experience losses from prior periods were $499,549, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there were benefit changes that decreased the expense by $202,408. There was an increase in the Total OPEB Liability due to assumption changes of $3,604,843, with $1,802,422 of that recognized in the current year and in the next year, resulting in a deferred outflow of $1,802,421 (Division's share $234,314). Unrecognized assumption changes from prior periods were $1,615,800, of which the entire amount is recognized as an increase in OPEB expense in the current year.

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment loss of $2,579,092, of which $515,818 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred outflow of resources as of June 30, 2020 of $2,063,274 (Division's share $268,226). Net unrecognized investment losses from prior periods were $377,831, of which $86,767 was recognized as an increase in OPEB expense in the current year and resulting in a net deferred outflow of $291,064 (Division's share $37,838). The table below summarizes the current balances of deferred outflows and deferred inflows of resources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 21,951	$ -
Changes in assumptions	1,802,421	-
Net difference between projected and actual earnings on OPEB plan investments	2,354,338	-
Total	$ 4,178,710	$ -
Division's share	$ 543,232	$ -

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

Year ended June 30:	
2021	$ 2,426,957
2022	602,586
2023	633,347
2024	515,820
2025	-
Thereafter	-

For the year ended June 30, 2019, KUB recognized OPEB expense of $3,046,377 (Division's share $396,029).

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 $999,098, with $499,549 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 $499,549 (Division's share $64,941). Unrecognized experience losses from prior periods were $662,384, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there were no benefit changes. There was an increase in the Total OPEB Liability due to assumption changes of $3,231,601, with $1,615,801 of that recognized in the current year and in the next year, resulting in a deferred outflow of $1,615,800 (Division's share $210,054). Unrecognized assumption changes from prior periods were ($198,590), 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 $587,645, of which $117,529 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 $123,047, of which $30,762 was recognized as a decrease in OPEB expense in the current year. The combination of unrecognized investment losses this year along with the net unrecognized investment gains from prior periods results in a net difference between projected and actual earnings on OPEB plan investments as of June 30, 2019 of $377,831 (Division's share $49,118). The following table summarizes the current balances of deferred outflows and deferred inflows of resources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 499,549	$ -
Changes in assumptions	1,615,800	-
Net difference between projected and actual earnings on OPEB plan investments	377,831	-
Total	$ 2,493,180	$ -
Division's share	$ 324,113	$ -

14. Related Party Transactions

The Division, in the normal course of operations, is involved in transactions with the City of Knoxville and with other divisions of KUB. Such transactions for the years ended June 30, 2020 and 2019 are summarized as follows:

	2020	**2019**
City of Knoxville		
Amounts billed by the Division for utilities and related services	$ 5,052,837	$ 4,755,382
Payments by the Division in lieu of property tax	3,378,895	3,511,656
Payments by the Division for services provided	296,940	292,759
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	432,749	421,675
Interdivisional rental expense	586,708	232,903
Interdivisional rental income	158,605	96,590
Amounts billed to the Division by other divisions for utilities services provided	3,404,830	3,089,267

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

	2020	**2019**
Accounts receivable	$ 397,575	$ 406,848

15. Other Commitments and Contingencies

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

16. Risks and Uncertainties

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

Knoxville Utilities Board Water Division

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

June 30, 2020

	*Year ended December 31					
	2019	**2018**	**2017**	**2016**	**2015**	**2014**
Total pension liability						
Service cost	$ 6,142,213	$ 5,095,488	$ 4,607,486	$ 4,226,985	$ 4,157,062	$ 4,092,808
Interest	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	(1,054,117)	(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	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)	(15,533,167)
Net change in total pension liability	14,660,606	4,559,218	3,207,995	(111,612)	1,728,586	3,258,298
Total pension liability - beginning	212,157,951	207,598,733	204,390,738	204,502,350	202,773,764	199,515,466
Total pension liability - ending (a)	$ 226,818,557	$ 212,157,951	$ 207,598,733	$ 204,390,738	$ 204,502,350	$ 202,773,764
Plan fiduciary net position						
Contributions - employer	$ 2,871,241	$ 3,456,475	$ 4,286,597	$ 5,243,146	$ 5,991,887	$ 5,908,541
Contributions - participants	3,170,825	2,081,125	1,488,632	555,075	487,546	475,854
Net investment income	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)	22,292,369
Other additions	13,579	62,616	82,239	45,848	30,879	29,733
Benefit payments, including refunds of member contributions	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)	(15,405,167)
Administrative expense	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)	(378,085)
Death benefits	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)	(128,000)
Net change in plan fiduciary net position**	40,431,737	(21,868,910)	22,862,426	5,052,489	(9,333,204)	12,795,245
Plan fiduciary net position - beginning**	205,508,195	227,377,105	204,514,679	199,462,190	208,795,394	196,000,149
Plan fiduciary net position - ending (b)**	$ 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)	$ (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	108.43%	96.87%	109.53%	100.06%	97.54%	102.97%
Covered payroll	$ 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	(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.

Knoxville Utilities Board Water Division
Required Supplementary Information – Schedule of Employer Pension Contributions
June 30, 2020

	*Year ended December 31					
	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 2,871,241	$ 3,456,475	$ 4,286,597	$ 5,243,146	$ 5,991,887	$ 5,908,541
Contribution in relation to the actuarially determined contribution	2,871,241	3,456,475	4,286,597	5,243,146	5,991,887	5,908,541
Contribution deficiency	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 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	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, 2018 and January 1, 2017

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 23 years remaining (24 years as of January 1, 2017), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2018, the unfunded liability was negative.
Discount rate:	7.5%
Salary increases:	2.80% to 5.15%, based on years of service
Mortality:	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation:	2.8%

* 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.

Knoxville Utilities Board Water Division
Required Supplementary Information – Schedule of Changes in Net OPEB Liability and Related Ratios
June 30, 2020

	*Year ended June 30 2020	2019	2018
Total OPEB liability			
Service cost	$ 256,270	$ 270,515	$ 202,603
Interest	3,672,291	3,624,737	3,295,240
Change of benefit terms	(202,408)	-	-
Differences between expected and actual experience	43,902	999,098	1,324,769
Changes of assumptions	3,604,843	3,231,601	(397,180)
Benefit payments	(3,028,596)	(3,532,444)	(3,298,739)
Net change in total OPEB liability	4,346,302	4,593,507	1,126,693
Total OPEB liability - beginning	50,197,938	45,604,431	44,477,738
Total OPEB liability - ending (a)	$ 54,544,240	$ 50,197,938	$ 45,604,431
Plan fiduciary net position			
Contributions - employer	$ 311,324	$ -	$ -
Net investment income	975,155	2,981,928	3,705,473
Benefit payments	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	(53,286)	(54,787)	(51,668)
Net change in plan fiduciary net position	(1,795,403)	(605,303)	355,066
Plan fiduciary net position - beginning	48,750,196	49,355,499	49,000,433
Plan fiduciary net position - ending (b)	$ 46,954,793	$ 48,750,196	$ 49,355,499
Net OPEB liability (asset) - ending (a) - (b)	$ 7,589,447	$ 1,447,742	$ (3,751,068)
Plan fiduciary net position as a percentage of the total OPEB liability	86.09%	97.12%	108.23%
Covered employee payroll	$ 23,363,536	$ 24,346,735	$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	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.

Knoxville Utilities Board Water Division
Required Supplementary Information – Schedule of Employer OPEB Contributions
June 30, 2020

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

Notes to Schedule:

Valuation Date:	January 1, 2018 and January 1, 2017
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 18 years remaining as of January 1, 2018 (19 years as of January 1, 2017), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2018, the unfunded liability was negative
Discount rate:	7.5%
Healthcare cost trend rate:	Pre-Medicare: 8% grading down to 4.5% over 20 years as of January 1, 2018; 7.83% to 4.5% over 19 years as of January 1, 2017 Medicare: 7% grading down to 4.5% over 20 years as of January 1, 2018; 6.88% to 4.5% over 19 years as of January 1, 2017 Administrative expenses: 3.0% per year
Salary increases:	From 2.8% to 5.15%, based on years of service
Mortality:	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation:	2.8%
Investment rate of return:	7.5%
Retirement age:	2% at ages 50-57 at January 1, 2018 and January 1, 2017, respectively, 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.

Knoxville Utilities Board Water Division
Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement
Schedule of Changes in Total Pension Liability and Related Ratios
June 30, 2020

	*Year ended December 31			
	2019	**2018**	**2017**	**2016**
Total pension liability				
Service cost	$ -	$ 941	$ 584	$ -
Interest (includes interest on service cost)	9,181	9,676	7,535	-
Changes of benefit terms	(218,272)	-	-	185,077
Differences between expected and actual experience	34	(36,125)	13,684	-
Changes of assumptions	13,342	(22,950)	73,461	-
Benefit payments, including refunds of member contributions	(15,932)	-	-	-
Net change in total pension liability	(211,647)	(48,458)	95,264	185,077
Total pension liability - beginning	231,883	280,341	185,077	-
Total pension liability - ending	$ 20,236	$ 231,883	$ 280,341	$ 185,077
Covered payroll	$ 40,276,197	$ 42,150,040	$ 43,309,374	$ 44,437,747
Total pension liability as a percentage of covered payroll	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.

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2020

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	X-2012		Y-2013		Z-2013		AA-2014		BB-2015		CC-2015	
FY	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
20-21	625,000	235,500	350,000	235,400	575,000	947,375	175,000	243,250	960,000	680,200	450,000	650,406
21-22	655,000	204,250	375,000	221,400	600,000	930,125	175,000	238,000	1,000,000	661,000	475,000	632,406
22-23	670,000	184,600	400,000	210,150	625,000	912,125	200,000	231,000	1,050,000	611,000	475,000	613,406
23-24	690,000	164,500	415,000	198,150	625,000	893,375	200,000	223,000	1,110,000	558,500	500,000	599,156
24-25	710,000	143,800	435,000	185,700	650,000	874,625	200,000	215,000	1,170,000	503,000	525,000	587,906
25-26	735,000	120,725	450,000	172,650	675,000	852,688	225,000	209,000	1,210,000	467,900	550,000	574,782
26-27	765,000	95,000	470,000	159,150	700,000	828,219	225,000	202,250	1,245,000	428,575	550,000	560,344
27-28	790,000	64,400	1,250,000	145,050	750,000	800,219	225,000	195,500	1,260,000	385,000	575,000	543,844
28-29	820,000	32,800	1,300,000	107,550	775,000	770,219	250,000	188,750	1,275,000	340,900	600,000	526,594
29-30			2,285,000	68,550	800,000	738,250	250,000	181,250	1,315,000	296,275	625,000	508,594
30-31					825,000	704,250	275,000	173,438	2,740,000	256,825	650,000	489,063
31-32					850,000	669,188	275,000	164,844	2,800,000	174,625	675,000	467,938
32-33					900,000	632,000	300,000	155,906	2,900,000	90,625	700,000	446,000
33-34					925,000	591,500	300,000	146,156			725,000	418,000
34-35					950,000	549,875	325,000	136,032			750,000	389,000
35-36					1,000,000	507,125	325,000	124,656			775,000	359,000
36-37					1,025,000	460,875	350,000	113,282			800,000	330,906
37-38					1,075,000	413,469	350,000	101,031			825,000	301,906
38-39					1,100,000	363,750	375,000	88,781			875,000	272,000
39-40					1,150,000	308,750	375,000	75,656			900,000	237,000
40-41					1,200,000	251,250	400,000	62,531			925,000	201,000
41-42					1,225,000	191,250	425,000	48,031			975,000	164,000
42-43					1,275,000	130,000	450,000	32,625			1,000,000	125,000
43-44					1,325,000	66,250	450,000	16,313			1,050,000	85,000
44-45											1,075,000	43,000
45-46												
46-47												
47-48												
48-49												
	6,460,000	$ 1,245,575	$ 7,730,000	$ 1,703,750	$ 21,600,000	$ 14,386,752	$ 7,100,000	$ 3,566,282	$ 20,035,000	$ 5,454,425	$ 18,025,000	$ 10,126,251

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2020

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	DD-2016		EE-2016		FF-2017		GG-2017		HH-2018	
FY	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
20-21	550,000	744,750	1,155,000	520,644	495,000	162,300	415,000	648,806	395,000	695,313
21-22	575,000	717,250	1,245,000	462,894	510,000	147,450	440,000	628,056	410,000	683,462
22-23	625,000	688,500	1,315,000	400,644	530,000	127,050	460,000	606,056	430,000	662,963
23-24	650,000	657,250	1,380,000	334,894	550,000	105,850	485,000	583,056	440,000	650,062
24-25	675,000	624,750	1,435,000	307,294	575,000	78,350	505,000	558,806	465,000	628,063
25-26	700,000	604,500	1,460,000	278,594	605,000	49,600	530,000	533,556	485,000	604,813
26-27	725,000	583,500	1,515,000	249,394	635,000	25,400	555,000	512,356	510,000	580,562
27-28	750,000	561,750	1,560,000	219,094			575,000	490,156	535,000	555,063
28-29	775,000	539,250	1,605,000	187,894			590,000	477,938	555,000	539,013
29-30	800,000	516,000	1,645,000	155,794			600,000	464,662	570,000	522,362
30-31	825,000	492,000	1,710,000	120,838			625,000	440,663	590,000	504,550
31-32	825,000	467,250	1,750,000	82,362			650,000	415,662	605,000	485,375
32-33	850,000	442,500	1,810,000	42,988			675,000	389,662	625,000	464,956
33-34	900,000	417,000					695,000	369,413	645,000	444,644
34-35	925,000	390,000					715,000	348,563	670,000	423,681
35-36	950,000	362,250					740,000	327,112	690,000	401,906
36-37	975,000	333,750					760,000	304,913	710,000	379,481
37-38	1,000,000	304,500					785,000	282,112	735,000	356,406
38-39	1,025,000	274,500					805,000	258,562	760,000	331,600
39-40	1,050,000	243,750					830,000	234,413	785,000	305,950
40-41	1,100,000	212,250					855,000	208,475	815,000	274,550
41-42	1,125,000	179,250					885,000	181,756	850,000	241,950
42-43	1,150,000	145,500					910,000	154,100	885,000	207,950
43-44	1,200,000	111,000					940,000	125,662	920,000	172,550
44-45	1,225,000	75,000					970,000	96,288	950,000	140,350
45-46	1,275,000	38,250					1,000,000	65,976	985,000	107,100
46-47							1,030,000	33,476	1,020,000	72,625
47-48									1,055,000	36,925
48-49										
	$ 23,225,000	$ 10,726,250	$ 19,585,000	$ 3,363,328	$ 3,900,000	$ 696,000	$ 19,025,000	$ 9,740,256	$ 19,090,000	$ 11,474,225

Knoxville Utilities Board Water Division
Supplemental Information - Schedule of Debt Maturities by Fiscal Year
June 30, 2020

Continued from Previous Page

	II-2019		JJ-2020		TOTAL		Grand
FY	Principal	Interest	Principal	Interest	Principal	Interest	Total
20-21	365,000	685,050	630,000	513,670	7,140,000	6,962,664	14,102,664
21-22	380,000	666,800	495,000	631,300	7,335,000	6,824,393	14,159,393
22-23	400,000	647,800	445,000	616,450	7,625,000	6,511,744	14,136,744
23-24	420,000	627,800	445,000	603,100	7,910,000	6,198,693	14,108,693
24-25	440,000	606,800	450,000	580,850	8,235,000	5,894,944	14,129,944
25-26	465,000	584,800	460,000	558,350	8,550,000	5,611,958	14,161,958
26-27	485,000	561,550	465,000	535,350	8,845,000	5,321,650	14,166,650
27-28	510,000	537,300	465,000	512,100	9,245,000	5,009,476	14,254,476
28-29	535,000	511,800	470,000	488,850	9,550,000	4,711,558	14,261,558
29-30	565,000	485,050	475,000	465,350	9,930,000	4,402,137	14,332,137
30-31	590,000	456,800	480,000	441,600	9,310,000	4,080,027	13,390,027
31-32	615,000	433,200	475,000	427,200	9,520,000	3,787,644	13,307,644
32-33	635,000	414,750	470,000	412,950	9,865,000	3,492,337	13,357,337
33-34	655,000	395,700	1,965,000	398,850	6,810,000	3,181,263	9,991,263
34-35	675,000	376,050	1,945,000	339,900	6,955,000	2,953,101	9,908,101
35-36	695,000	355,800	1,925,000	281,550	7,100,000	2,719,399	9,819,399
36-37	715,000	334,950	1,900,000	223,800	7,235,000	2,481,957	9,716,957
37-38	735,000	313,500	1,880,000	166,800	7,385,000	2,239,724	9,624,724
38-39	760,000	291,450	1,855,000	110,400	7,555,000	1,991,043	9,546,043
39-40	780,000	268,650	1,825,000	54,750	7,695,000	1,728,919	9,423,919
40-41	805,000	245,250			6,100,000	1,455,306	7,555,306
41-42	830,000	221,100			6,315,000	1,227,337	7,542,337
42-43	855,000	196,200			6,525,000	991,375	7,516,375
43-44	880,000	170,550			6,765,000	747,325	7,512,325
44-45	905,000	144,150			5,125,000	498,788	5,623,788
45-46	930,000	117,000			4,190,000	328,326	4,518,326
46-47	960,000	89,100			3,010,000	195,201	3,205,201
47-48	990,000	60,300			2,045,000	97,225	2,142,225
48-49	1,020,000	30,600			1,020,000	30,600	1,050,600
	$ 19,595,000	$ 10,829,850	$ 19,520,000	$ 8,363,170	$ 204,890,000	$ 91,676,114	$ 296,566,114

Knoxville Utilities Board Water Division

Supplemental Information - Schedule of Changes in Long-term Debt by Individual Issue

June 30, 2020

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding Balance 7/1/2019	Issued During Period	Paid/Matured During Period	Refunded During Period	Outstanding Balance 6/30/2020
Business-Type Activities									
<u>BONDS PAYABLE</u>									
<u>Payable through Water Fund</u>									
Revenue Bond, Series W-2011	25,000,000	2.0-5.0	12/01/11	03/01/40	$ 21,150,000	$	$ 550,000	$ 20,600,000	$ -
Revenue Bond Refunding, Series X-2012	10,050,000	3.0-5.0	04/20/12	03/01/29	7,050,000		590,000		6,460,000
Revenue Bond Refunding, Series Y-2013	9,285,000	3.0-4.0	03/15/13	03/01/30	8,070,000		340,000		7,730,000
Revenue Bond, Series Z-2013	25,000,000	2.0-5.0	10/01/13	03/01/44	22,150,000		550,000		21,600,000
Revenue Bond, Series AA-2014	8,000,000	2.0-4.0	09/18/14	03/01/44	7,275,000		175,000		7,100,000
Revenue Bond Refunding, Series BB-2015	23,005,000	2.0-5.0	05/01/15	03/01/33	20,985,000		950,000		20,035,000
Revenue Bond, Series CC-2015	20,000,000	2.0-4.0	05/20/15	03/01/45	18,450,000		425,000		18,025,000
Revenue Bond, Series DD-2016	25,000,000	3.0-5.0	08/05/16	03/01/46	23,750,000		525,000		23,225,000
Revenue Bond Refunding, Series EE-2016	20,875,000	2.0-5.0	08/05/16	03/01/33	20,675,000		1,090,000		19,585,000
Revenue Bond Refunding, Series FF-2017	5,310,000	3.0-5.0	04/07/17	03/01/27	4,375,000		475,000		3,900,000
Revenue Bond, Series GG-2017	20,000,000	2.125-5.0	09/15/17	03/01/47	19,420,000		395,000		19,025,000
Revenue Bond, Series HH-2018	19,995,000	3.0-5.0	09/14/18	03/01/48	19,470,000		380,000		19,090,000
Revenue Bond, Series II-2019	19,995,000	3.0-5.0	08/20/19	03/01/49	-	19,995,000	400,000		19,595,000
Revenue Bond Refunding, Series JJ-2020	19,520,000	3.0-5.0	05/22/20	03/01/40	-	19,520,000	-		19,520,000
					$ 192,820,000	$ 39,515,000	$ 6,845,000	$ 20,600,000	$ 204,890,000

Knoxville Utilities Board Water Division
Statistical Information - Schedule of Insurance in Force
June 30, 2020
(Unaudited)

Insurance coverage is for KUB as a consolidated entity.

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

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

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

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

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

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

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

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

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

Employee Health Plan Stop Loss Coverage
KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses in excess of $575,000 per individual participant.

Knoxville Utilities Board Water Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2020
(Unaudited)

Rate Class	Base Charge	Number of Customers
Residential Inside City rate	For water furnished to premises entirely within the corporate limits of the City of Knoxville:	56,462

Commodity Charge

First	2	100 Cubic Feet Per Month at $1.00 Per 100 Cubic Feet
Over	2	100 Cubic Feet Per Month at $2.65 Per 100 Cubic Feet

Additional Monthly Customer Charge

For	5/8" meter	$ 18.00
For	1" meter	32.10
For	1 1/2" meter	44.00
For	2" meter	60.00

Residential Outside City rate	For water furnished to premises upon which any water faucet or other outlet is outside the corporate limits of the City of Knoxville:	13,737

Commodity Charge

First	2	100 Cubic Feet Per Month at $1.05 Per 100 Cubic Feet
Over	2	100 Cubic Feet Per Month at $3.20 Per 100 Cubic Feet

Additional Monthly Customer Charge

For	5/8" meter	$ 19.40
For	1" meter	36.40
For	1 1/2" meter	50.40
For	2" meter	69.40

Knoxville Utilities Board Water Division
Statistical Information - Schedule of Current Rates in Force
June 30, 2020
(Unaudited)

Rate Class	Base Charge	Number of Customers
Non-Residential Inside City rate/ Industrial Park rate	For water furnished to premises entirely within the corporate limits of the City of Knoxville or within the boundaries of an area recognized as an industrial park by the Tennessee Department of Economic and Community Development:	10,061

Commodity Charge

First	2	100 Cubic Feet Per Month at $2.15 Per 100 Cubic Feet
Next	8	100 Cubic Feet Per Month at $4.55 Per 100 Cubic Feet
Next	90	100 Cubic Feet Per Month at $5.65 Per 100 Cubic Feet
Next	300	100 Cubic Feet Per Month at $4.20 Per 100 Cubic Feet
Next	4,600	100 Cubic Feet Per Month at $2.60 Per 100 Cubic Feet
Next	5,000	100 Cubic Feet Per Month at $1.20 Per 100 Cubic Feet

Additional Monthly Customer Charge

For	5/8" meter	$ 18.00
For	1" meter	32.10
For	1 1/2" meter	44.00
For	2" meter	60.00
For	3" meter	161.00
For	4" meter	266.00
For	6" meter	583.00
For	8" meter	1,026.00
For	10" meter	1,563.00
For	12" meter	2,311.00

Non-Residential Outside City rate	For water furnished to premises upon which any water faucet or other outlet is outside the corporate limits of the City of Knoxville, excluding premises within the boundaries of an area recognized as an industrial park by the Tennessee Department of Economic and Community Development:	701

Commodity Charge

First	2	100 Cubic Feet Per Month at $2.55 Per 100 Cubic Feet
Next	8	100 Cubic Feet Per Month at $5.30 Per 100 Cubic Feet
Next	90	100 Cubic Feet Per Month at $6.85 Per 100 Cubic Feet
Next	300	100 Cubic Feet Per Month at $4.90 Per 100 Cubic Feet
Next	4,600	100 Cubic Feet Per Month at $3.15 Per 100 Cubic Feet
Next	5,000	100 Cubic Feet Per Month at $1.45 Per 100 Cubic Feet

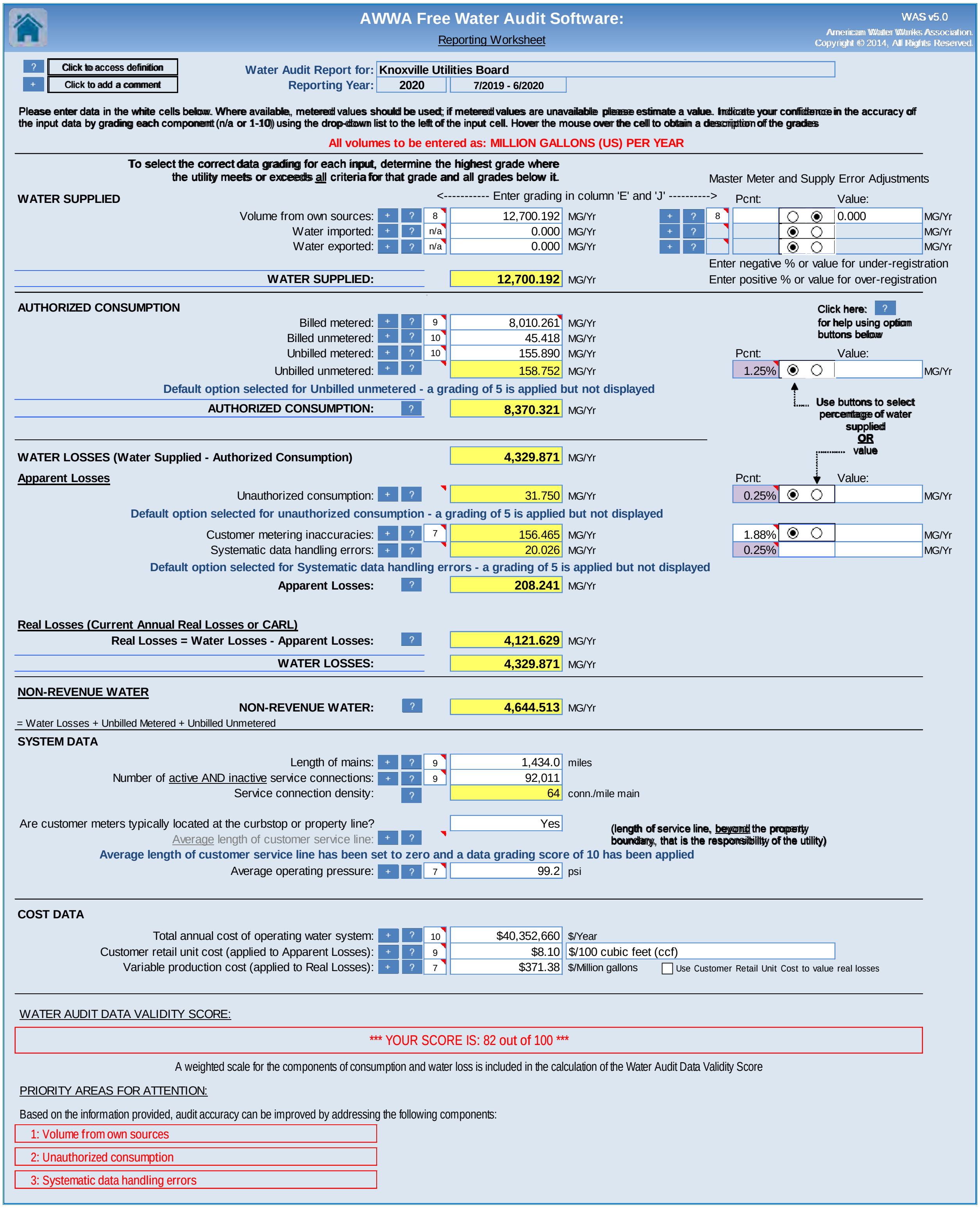
Additional Monthly Customer Charge

For	5/8" meter	$ 19.40
For	1" meter	36.40
For	1 1/2" meter	50.40
For	2" meter	69.40
For	3" meter	192.00
For	4" meter	321.00
For	6" meter	701.00
For	8" meter	1,231.00
For	10" meter	1,873.00
For	12" meter	2,775.00

Knoxville Utilities Board Water Division
Statistical Information - Schedule of Unaccounted for Water
June 30, 2020
(Unaudited)

The following unaudited Schedule of Unaccounted for Water is attached as required by the Tennessee Code Annotated. For reports submitted January 1, 2013 and later, the American Water Works Association (AWWA) water loss reporting model must be used. For fiscal years 2020 and 2019, water utilities are required to have a Validity Score greater than 80 and maintain non-revenue water as a percent by cost of operating system of less than 20%. For fiscal year 2020, KUB reported a Validity Score of 82 and non-revenue water as a percent by cost of operating system of 9.7%. For fiscal year 2019, KUB reported a Validity Score of 82 and non-revenue water as a percent by cost of operating system of 9.1%. See Statistical Information - Schedule of Unaccounted for Water for the AWWA Reporting Worksheet.

Knoxville Utilities Board Water Division
Statistical Information - Schedule of Unaccounted for Water
June 30, 2020
(Unaudited)



AWWA Free Water Audit Software:

Reporting Worksheet

WAS v5.0
American Water Works Association.
Copyright © 2014, All Rights Reserved.

Water Audit Report for: Knoxville Utilities Board
Reporting Year: 2020 7/2019 - 6/2020

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

Master Meter and Supply Error Adjustments

WATER SUPPLIED <----------- Enter grading in column 'E' and 'J' ---------->

	Grade	Value		Grade	Pcnt:		Value:	
Volume from own sources:	8	12,700.192	MG/Yr	8		○ ●	0.000	MG/Yr
Water imported:	n/a	0.000	MG/Yr			● ○		MG/Yr
Water exported:	n/a	0.000	MG/Yr			● ○		MG/Yr

Enter negative % or value for under-registration
Enter positive % or value for over-registration

WATER SUPPLIED: 12,700.192 MG/Yr

AUTHORIZED CONSUMPTION

Click here: ? for help using option buttons below

	Grade	Value		Pcnt:		Value:	
Billed metered:	9	8,010.261	MG/Yr				
Billed unmetered:	10	45.418	MG/Yr				
Unbilled metered:	10	155.890	MG/Yr				
Unbilled unmetered:		158.752	MG/Yr	1.25%	● ○		MG/Yr

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

AUTHORIZED CONSUMPTION: 8,370.321 MG/Yr

Use buttons to select percentage of water supplied **OR** value

WATER LOSSES (Water Supplied - Authorized Consumption) 4,329.871 MG/Yr

Apparent Losses

	Grade	Value		Pcnt:		Value:	
Unauthorized consumption:		31.750	MG/Yr	0.25%	● ○		MG/Yr

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

	Grade	Value		Pcnt		Value	
Customer metering inaccuracies:	7	156.465	MG/Yr	1.88%	● ○		MG/Yr
Systematic data handling errors:		20.026	MG/Yr	0.25%			MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

Apparent Losses: 208.241 MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: 4,121.629 MG/Yr

WATER LOSSES: 4,329.871 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 4,644.513 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

	Grade	Value	
Length of mains:	9	1,434.0	miles
Number of active AND inactive service connections:	9	92,011	
Service connection density:		64	conn./mile main

Are customer meters typically located at the curbstop or property line? Yes

Average length of customer service line: (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line has been set to zero and a data grading score of 10 has been applied

Average operating pressure: 7 99.2 psi

COST DATA

	Grade	Value	
Total annual cost of operating water system:	10	$40,352,660	$/Year
Customer retail unit cost (applied to Apparent Losses):	9	$8.10	$/100 cubic feet (ccf)
Variable production cost (applied to Real Losses):	7	$371.38	$/Million gallons

☐ Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 82 out of 100 ***

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

1: Volume from own sources

2: Unauthorized consumption

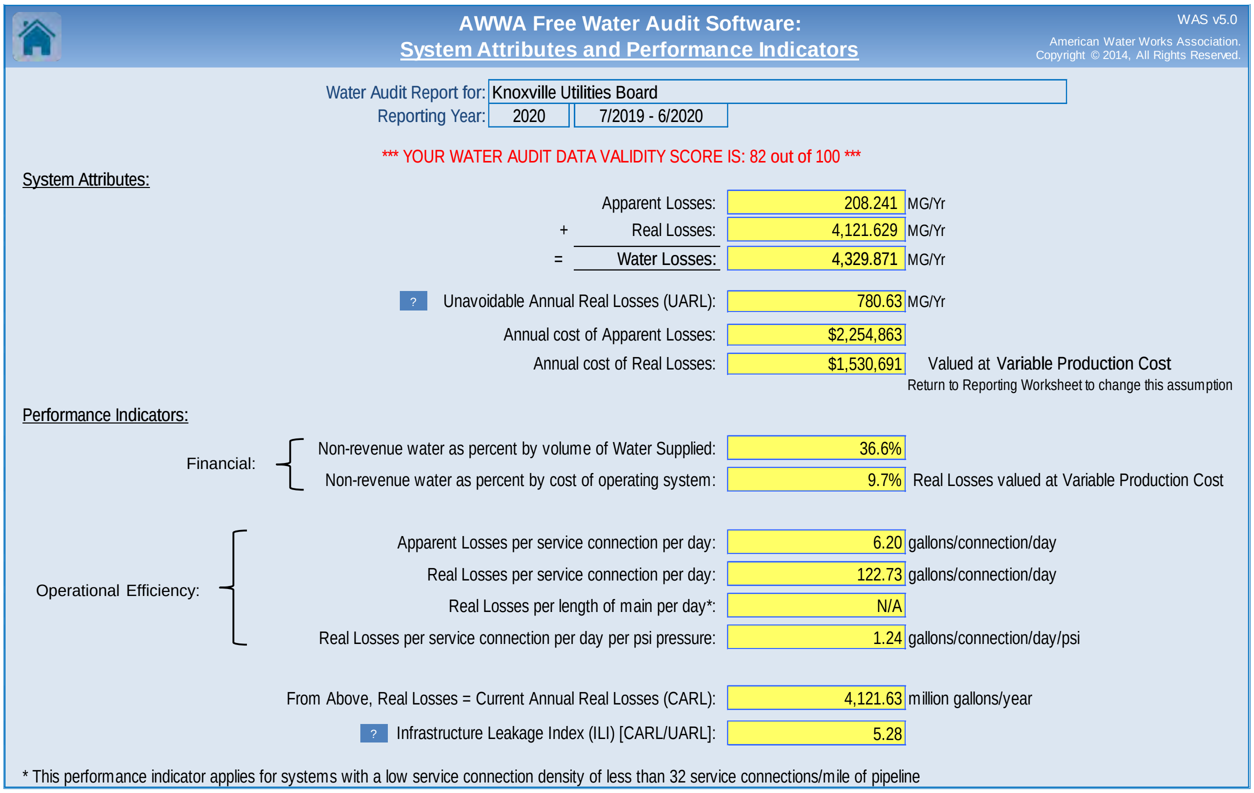
3: Systematic data handling errors

Knoxville Utilities Board Water Division

Statistical Information - Schedule of Unaccounted for Water

June 30, 2020

(Unaudited)



AWWA Free Water Audit Software:
System Attributes and Performance Indicators

Water Audit Report for: Knoxville Utilities Board
Reporting Year: 2020 7/2019 - 6/2020

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 82 out of 100 ***

System Attributes:

	Apparent Losses:	208.241	MG/Yr
+	Real Losses:	4,121.629	MG/Yr
=	Water Losses:	4,329.871	MG/Yr
?	Unavoidable Annual Real Losses (UARL):	780.63	MG/Yr
	Annual cost of Apparent Losses:	$2,254,863	
	Annual cost of Real Losses:	$1,530,691	Valued at Variable Production Cost Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial:	Non-revenue water as percent by volume of Water Supplied:	36.6%	
	Non-revenue water as percent by cost of operating system:	9.7%	Real Losses valued at Variable Production Cost
Operational Efficiency:	Apparent Losses per service connection per day:	6.20	gallons/connection/day
	Real Losses per service connection per day:	122.73	gallons/connection/day
	Real Losses per length of main per day*:	N/A	
	Real Losses per service connection per day per psi pressure:	1.24	gallons/connection/day/psi
	From Above, Real Losses = Current Annual Real Losses (CARL):	4,121.63	million gallons/year
	? Infrastructure Leakage Index (ILI) [CARL/UARL]:	5.28	

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

9717 Cogdill Road
Suite 201
Knoxville, TN 37932

COULTER & JUSTUS, P.C.

phone: (865) 637-4161
fax: (865) 524-2952
web: cj-pc.com

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Water Division (the Division) of the Knoxville Utilities Board, a component unit of the City of Knoxville, Tennessee, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements, and have issued our report thereon dated October 29, 2020.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Coulter & Justus, P.C.

Knoxville, Tennessee
October 29, 2020

Knoxville Utilities Board Water Division
Schedule of Findings and Questioned Costs
June 30, 2020

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.

Knoxville Utilities Board

Wastewater Division

Financial Statements and Supplemental Information
June 30, 2020 and 2019

KUB Board of Commissioners

Kathy Hamilton - Chair

Adrienne Simpson-Brown - Vice Chair

Dr. Jerry W. Askew

Celeste Herbert

Sara Hedstrom Pinnell

Tyvi Small

John Worden

Management

Gabriel Bolas II
President and
Chief Executive Officer

Mark Walker
Senior Vice President and
Chief Financial Officer

Susan Edwards
Senior Vice President and
Chief Administrative Officer

Derwin Hagood
Senior Vice President and
Chief Operating Officer

Eddie Black
Senior Vice President and
Chief Technology Officer

John Williams
Vice President of
Construction

Mike Bolin
Vice President of Utility
Advancement

Julie Childers
Vice President and
Century II Administrator

John Gresham
Vice President of
Operations

Knoxville Utilities Board Wastewater Division
Index
June 30, 2020 and 2019

9717 Cogdill Road
Suite 201
Knoxville, TN 37932

COULTER & JUSTUS, P.C.

phone: (865) 637-4161
fax: (865) 524-2952
web: cj-pc.com

Independent Auditor's Report

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

We have audited the accompanying financial statements of the Wastewater Division (the Division) of the Knoxville Utilities Board, a component unit of the City of Knoxville, Tennessee, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the index.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wastewater Division of the Knoxville Utilities Board as of June 30, 2020 and 2019, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Division's basic financial statements. The supplemental information which includes the Schedule of Expenditures of Federal Awards and State Financial Assistance, as required by Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State of Tennessee are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Wastewater Division and do not purport to, and do not, present fairly the financial position of the Knoxville Utilities Board, as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2020, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.

Coulter & Justus, P.C.

Knoxville, Tennessee
October 29, 2020

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions. The Wastewater Division (Division) provides services to certain customers in Knox County and in two surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners (NARUC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Wastewater Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2020 and 2019, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Division’s Management Discussion and Analysis (MD&A) focuses on the fiscal year ended June 30, 2020 activities, resulting changes and current known facts, and should be read in conjunction with the Division’s financial statements.

Wastewater Division Highlights

System Highlights

The wastewater service area covers 243 square miles and includes 72,246 wastewater customers. KUB maintains 1,318 miles of services mains, 76 pump stations, and 4 treatment plants to treat 16.7 billion gallons of wastewater on an annual basis. The average daily flow is 45.6 million gallons.

For the second year in a row, KUB’s system was impacted by excessive rainfall. After record setting levels in 2019, KUB experienced sustained rainfall amounts exceeding Knoxville’s ten-year average for eight months of fiscal year 2020. Despite the record rainfall levels, KUB’s wastewater system fared well. Excess flows were diverted to system storage allowing KUB to level out the impact of events over longer durations of time.

During March 2020, a global pandemic was declared related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). The pandemic has significantly impacted the economic conditions across the nation.

As a result of the pandemic, KUB quickly responded with changes to lessen the economic burden on customers by deferring proposed rate increases and suspending disconnections for nonpayment. To offset the reduced revenues, KUB delayed projects to create more financial liquidity. KUB plans to enroll customers with past due balances in repayment plans and resume disconnects for nonpayment.

KUB has added 1,495 wastewater system customers over the past three years, representing annual growth of less than one percent. In fiscal year 2020, 439 customers were added.

The typical residential wastewater customer’s average monthly wastewater bill was $65.50 as of June 30, 2020, representing an increase of 5 percent or $3 compared to June 30, 2019. The increase in the monthly bill reflects a rate increase effective July 2019.

KUB’s treatment plants continue to meet high standards of operation. KUB was awarded the National Association of Clean Water Agencies (NACWA) Water Resources Utility of the Future Today recognition under the category of Beneficial Biosolids Use for 2019. The treatment plants additionally won awards based on performance under NACWA’s peak performance recognition. Eastbridge and Fourth Creek wastewater treatment plants won silver awards for calendar year 2019.

KUB continued to maintain Platinum certification with the National Biosolids Partnership following a rigorous review process and independent audit that was conducted in December 2019. Biosolids are nutrient-rich organic matter produced by wastewater treatment and is a registered fertilizer with the Tennessee Department of Agriculture.

Century II Infrastructure Program

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

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

In June 2017, the Board approved the next phase of wastewater rate increases to support the Century II program. The three approved wastewater rate increases went into effect in July 2017, July 2018, and July 2019, generating $4.3 million, $4.2 million, and $4.5 million in additional annual Wastewater Division revenue, respectively.

In fiscal year 2020, KUB rehabilitated or replaced 24.2 miles of wastewater system mains, exceeding the target level of 22 miles, while staying within the Division’s total capital budget.

Consent Decree

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

The Consent Decree also required KUB to perform an evaluation of the wet weather performance and capacity of its wastewater treatment plants. In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB’s Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provides for a biologically enhanced high-rate clarification (the BEHRC) secondary treatment system to be installed at the Fourth Creek treatment plant by June 30, 2018 and at the Kuwahee treatment plant by June 30, 2021. KUB successfully completed the installation of the BEHRC system at the Fourth Creek treatment plant ahead of schedule in April 2018. Work is currently ongoing at the Kuwahee treatment plant and remains on schedule for completion before the deadline of June 30, 2021. The total cost of such improvements at the Kuwahee treatment plant is estimated to be approximately $50 million.

KUB's funding plan for the Consent Decree includes long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all types of wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2020, the Wastewater Division had issued $556.2 million in bonds to fund wastewater system capital improvements since the inception of the Consent Decree. The Board approved two 50 percent rate increases, which went into effect in April 2005 and January 2007. The Board also approved an 8 percent rate increase, which was effective in September 2008, two 12 percent rate increases, which were effective in April 2011 and October 2012, three 6 percent rate increases, which were effective October 2014, October 2015, and October 2016, and three 5 percent rate increases, which were effective July 2017, July 2018, and July 2019. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

KUB successfully completed the first cycle of Maintenance Operation Management (MOM) requirements one year before the deadline by inspecting manholes and gravity mains, smoke testing gravity mains, performing required inspections of pump stations and the related force mains, and completing all Corrective Action Plan/Engineering Report (CAP/ER) projects. KUB initiated the second MOM cycle that continues to focus on the prevention of SSOs. As part of the Century II initiative, formally known as the PACE10 program, KUB has installed storage tanks providing 34 million gallons of wastewater storage to control wet weather overflows and rehabilitated or replaced 408 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, 2020, the Wastewater Division had completed its 16th full year under the Consent Decree, spending $559.8 million on capital investments to meet Consent Decree requirements.

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Financial Highlights

Fiscal Year 2020 Compared to Fiscal Year 2019

The Division’s net position during the year increased $21.2 million compared to a $19.5 million increase last fiscal year.

Operating revenue increased $2.9 million or 2.9 percent, the result of additional revenue generated during the fiscal year from the rate increase effective July 2019 offset by a 3.3 percent decrease in customer billable flows.

Operating expenses increased $1.1 million. Operating and maintenance (O&M) expenditures increased $0.5 million. Depreciation expense rose $0.3 million or 1.7 percent. Taxes and tax equivalents increased $0.3 million or 4.8 percent.

Interest income was $0.4 million lower than the prior fiscal year. Interest expense decreased $0.4 million compared to the prior fiscal year. Other income (net) was $0.2 million higher.

Capital contributions decreased $0.2 million, the result of decreased donated utility assets from developers compared to the previous fiscal year.

Total plant assets (net) increased $33.5 million or 4.4 percent since the end of last fiscal year.

During fiscal year 2020, KUB sold $16 million in wastewater system revenue bonds for the purpose of funding wastewater system capital improvements and also sold $28.2 million in wastewater system revenue refunding bonds for the purpose of refinancing existing wastewater system revenue bonds at lower interest rates. KUB will realize a total debt service savings of $18.9 million over the life of the bonds ($8.8 million on a net present value basis).

Long-term debt represented 59.7 percent of the Division’s capital structure as of June 30, 2020, as compared to 61.2 percent last year. The decrease is the net result of the issuance of new revenue and refunding bonds and the scheduled repayment of debt during the fiscal year. Capital structure equals long-term debt (which includes the current and long-term portion of revenue bonds) plus net position.

The Division’s bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division’s outstanding bonds. Current year debt coverage for the fiscal year was 1.92. Maximum debt service coverage was 1.92.

Fiscal Year 2019 Compared to Fiscal Year 2018

The Division’s net position during the year increased $19.5 million compared to a $19.8 million increase last fiscal year. A restatement to the fiscal year 2018 beginning net position, based on a change in method of accounting for Other Post-Employment Benefits (OPEB), increased the total net position by $1 million during the fiscal year 2018. The change resulted in a total increase of $20.8 million in the Division’s net position.

Operating revenue increased $3.8 million or 4 percent, the result of additional revenue generated during the fiscal year from the rate increase effective July 2018 offset by a one percent decrease in customer billable flows.

Operating expenses increased $5.4 million. Operating and maintenance (O&M) expenditures increased $4.7 million. Depreciation expense rose $0.4 million or 2.1 percent. Taxes and tax equivalents increased $0.3 million or 5.5 percent.

Interest income was $0.7 million higher than the prior fiscal year. Interest expense was consistent with the prior fiscal year. Other income (net) was $0.5 million higher.

Capital contributions increased $0.1 million, the result of an increase in donated utility assets from developers compared to the previous fiscal year.

Total plant assets (net) increased $33.2 million or 4.6 percent since the end of last fiscal year.

KUB sold $12 million in wastewater system revenue bonds in August 2018 for the purpose of funding wastewater system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.49 percent.

Long-term debt represented 61.2 percent of the Division’s capital structure as of June 30, 2019, as compared to 62.7 percent last year. The decrease is the net result of the issuance of new revenue bonds and the scheduled repayment of debt during the fiscal year. Capital structure equals long-term debt (which includes the current and long-term portion of revenue bonds) plus net position.

The Division’s bond covenants require a debt service coverage ratio of at least 1.2 times the maximum principal and interest payments over the life of the Division’s outstanding bonds. Current year debt coverage for the fiscal year was 1.91. Maximum debt service coverage was 1.90.

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Knoxville Utilities Board Wastewater Division - Financial Statements

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

Statement of Net Position

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

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

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

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

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

Statement of Revenues, Expenses and Changes in Net Position

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

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

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

Statement of Cash Flows

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

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

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

Condensed Financial Statements

Statement of Net Position

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

Statements of Net Position
As of June 30

(in thousands of dollars)	2020	2019	2018
Current, restricted and other assets	$ 85,942	$ 91,458	$ 106,805
Capital assets, net	786,640	753,174	719,979
Deferred outflows of resources	17,107	19,087	16,112
Total assets and deferred outflows of resources	889,689	863,719	842,896
Current and other liabilities	27,813	28,239	22,404
Long-term debt outstanding	511,453	509,937	512,135
Deferred inflows of resources	4,525	846	3,137
Total liabilities and deferred inflows of resources	543,791	539,022	537,676
Net position			
Net investment in capital assets	279,477	249,592	216,037
Restricted	3,647	3,358	3,159
Unrestricted	62,774	71,747	86,024
Total net position	$ 345,898	$ 324,697	$ 305,220

Normal Impacts on Statement of Net Position

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

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

Impacts and Analysis

Current, Restricted and Other Assets

Fiscal Year 2020 Compared to Fiscal Year 2019

Current, restricted and other assets decreased $5.5 million or 6 percent, primarily due to a $10.4 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) offset by an increase in the actuarially determined net pension asset of $4.2 million.

Fiscal Year 2019 Compared to Fiscal Year 2018

Current, restricted and other assets decreased $15.3 million or 14.4 percent, primarily due to a $10.1 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments), a decrease in the actuarially determined net pension asset of $4.4 million, and a decrease in the actuarially determined net OPEB asset of $0.8 million.

Capital Assets

Fiscal Year 2020 Compared to Fiscal Year 2019

Capital assets increased $33.5 million or 4.4 percent, the result of capital expenditures, net of depreciation. Major capital expenditures during the year included $46 million for major system improvements related to Century II.

Fiscal Year 2019 Compared to Fiscal Year 2018

Capital assets increased $33.2 million or 4.6 percent, the result of capital expenditures, net of depreciation. Major capital expenditures during the year included $42.9 million for major system improvements related to Century II.

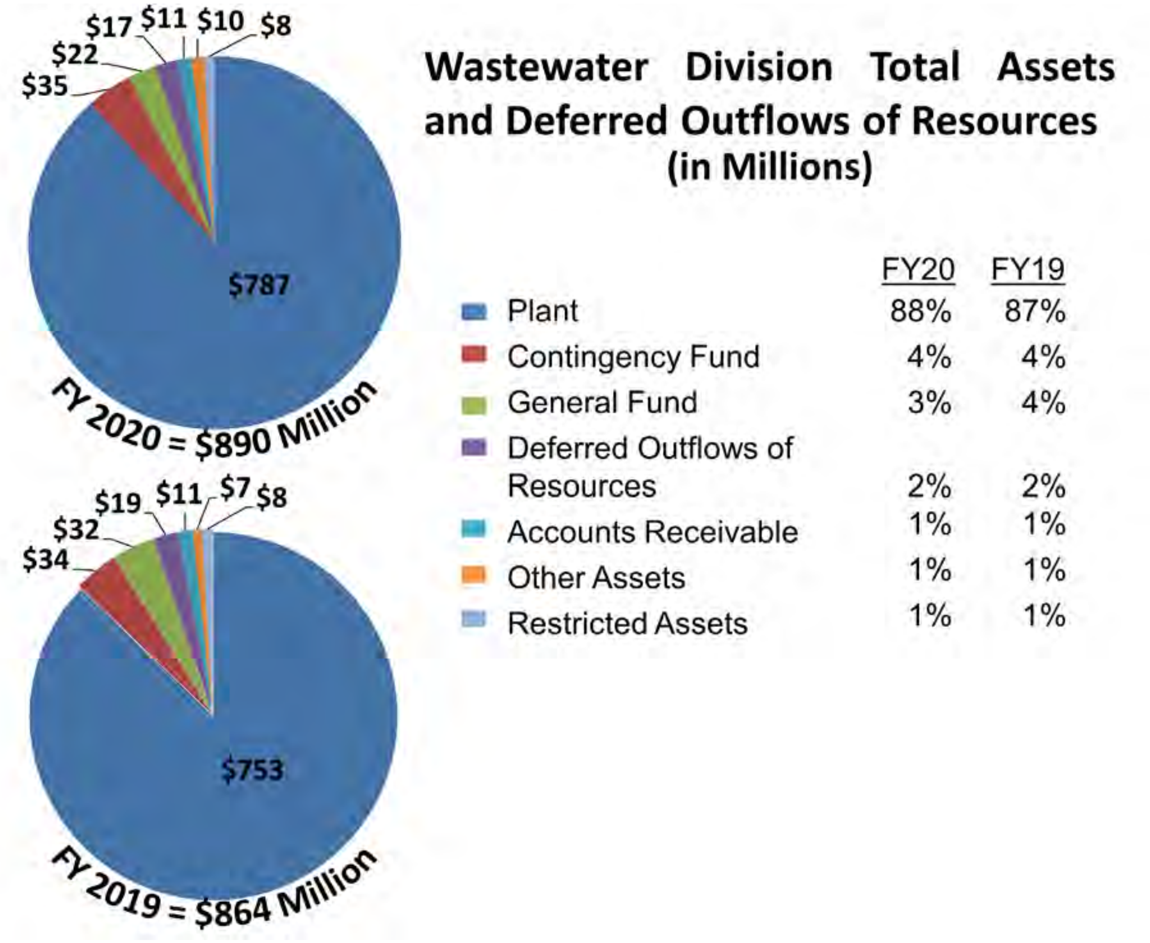
Deferred Outflows of Resources

Fiscal Year 2020 Compared to Fiscal Year 2019

Deferred outflows decreased $2 million compared to the prior year primarily due to a $2 million decrease in pension outflow.

Fiscal Year 2019 Compared to Fiscal Year 2018

Deferred outflows increased $3 million compared to the prior year primarily due to a $3.4 million increase in pension outflow.



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

	FY20	FY19
🟦 Plant	88%	87%
🟥 Contingency Fund	4%	4%
🟩 General Fund	3%	4%
🟪 Deferred Outflows of Resources	2%	2%
🟦 Accounts Receivable	1%	1%
🟧 Other Assets	1%	1%
🟦 Restricted Assets	1%	1%

Current and Other Liabilities

Fiscal Year 2020 Compared to Fiscal Year 2019

Current and other liabilities were $0.4 million lower than the prior fiscal year, due to decreases of $1.8 million in accounts payable and $1.5 million in net pension liability offset by increases of $1.6 million for the current portion of revenue bonds and $1.4 in net OPEB liability.

Fiscal Year 2019 Compared to Fiscal Year 2018

Current and other liabilities were $5.8 million higher than the prior fiscal year, due to a $2.6 million increase in accounts payable, a $1.5 million increase in net pension liability, and a $0.8 million increase in the current portion of revenue bonds.

Long-Term Debt

Fiscal Year 2020 Compared to Fiscal Year 2019

The Division's outstanding long-term debt increased $1.5 million or 0.3 percent. This increase is due to $16 million in wastewater system revenue bonds, sold in July 2019, and wastewater system revenue refunding bonds of $28.2 million, sold in April 2020, offset by the refunded bonds and the scheduled repayment of debt.

Fiscal Year 2019 Compared to Fiscal Year 2018

The Division's outstanding long-term debt decreased $2.2 million or 0.4 percent. Wastewater system revenue bonds of $12 million, sold in August 2018, were offset by the scheduled repayment of debt.

Deferred Inflows of Resources

Fiscal Year 2020 Compared to Fiscal Year 2019

Deferred inflows of resources were $3.7 million higher than the prior fiscal year due to differences in pension inflows.

Fiscal Year 2019 Compared to Fiscal Year 2018

Deferred inflows of resources were $2.3 million lower than the prior fiscal year due to differences in pension inflows.

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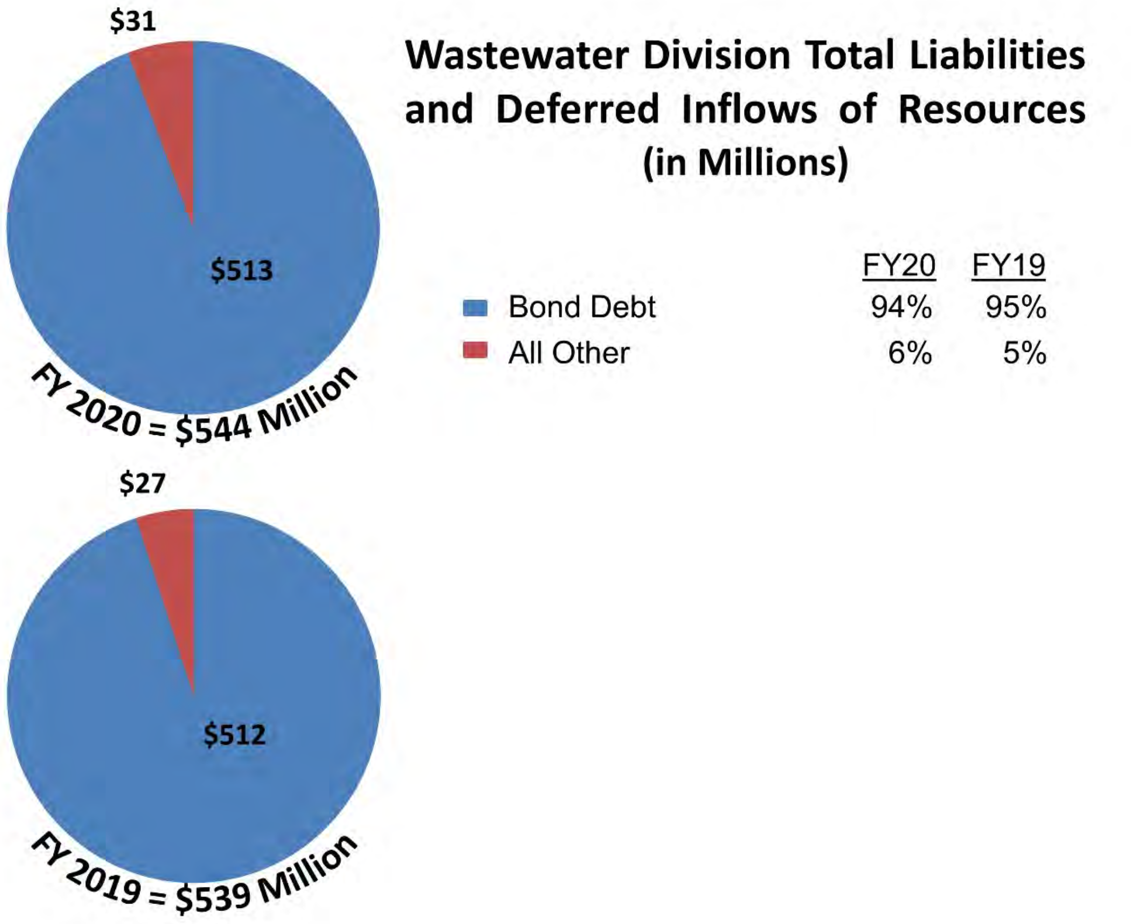

Net Position

Fiscal Year 2020 Compared to Fiscal Year 2019

Net position increased $21.2 million in fiscal year 2020. Unrestricted net position decreased $9 million, primarily due to a $5.4 million decrease in current and other assets compared to the prior year, which includes a $10.4 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments) offset by an increase in the actuarially determined net pension asset of $4.2 million. Net investment in capital assets increased $29.9 million, the result of $33.5 million in net plant additions offset by an increase in current portion of revenue bonds and total long-term debt of $3.2 million. Restricted net position was $0.3 million higher than the previous fiscal year due to a decrease in accrued interest on revenue bonds.

Fiscal Year 2019 Compared to Fiscal Year 2018

Net position increased $19.5 million in fiscal year 2019. Unrestricted net position decreased $14.3 million, primarily due to a $15.5 million decrease in current and other assets compared to the prior year, which includes a $10.1 million decrease in general fund cash (including cash and cash equivalents, short-term investments, and long-term investments), a decrease in the actuarially determined net pension asset of $4.4 million, and a decrease in the actuarially determined net OPEB asset of $0.8 million. Net investment in capital assets increased $33.6 million. The increase was the result of $33.2 million in net plant additions coupled with a decrease in current portion of revenue bonds and total long-term debt of $1.4 million.

Restricted net position was $0.2 million higher than the previous fiscal year, primarily due to increases in bond fund reserves.

Statement of Revenues, Expenses and Changes in Net Position

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

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

(in thousands of dollars)	2020	2019	2018
Operating revenues	$ 101,336	$ 98,482	$ 94,716
Operating expenses			
Treatment	12,736	12,444	11,675
Collection	8,229	8,130	7,411
Customer service	3,693	3,776	3,106
Administrative and general	11,464	11,303	8,747
Depreciation	19,881	19,545	19,138
Taxes and tax equivalents	5,574	5,318	5,039
Total operating expenses	61,577	60,516	55,116
Operating income	39,759	37,966	39,600
Interest income	1,484	1,906	1,205
Interest expense	(20,170)	(20,521)	(20,508)
Other income/(expense)	(64)	(263)	(740)
Change in net position before capital contributions	21,009	19,088	19,557
Capital contributions	192	389	278
Change in net position	$ 21,201	$ 19,477	$ 19,835

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

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

- Operating revenue is primarily determined by the amount of water usage billed during the fiscal year. KUB has certain commercial and industrial customers whose wastewater usage is metered separately from their water usage. Any change (increase/decrease) in wastewater rates would also cause a change in operating revenue.

- Operating expenses (treatment, collection system expense, customer service, administrative and general) are normally impacted by changes in areas including, but not limited to, labor cost (staffing, wage rates), active employee and retiree health insurance costs, chemicals, and wastewater system maintenance.

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

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

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

Impacts and Analysis

Change in Net Position

Fiscal Year 2020 Compared to Fiscal Year 2019

The Division's Change in Net Position increased $21.2 million in fiscal year 2020. Comparatively, net position increased by $19.5 million in fiscal year 2019.

Fiscal Year 2019 Compared to Fiscal Year 2018

The Division's Change in Net Position increased $19.5 million in fiscal year 2019. Comparatively, net position increased by $19.8 million in fiscal year 2018. A restatement to the fiscal year 2018 beginning net position, based on a change in method of accounting for OPEB, increased the total net position by an additional $1 million. The change resulted in a total increase of $20.8 million in the Division's net position.

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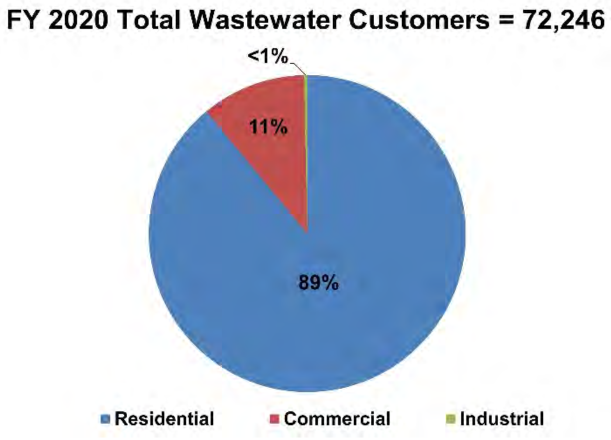
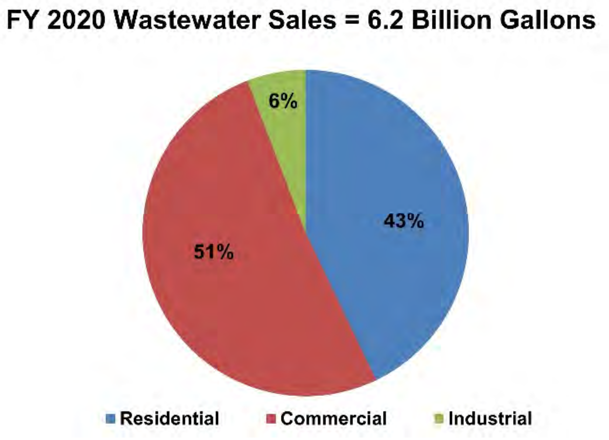
Margin from Sales

Fiscal Year 2020 Compared to Fiscal Year 2019

Operating revenue increased $2.9 million or 2.9 percent for the fiscal year ended June 30, 2020, the result of additional revenue generated during the fiscal year from the 5 percent rate increase effective July 2019 offset by a 3.3 percent decrease in billable customer flows. Rebates on bond interest payments from the federal government for federally taxable Build America Bonds (BABs) are reported as revenue in accordance with GASB. KUB recognized $1.7 million in revenue for BABs rebates in fiscal year 2020.


FY 2020 Total Wastewater Customers = 72,246


FY 2020 Wastewater Sales = 6.2 Billion Gallons

Residential customers accounted for 89 percent of wastewater customers and 43 percent of total billed sales volumes for the year. Commercial customers accounted for the largest portion of total sales volumes for the year with 51 percent.

KUB's ten largest wastewater customers accounted for 19 percent of KUB's billed wastewater volumes. Those ten customers represent three industrial and seven commercial customers, including five governmental customers.

KUB has added 1,495 wastewater customers over the past three years, representing annual growth of less than one percent.

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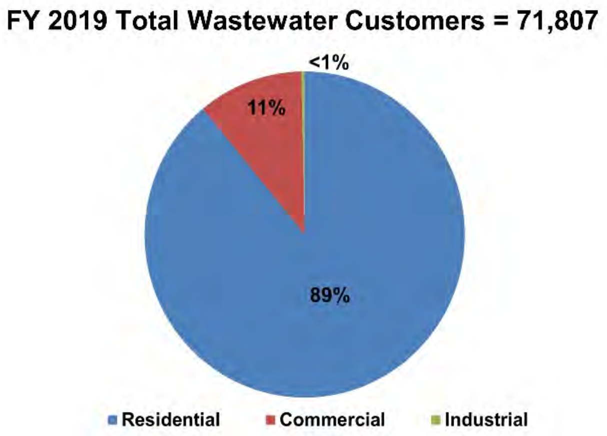
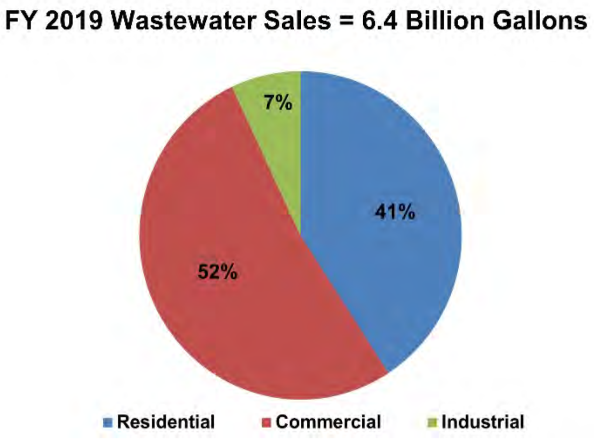
Fiscal Year 2019 Compared to Fiscal Year 2018

Operating revenue increased $3.8 million or 4 percent for the fiscal year ended June 30, 2019, the result of additional revenue generated during the fiscal year from the July 2018 rate increase offset by a one percent decrease in billable customer flows. Rebates on bond interest payments from the federal government for federally taxable Build America Bonds (BABs) are reported as revenue in accordance with GASB. KUB recognized $1.8 million in revenue for BABs rebates in fiscal year 2019.


FY 2019 Total Wastewater Customers = 71,807


FY 2019 Wastewater Sales = 6.4 Billion Gallons

Residential customers accounted for 89 percent of wastewater customers and 41 percent of total billed sales volumes for the year. Commercial customers accounted for the largest portion of total sales volumes for the year with 52 percent.

KUB's ten largest wastewater customers accounted for 19 percent of KUB's billed wastewater volumes. Those ten customers represent four industrial and six commercial customers, including four governmental customers.

KUB has added 1,542 wastewater customers over the past three years, representing annual growth of less than one percent.

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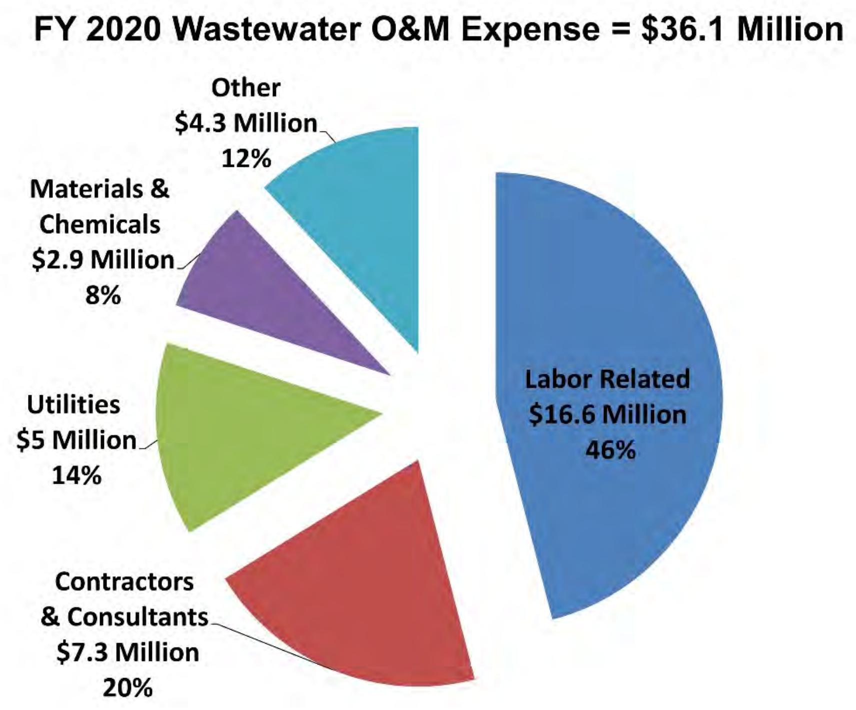
Operating Expenses

Fiscal Year 2020 Compared to Fiscal Year 2019

Operating expenses increased $1.1 million compared to fiscal year 2019. Operating expenses include operations and maintenance (O&M) expense, depreciation, and taxes/tax equivalents. O&M expenses can be further classified as treatment, collection, customer service, and administrative and general.

- Treatment expenses increased $0.3 million, primarily due to higher labor related expenses.
- Collection system expenses increased $0.1 million.
- Customer service expenses decreased $0.1 million, primarily due to a decrease in outside contractors.
- Administrative and general expenses increased $0.2 million, primarily due to an increase in labor related expenses including higher OPEB costs.

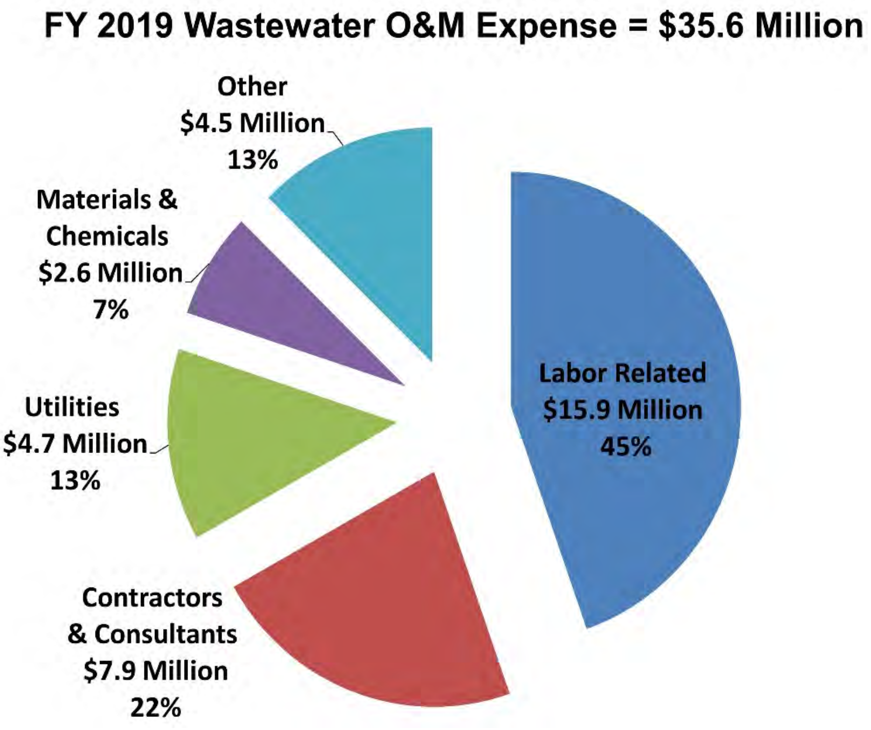

FY 2020 Wastewater O&M Expense = $36.1 Million

- Depreciation expense increased $0.3 million or 1.7 percent, the result of a full year of depreciation on $29.6 million of wastewater system assets placed in service during fiscal year 2019 and a partial year of depreciation of $37.8 million of wastewater system assets placed in service during fiscal year 2020. Wastewater system assets of $7.3 million were retired during the fiscal year.
- Taxes and tax equivalents increased $0.3 million compared to the prior fiscal year due to increased plant in service levels.

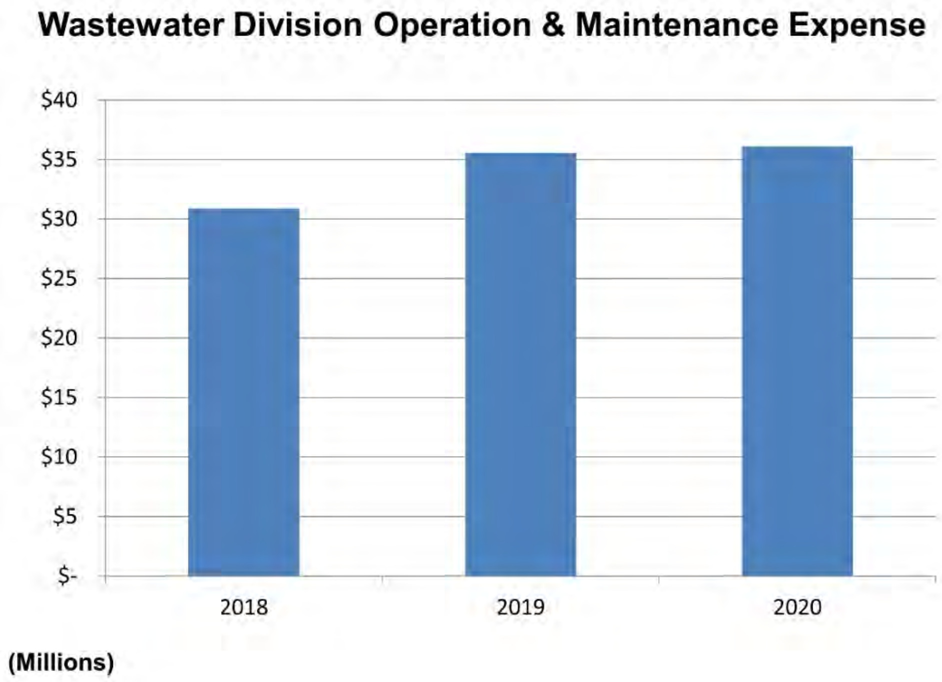
Fiscal Year 2019 Compared to Fiscal Year 2018

Operating expenses increased $5.4 million compared to fiscal year 2018. Operating expenses include operations and maintenance (O&M) expense, depreciation, and taxes/tax equivalents. O&M expenses can be further classified as treatment, collection, customer service, and administrative and general.

- Treatment expenses increased $0.8 million, primarily due to higher outside consultant and contractor expenses.
- Collection system expenses increased $0.7 million, reflecting higher outside contractor expenses for Century II initiatives and increased labor related expenses.
- Customer service expenses increased $0.7 million, primarily due to increased meter sharing expenses.
- Administrative and general expenses increased $2.5 million, primarily due to an increase in labor related expenses including higher pension expenses, reflecting impact of investment losses on Pension Trust assets in 2018.



- Depreciation expense increased $0.4 million or 2.1 percent, the result of a full year of depreciation on $29.5 million of wastewater system assets placed in service during fiscal year 2018 and a partial year of depreciation of $29.6 million of wastewater system assets placed in service during fiscal year 2019. Wastewater system assets of $5.3 million were retired during the fiscal year.
- Taxes and tax equivalents increased $0.3 million compared to the prior fiscal year due to increased plant in service levels.



Other Income and Expense

Fiscal Year 2020 Compared to Fiscal Year 2019

Interest income was $0.4 million lower than the prior fiscal year, primarily due to lower short-term interest rates.

Interest expense was $0.4 million lower than the prior fiscal year, reflecting the net impact of interest expense from new revenue bonds sold during the fiscal year and savings on refunding of outstanding bonds.

Other income (net) was $0.2 million higher than the prior fiscal year, primarily due to losses on disposition of property the prior fiscal year.

Capital contributions decreased $0.2 million compared to last fiscal year as a result of a decrease in assets received from developers and other governmental entities.

Fiscal Year 2019 Compared to Fiscal Year 2018

Interest income was $0.7 million higher than the prior fiscal year, primarily due to higher short-term interest rates.

Interest expense was consistent with the prior fiscal year, reflecting the net effect of interest expense from new revenue bonds sold during the fiscal year and debt retired during the year.

Other income (net) was $0.5 million higher than the prior fiscal year, primarily due to mark-to-market adjustments on investments.

Capital contributions increased $0.1 million compared to last fiscal year as a result of an increase in assets received from developers and other governmental entities.

Capital Assets

Capital Assets
As of June 30
(Net of Depreciation)

(in thousands of dollars)	**2020**	**2019**	**2018**
Pumping & Treatment Plant	$ 162,645	$ 156,202	$ 152,026
Collection Plant			
Mains and Metering	473,913	461,419	454,420
Other Accounts	64,355	65,898	67,355
Total Collection Plant	538,268	527,317	521,775
Total General Plant	7,898	7,809	8,217
Total Wastewater Plant	$ 708,811	$ 691,328	$ 682,018
Work In Progress	77,829	61,846	37,961
Total Net Plant	$ 786,640	$ 753,174	$ 719,979

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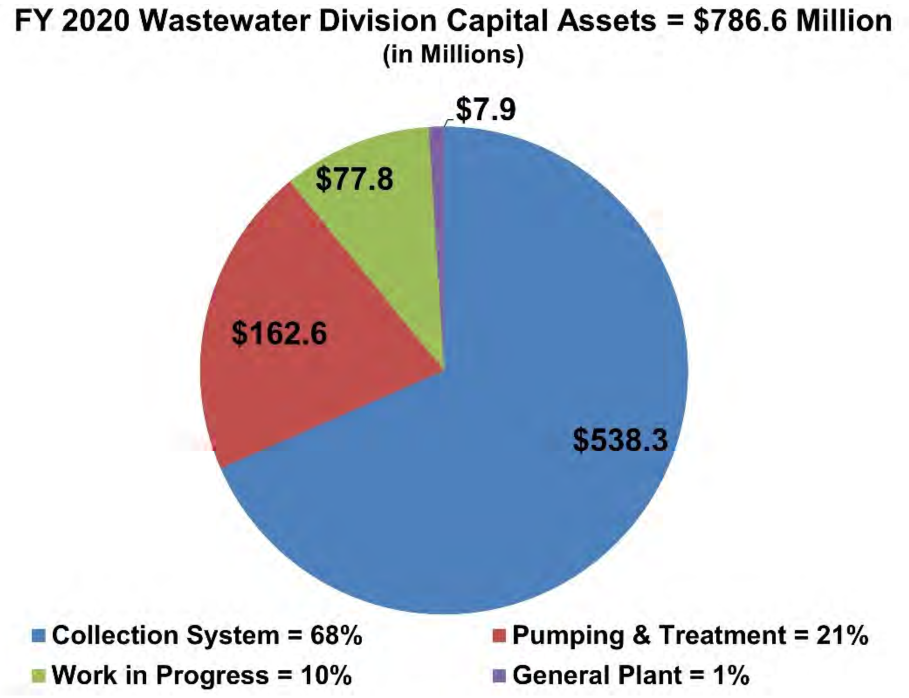
Fiscal Year 2020 Compared to Fiscal Year 2019

As of June 30, 2020, the Division had $786.6 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of $33.5 million or 4.4 percent over the end of the last fiscal year.



Major capital asset expenditures during the year were as follows:

- $46 million related to Century II projects
- $20.2 million for wastewater treatment plant upgrades
- $9.1 million for sewer mini-basin rehabilitation and replacement
- $5.2 million for rehabilitation projects
- $3.9 million for pump station construction and improvements
- $3.9 million for short line projects
- $3.7 million for sewer trunk line rehabilitation and replacement

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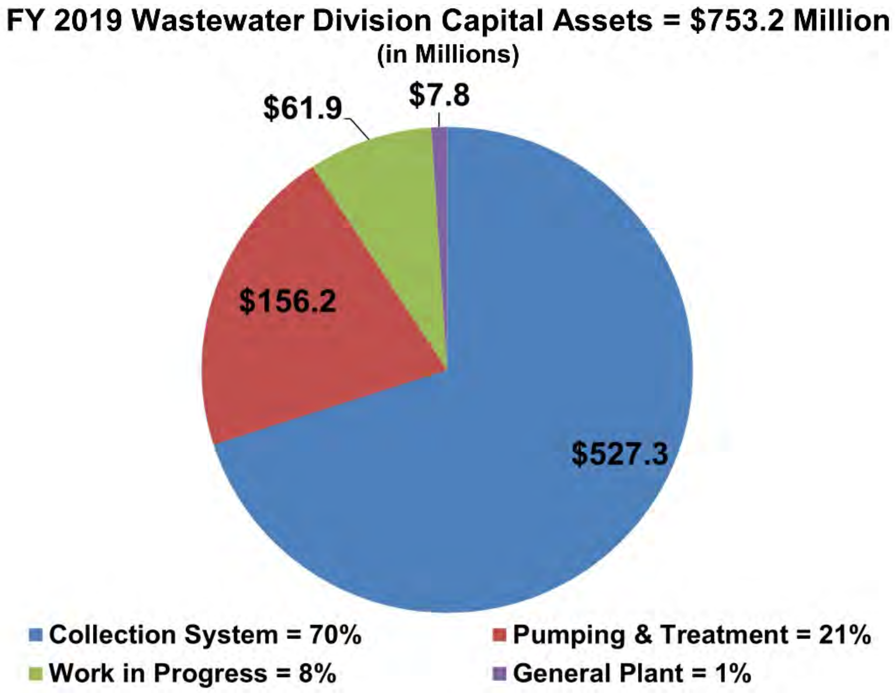
Fiscal Year 2019 Compared to Fiscal Year 2018

As of June 30, 2019, the Division had $753.2 million invested in a variety of capital assets, as reflected in the schedule of capital assets, which represents a net increase (including additions, retirements, and depreciation) of $33.2 million or 4.6 percent over the end of the last fiscal year.



Major capital asset expenditures during the year were as follows:

- $42.9 million related to Century II projects
- $19.1 million for wastewater treatment plant upgrades
- $8.6 million for sewer mini-basin rehabilitation and replacement
- $5.2 million for pump station construction and improvements
- $4.1 million for sewer trunk line rehabilitation and replacement
- $3.1 million for rehabilitation projects
- $2.8 million for short line projects

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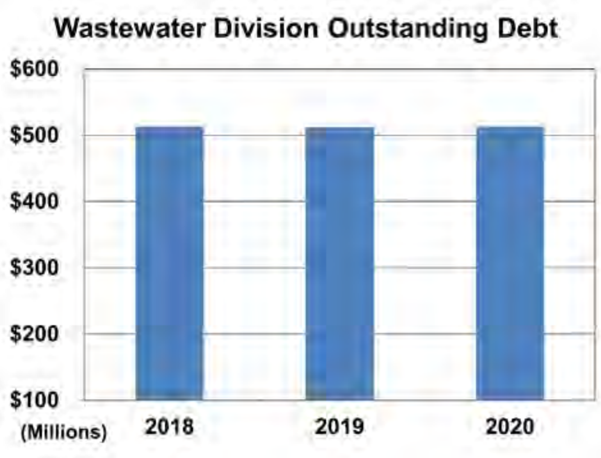
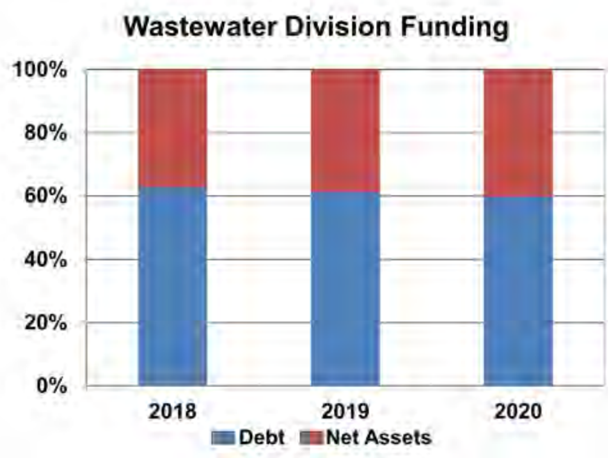
Debt Administration

As of June 30, 2020, the Wastewater Division had $512.6 million in outstanding wastewater system bonds. The Division’s outstanding debt has remained at a steady level over the past three years, reflecting new bond issues and scheduled repayment of revenue bonds. Bond proceeds from new revenue bond sales are used to fund capital improvements for the wastewater system. The bonds are secured solely by revenues of the Wastewater Division. Debt as a percentage of the Division’s capital structure was 59.7 percent in 2020, 61.2 percent in 2019, and 62.7 percent at the end of fiscal year 2018. KUB’s Debt Management Policy limits the Division’s debt ratio to 70 percent or less.

Outstanding Debt
As of June 30

(in thousands of dollars)	2020	2019	2018
Revenue bonds	$ 512,560	$ 511,995	$ 512,890
Total outstanding debt	$ 512,560	$ 511,995	$ 512,890





The Division will pay $169.6 million in principal payments over the next ten years, representing 33 percent of the outstanding bonds. KUB’s Debt Management Policy requires a minimum of 20 percent of wastewater debt principal be repaid over the next ten years.

Fiscal Year 2020 Compared to Fiscal Year 2019

As of June 30, 2020, the Division had $512.6 million in outstanding debt (including the current portion of revenue bonds), representing an increase of $0.6 million. The increase is attributable to new revenue and refunding bonds issued during the fiscal year offset by the scheduled repayment of debt. As of June 30, 2020, the Division’s weighted average cost of debt was 3.77 percent (3.55 percent including the impact of Build America Bonds rebates).

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

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

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

Fiscal Year 2019 Compared to Fiscal Year 2018

As of June 30, 2019, the Division had $512 million in outstanding debt (including the current portion of revenue bonds), representing a decrease of $0.9 million. The decrease is attributable to new revenue bonds issued during the fiscal year offset by the scheduled repayment of debt. As of June 30, 2019, the Division's weighted average cost of debt was 3.95 percent (3.61 percent including the impact of Build America Bonds rebates).

KUB sold $12 million in wastewater system revenue bonds in August 2018 for the purpose of funding wastewater system capital improvements. The true interest cost of the bonds, which were sold through a competitive bidding process, was 3.49 percent.

The Division's outstanding debt is rated by Standard & Poor's and Moody's Investors Service. As of June 30, 2019, the Division's revenue bonds were rated AA+ by Standard & Poor's and Aa2 by Moody's Investors Service.

Impacts on Future Financial Position

KUB anticipates adding 420 wastewater customers in fiscal year 2021.

During March 2020, a global pandemic was declared related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). While the disruption is currently expected to be temporary, there is uncertainty around its duration and the ultimate future impact, if any, on results of operations, financial position, liquidity or capital resources. In response to the COVID-19 pandemic, the Wastewater Division chose to forego a proposed 2.25% rate increase for fiscal year 2021 to reduce financial impact on its customers.

KUB expects to receive reimbursements in fiscal year 2021 from the Federal Emergency Management Agency (FEMA) to partially offset the cost of the 2019 storm and flood event.

KUB sold $27.5 million in wastewater system revenue bonds on October 7, 2020, with a scheduled closing on October 30, 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 long-term debt includes $58.5 million of Wastewater Division 2010 Build America Bonds (BABs). The BABs were sold on a taxable basis with the United States Treasury providing a rebate to KUB for a percentage of the interest cost. The interest rebates were subject to federal sequestration during the fiscal year and were reduced by 5.9 percent. Any future actions by Congress may also affect the anticipated rebates for future fiscal years.

The Pension Plan actuarial valuation for the Plan year beginning January 1, 2019 resulted in an actuarially determined contribution of $3,167,680 for the fiscal year ending June 30, 2021, based on the Plan's current funding policy. The Wastewater Division’s portion of this contribution is $696,890. Subsequent to June 30, 2020, the actuarial valuation for the Plan year beginning January 1, 2020 was completed. The actuarial valuation resulted in an actuarially determined contribution of $3,665,168 for the fiscal year ending June 30, 2022, based on the Plan’s current funding policy. The Wastewater Division’s portion of this contribution is $806,337. For the Plan year beginning January 1, 2020, the Plan’s actuarial funded ratio is 101.61 percent.

The OPEB Plan actuarial valuation as of January 1, 2019 resulted in an actuarially determined contribution of $757,226 for the fiscal year ending June 30, 2021, based on the Plan’s current funding policy. The Wastewater Division’s portion of this contribution is $166,590. Subsequent to June 30, 2020, the actuarial valuation as of January 1, 2020 was completed. The actuarial valuation resulted in an actuarially determined contribution of $489,066 for the fiscal year ending June 30, 2022, based on the Plan’s current funding policy. The Wastewater Division’s portion of this contribution is $107,594. The Plan’s actuarial funded ratio is 97.68 percent.

GASB Statement No. 84, *Fiduciary Activities*, is effective for fiscal years beginning after December 15, 2019. GASB Statement No. 87, *Leases*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period,* is effective for fiscal years beginning after December 15, 2020. GASB Statement No. 90, *Major Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, is effective for fiscal years beginning after December 15, 2019. GASB Statement No. 91, *Conduit Debt Obligations*, is effective for fiscal years beginning after December 15, 2021. GASB Statement No. 92, *Omnibus 2020*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 93, *Replacement of Interbank Offered Rates*, is effective for fiscal years beginning after June 15, 2021. GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for fiscal years beginning after June 15, 2022. GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, is effective for fiscal years beginning after June 15, 2021. KUB has not elected early implementation of these standards and has not completed the process of evaluating the impact of these statements on its financial statements.

No other facts, decisions, or conditions are currently known which would have a significant impact on the Division’s financial position or results of operations during fiscal year 2020.

Financial Contact

The Division’s financial statements are designed to present users (citizens, customers, investors, and creditors) with a general overview of the Division’s financial position and results of operations for the fiscal years ended June 30, 2020 and 2019. If you have questions about the statements or need additional financial information, contact KUB’s Chief Financial Officer at 445 South Gay Street, Knoxville, Tennessee 37902.

Knoxville Utilities Board Wastewater Division
Statements of Net Position
June 30, 2020 and 2019

	2020	2019
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	$ 11,728,383	$ 22,233,080
Short-term investments	10,057,625	9,986,525
Short-term contingency fund investments	27,390,992	23,985,414
Other current assets	-	77
Accrued interest receivable	26,972	50,679
Accounts receivable, less allowance of uncollectible accounts of $83,004 in 2020 and $85,638 in 2019	11,227,956	10,524,014
Inventories	595,389	478,665
Prepaid expenses	69,278	74,463
Total current assets	61,096,595	67,332,917
Restricted assets:		
Wastewater bond fund	8,324,253	8,401,415
Other funds	333	4,226
Total restricted assets	8,324,586	8,405,641
Wastewater plant in service	931,773,141	901,321,001
Less accumulated depreciation	(222,962,546)	(209,993,338)
	708,810,595	691,327,663
Retirement in progress	636,592	432,146
Construction in progress	77,192,768	61,414,303
Net plant in service	786,639,955	753,174,112
Other assets:		
Net pension asset	4,206,702	-
Long-term contingency fund investments	7,056,465	10,368,446
Other	5,257,115	5,350,666
Total other assets	16,520,282	15,719,112
Total assets	872,581,418	844,631,782
Deferred outflows of resources:		
Pension outflow	1,787,079	3,795,580
OPEB outflow	919,316	548,500
Unamortized bond refunding costs	14,400,979	14,742,812
Total deferred outflows of resources	17,107,374	19,086,892
Total assets and deferred outflows of resources	$ 889,688,792	$ 863,718,674

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

Knoxville Utilities Board Wastewater Division
Statements of Net Position
June 30, 2020 and 2019

	2020	2019
Liabilities, Deferred Inflows, and Net Position		
Current liabilities:		
Current portion of revenue bonds	$ 15,055,000	$ 13,415,000
Accounts payable	2,335,983	4,146,636
Accrued expenses	927,750	911,466
Customer deposits plus accrued interest	921,231	893,158
Accrued interest on revenue bonds	4,678,153	5,047,565
Total current liabilities	23,918,117	24,413,825
Other liabilities:		
Accrued compensated absences	1,878,956	1,662,272
Customer advances for construction	261,274	253,025
Net pension liability	4,452	1,513,961
Net OPEB liability	1,669,678	318,503
Other	80,441	77,920
Total other liabilities	3,894,801	3,825,681
Long-term debt:		
Wastewater revenue bonds	497,505,000	498,580,000
Unamortized premiums/discounts	13,948,164	11,356,966
Total long-term debt	511,453,164	509,936,966
Total liabilities	539,266,082	538,176,472
Deferred inflows of resources:		
Pension inflow	4,525,089	845,544
Total deferred inflows of resources	4,525,089	845,544
Total liabilities and deferred inflows of resources	543,791,171	539,022,016
Net position		
Net investment in capital assets	279,477,265	249,592,233
Restricted for:		
Debt service	3,646,100	3,353,850
Other	333	4,226
Unrestricted	62,773,923	71,746,349
Total net position	345,897,621	324,696,658
Total liabilities, deferred inflows, and net position	$ 889,688,792	$ 863,718,674

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

Knoxville Utilities Board Wastewater Division
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2020 and 2019

	2020	2019
Operating revenues	$ 101,335,524	$ 98,482,153
Operating expenses		
Treatment	12,735,896	12,444,333
Collection	8,228,482	8,130,072
Customer service	3,693,419	3,775,848
Administrative and general	11,464,254	11,302,892
Provision for depreciation	19,881,198	19,545,435
Taxes and tax equivalents	5,573,710	5,317,546
Total operating expenses	61,576,959	60,516,126
Operating income	39,758,565	37,966,027
Non-operating revenues (expenses)		
Contributions in aid of construction	854,230	395,167
Interest income	1,484,440	1,906,274
Interest expense	(20,169,760)	(20,521,206)
Amortization of debt costs	(395,497)	(423,986)
Write-down of plant for costs recovered through contributions	(854,230)	(395,167)
Other	331,541	160,930
Total non-operating revenues (expenses)	(18,749,276)	(18,877,988)
Change in net position before capital contributions	21,009,289	19,088,039
Capital contributions	191,674	389,102
Change in net position	21,200,963	19,477,141
Net position, beginning of year	324,696,658	305,219,517
Net position, end of year	$ 345,897,621	$ 324,696,658

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

Knoxville Utilities Board Wastewater Division
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash receipts from customers	$ 98,420,186	$ 95,996,952
Cash receipts from other operations	1,475,476	1,833,578
Cash payments to suppliers of goods or services	(25,577,736)	(20,360,518)
Cash payments to employees for services	(11,008,049)	(10,612,319)
Payment in lieu of taxes	(4,650,629)	(4,429,170)
Net cash provided by operating activities	58,659,248	62,428,523
Cash flows from capital and related financing activities:		
Net proceeds from bond issuance	16,842,065	11,861,721
Principal paid on revenue bonds	(13,665,000)	(12,895,000)
Interest paid on revenue bonds	(20,539,172)	(20,552,001)
Acquisition and construction of wastewater plant	(54,470,052)	(53,114,092)
Changes in wastewater bond fund, restricted	77,162	(169,205)
Customer advances for construction	8,249	248,425
Proceeds received on disposal of plant	53,582	4,497
Cash received from developers and individuals for capital purposes	854,230	395,167
Net cash used in capital and related financing activities	(70,838,936)	(74,220,488)
Cash flows from investing activities:		
Purchase of investment securities	(34,031,204)	(21,055,487)
Maturities of investment securities	33,966,149	11,143,470
Interest received	1,569,438	1,859,095
Other property and investments	170,608	(219,546)
Net cash provided by (used in) investing activities	1,674,991	(8,272,468)
Net decrease in cash and cash equivalents	(10,504,697)	(20,064,433)
Cash and cash equivalents, beginning of year	22,233,080	42,297,513
Cash and cash equivalents, end of year	$ 11,728,383	$ 22,233,080
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 39,758,565	$ 37,966,027
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	20,288,071	19,908,909
Changes in operating assets and liabilities:		
Accounts receivable	(703,942)	52,361
Inventories	(116,724)	45,319
Prepaid expenses	5,185	(1,994)
Other assets	22,991	525,262
Accounts payable and accrued expenses	(625,492)	3,877,492
Customer deposits plus accrued interest	28,073	43,950
Other liabilities	2,521	11,197
Net cash provided by operating activities	$ 58,659,248	$ 62,428,523
Noncash capital activities:		
Acquisition of plant assets through developer contributions	$ 191,674	$ 389,102

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

1. Description of Business

Knoxville Utilities Board (KUB), comprised of the Electric Division, Gas Division, Water Division, and Wastewater Division (Divisions), is reported as a component unit enterprise fund in the financial statements of the City of Knoxville. KUB's responsibility is to oversee the purchase, production, distribution, and processing of electricity, natural gas, water, and wastewater services. A seven-member Board of Commissioners (Board) governs KUB. The Board has all powers to construct, acquire, expand, and operate the Divisions. It has full control and complete jurisdiction over the management and operation of the Divisions, including setting rates. The Wastewater Division (Division) provides services to certain customers in Knox County and in two surrounding counties in East Tennessee. The Division's accounts are maintained in conformity with the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners (NARUC) and the Governmental Accounting Standards Board (GASB), as applicable. The financial statements present only the Wastewater Division and do not purport to, and do not, present fairly the consolidated financial position of Knoxville Utilities Board at June 30, 2020 and 2019, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

2. Significant Accounting Policies

Basis of Accounting

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

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

Recently Adopted New Accounting Pronouncements

In May 2020, the GASB issued GASB Statement No. 95 (Statement No. 95), *Postponement of the Effective Dates of Certain Authoritative Guidance.* The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for fiscal years beginning after June 15, 2018. The requirements of this Statement are effective immediately.

Wastewater Plant

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

The provision for depreciation of wastewater plant in service is based on the estimated useful lives of the assets, which range from three to fifty years, and is computed using the straight-line method. Pursuant to NARUC, the caption "Provision for depreciation" in the Statements of Revenue, Expenses and Change in Net Position does not include depreciation for transportation equipment of $406,873 in fiscal year 2020 and $363,474 in fiscal year 2019. Under regulatory accounting, interest costs are expensed as incurred with construction of plant assets.

Operating Revenue

Operating revenue consists primarily of charges for services provided by the principal operations of the KUB Wastewater Division. Operating revenue is recorded when the service is rendered, on a cycle basis, and includes an estimate of unbilled revenue. Revenues are reported net of bad debt expense of $216,936 in fiscal year 2020 and $237,904 in fiscal year 2019.

Non-operating Revenue

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

Expense

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

Net Position

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

These classifications are defined as follows:

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

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

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

Contributions in Aid of Construction and Capital Contributions

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

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

Inventories

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

OPEB Plan

KUB's employees hired prior to July 1, 1999, who are retired and who (prior to retirement) qualified for retiree medical insurance by meeting the Rule of 80 (age plus years of service) with a minimum of 20 years of service and were enrolled in medical coverage on their last day, are eligible for post-employment health care. KUB's OPEB Trust was established by KUB's Board of Commissioners through Resolution No. 1168, as amended, dated October 18, 2007. KUB's policy is to fully fund the annual actuarially determined contributions, which are determined by actuarial valuation. As required by GASB Statement No. 75, KUB measures net OPEB liability as total OPEB liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2020 and 2019 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a June 30, 2020 and 2019 measurement date, respectively. The net OPEB liability is $7,589,447 (Division's share $1,669,678) as of June 30, 2020 and $1,447,742 (Division's share $318,503) as of June 30, 2019.

Pension Plan and Qualified Excess Benefit Arrangement

KUB's employees are participants in the Knoxville Utilities Board Pension Plan as authorized by the Charter of the City of Knoxville §1107(J) (Note 10). KUB's policy is to fully fund the annual actuarially determined contributions. As required by GASB Statement No. 68, KUB measures net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30, 2020 and 2019 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a December 31, 2019 and 2018 measurement date, respectively. The net pension asset is $19,121,375 (Division's share $4,206,702) as of June 30, 2020, and the net pension liability was $6,649,756 (Division's share $1,462,946) as of June 30, 2019.

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, 2020 and 2019 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a December 31, 2019 and 2018 measurement date, respectively. The total pension liability of the QEBA is $20,236 (Division’s share $4,452) as of June 30, 2020 and $231,883 (Division’s share $51,015) as of June 30, 2019.

Investments

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

Self-Insurance

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

Estimates

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

Restricted and Designated Assets

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

Cash Equivalents

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

Deferred Outflows and Inflows of Resources

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

Debt Premium/Discount

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

Debt Issuance Costs

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

Deferred Gain/Loss on Refunding of Debt

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

Compensated Absences

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

Subsequent Events

KUB has evaluated events and transactions through October 29, 2020, the date these financial statements were issued, for items that should potentially be recognized or disclosed. KUB sold $27,460,000 in wastewater system revenue bonds on October 7, 2020, with a scheduled closing on October 30, 2020, for the purpose of funding wastewater system capital improvements in fiscal year 2021. The true interest cost of the bonds, which were sold through a competitive bidding process, was 2.41 percent. Annual debt service payments including principal and interest range from $919,320 to $1,416,300 with final maturity in fiscal year 2050.

Recently Issued Accounting Pronouncements

In January 2017, the GASB issued GASB Statement No. 84 (Statement No. 84), *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 is effective for fiscal years beginning after December 15, 2019.

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

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

In August 2018, the GASB issued GASB Statement No. 90 (Statement No. 90), *Major Equity Interests – an amendment of GASB Statements No. 14 and No. 61.* The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Statement No. 90 is effective for fiscal years beginning after December 15, 2019.

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

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

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

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

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

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

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

3. Deposits and Investments

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

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

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

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

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

Classification of deposits and investments per Statement of Net Position:

	2020	2019
Current assets		
Cash and cash equivalents	$ 11,728,383	$ 22,233,080
Short-term investments	10,057,625	9,986,525
Short-term contingency fund investments	27,387,441	23,985,414
Other assets		
Long-term contingency fund investments	6,927,797	10,178,488
Restricted assets		
Wastewater bond fund	8,324,253	8,401,415
Other funds	333	4,226
	$ 64,425,832	$ 74,789,148

The above amounts do not include accrued interest of $132,219 in fiscal year 2020 and $189,958 in fiscal year 2019. 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, 2020:

	Deposit and Investment Maturities (in Years)		
	Fair Value	Less Than 1	1-5
Supersweep NOW and Other Deposits	$ 12,441,794	$ 12,441,794	$ -
State Treasurer's Investment Pool	24,182,389	24,182,389	-
Agency Bonds	28,514,627	21,586,830	6,927,797
	$ 65,138,810	$ 58,211,013	$ 6,927,797

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, 2020:

- U.S. Agency bonds of $6,927,797, which have a maturity at purchase of greater than one year, are valued using quoted market prices (Level 1 inputs)

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

4. Accounts Receivable

Accounts receivable consists of the following:

	2020	2019
Wholesale and retail customers		
Billed services	$ 6,333,228	$ 5,968,344
Unbilled services	4,288,451	3,906,547
Other	689,281	734,761
Allowance for uncollectible accounts	(83,004)	(85,638)
	$ 11,227,956	$ 10,524,014

5. Accounts Payable and Accruals

Accounts payable and accruals were composed of the following:

	2020	2019
Trade accounts	$ 2,335,983	$ 4,146,636
Salaries and wages	549,214	490,933
Self-insurance liabilities	378,536	420,533
	$ 3,263,733	$ 5,058,102

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6. Long-Term Obligations

Long-term debt consists of the following:

	Balance June 30, 2019	**Additions**	**Payments**	**Defeased**	**Balance June 30, 2020**	**Amounts Due Within One Year**
2010 - 6.3 - 6.5%	$ 30,000,000	$ -	$ -	$ 30,000,000	$ -	$ -
2010C - 1.18 - 6.1%	60,050,000	-	1,600,000	-	58,450,000	1,650,000
2012A - 2.0 - 4.0%	11,800,000	-	950,000	-	10,850,000	1,085,000
2012B - 1.25 - 5.0%	59,325,000	-	1,100,000	-	58,225,000	1,150,000
2013A - 2.0 - 4.0%	109,800,000	-	685,000	-	109,115,000	710,000
2014A - 2.0 - 4.0%	27,800,000	-	500,000	-	27,300,000	525,000
2015A - 3.0 - 5.0%	121,390,000	-	5,305,000	-	116,085,000	5,460,000
2015B - 3.0 - 5.0%	28,000,000	-	525,000	-	27,475,000	525,000
2016 - 2.0 - 5.0%	18,750,000	-	475,000	-	18,275,000	475,000
2017A - 3.0 - 5.0%	9,100,000	-	1,525,000	-	7,575,000	1,605,000
2017B - 2.0 - 5.0%	24,260,000	-	515,000	-	23,745,000	540,000
2018 - 3.0 - 5.0%	11,720,000	-	235,000	-	11,485,000	245,000
2019 - 3.0 - 5.0%	-	16,000,000	250,000	-	15,750,000	300,000
2020 - 3.0 - 5.0%	-	28,230,000	-	-	28,230,000	785,000
Total bonds	$ 511,995,000	$ 44,230,000	$ 13,665,000	$ 30,000,000	$ 512,560,000	$ 15,055,000
Unamortized Premium	11,356,966	3,388,697	640,486	157,013	13,948,164	-
Total long term debt	$ 523,351,966	$ 47,618,697	$ 14,305,486	$ 30,157,013	$ 526,508,164	$ 15,055,000

	Balance June 30, 2018	**Additions**	**Payments**	**Defeased**	**Balance June 30, 2019**	**Amounts Due Within One Year**
2010 - 6.3 - 6.5%	$ 30,000,000	$ -	$ -	$ -	$ 30,000,000	$ -
2010C - 1.18 - 6.1%	61,600,000	-	1,550,000	-	60,050,000	1,600,000
2012A - 2.0 - 4.0%	12,770,000	-	970,000	-	11,800,000	950,000
2012B - 1.25 - 5.0%	60,375,000	-	1,050,000	-	59,325,000	1,100,000
2013A - 2.0 - 4.0%	110,460,000	-	660,000	-	109,800,000	685,000
2014A - 2.0 - 4.0%	28,275,000	-	475,000	-	27,800,000	500,000
2015A - 3.0 - 5.0%	126,400,000	-	5,010,000	-	121,390,000	5,305,000
2015B - 3.0 - 5.0%	28,500,000	-	500,000	-	28,000,000	525,000
2016 - 2.0 - 5.0%	19,200,000	-	450,000	-	18,750,000	475,000
2017A - 3.0 - 5.0%	10,560,000	-	1,460,000	-	9,100,000	1,525,000
2017B - 2.0 - 5.0%	24,750,000	-	490,000	-	24,260,000	515,000
2018 - 3.0 - 5.0%	-	12,000,000	280,000	-	11,720,000	235,000
Total bonds	$ 512,890,000	$ 12,000,000	$ 12,895,000	$ -	$ 511,995,000	$ 13,415,000
Unamortized Premium	11,860,393	101,285	604,712	-	11,356,966	-
Total long term debt	$ 524,750,393	$ 12,101,285	$ 13,499,712	$ -	$ 523,351,966	$ 13,415,000

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

Fiscal Year		**Principal**	**Total Interest**	**Grand Total**
2021		$ 15,055,000	$ 19,152,019	$ 34,207,019
2022		15,595,000	18,587,884	34,182,884
2023		16,305,000	17,850,241	34,155,241
2024		17,070,000	17,089,944	34,159,944
2025		17,685,000	16,467,418	34,152,418
2026-2030		87,890,000	72,855,635	160,745,635
2031-2035		105,995,000	55,536,950	161,531,950
2036-2040		125,705,000	34,460,285	160,165,285
2041-2045		82,205,000	12,016,860	94,221,860
2046-2050		29,055,000	2,334,244	31,389,244
	Total	$ 512,560,000	$ 266,351,480	$ 778,911,480

The Division has pledged sufficient revenue, after deduction of all current operating expenses (exclusive of tax equivalents), to meet bond principal and interest payments when due. The bond covenants relating to the Wastewater Revenue Bonds require the establishment of a Wastewater Bond Fund for the payment of principal and interest requirements. As of June 30, 2020, those bond covenants had been satisfied.

During fiscal year 2011, KUB’s Wastewater Division issued Series 2010C bonds to fund wastewater system capital improvements. These bonds were issued as federally taxable Build America Bonds with a 35 percent interest payment rebate to be received from the United States Government for each interest payment. These bonds are subject to a reduction in rebate payment amounts which is subject to change based on Congressional action. As of October 1, 2019, the effective reduction in rebate is 5.9 percent.

During fiscal year 2019, KUB’s Wastewater Division issued Series 2018 bonds to fund wastewater system capital improvements.

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

Other liabilities consist of the following:

	Balance June 30, 2019	Increase	Decrease	Balance June 30, 2020
Accrued compensated absences	$ 1,662,272	$ 3,083,833	$ (2,867,149)	$ 1,878,956
Customer advances for construction	253,025	8,249	-	261,274
Other	77,920	198,067	(195,546)	80,441
	$ 1,993,217	$ 3,290,149	$ (3,062,695)	$ 2,220,671

	Balance June 30, 2018	Increase	Decrease	Balance June 30, 2019
Accrued compensated absences	$ 1,348,345	$ 3,555,987	$ (3,242,060)	$ 1,662,272
Customer advances for construction	4,600	248,425	-	253,025
Other	66,723	201,709	(190,512)	77,920
	$ 1,419,668	$ 4,006,121	$ (3,432,572)	$ 1,993,217

7. Lease Commitments

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

2021	$ 50,724
2022	23,188
2023	3,429
2024	3,017
2025	3,017
Total operating minimum lease payments	$ 83,375

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8. Capital Assets

Capital asset activity was as follows:

	Balance June 30, 2019	Increase	Decrease	Balance June 30, 2020
Pumping & Treatment Plant	$ 242,699,904	$ 12,820,889	$ (1,164,159)	$ 254,356,634
Collection Plant				
Mains and Metering	547,107,036	23,633,561	(5,596,872)	565,143,725
Mains and Metering - Meters	903,570	71,471	-	975,041
Other Accounts	80,348,716	-	-	80,348,716
Total Collection Plant	$ 628,359,322	$ 23,705,032	$ (5,596,872)	$ 646,467,482
Total General Plant	30,261,775	1,238,188	(550,938)	30,949,025
Total Wastewater Plant	$ 901,321,001	$ 37,764,109	$ (7,311,969)	$ 931,773,141
Less accumulated depreciation	(209,993,338)	(20,295,530)	7,326,322	(222,962,546)
Net Plant Assets	$ 691,327,663	$ 17,468,579	$ 14,353	$ 708,810,595
Work In Progress	61,846,449	53,580,779	(37,597,868)	77,829,360
Total Net Plant	$ 753,174,112	$ 71,049,358	$ (37,583,515)	$ 786,639,955

	Balance June 30, 2018	Increase	Decrease	Balance June 30, 2019
Pumping & Treatment Plant	$ 233,870,201	$ 10,938,015	$ (2,108,312)	$ 242,699,904
Collection Plant				
Mains and Metering	533,144,221	16,945,318	(2,982,503)	547,107,036
Mains and Metering - Meters	154,826	748,744	-	903,570
Other Accounts	80,353,716	-	(5,000)	80,348,716
Total Collection Plant	$ 613,652,763	$ 17,694,062	$ (2,987,503)	$ 628,359,322
Total General Plant	29,485,263	947,300	(170,788)	30,261,775
Total Wastewater Plant	$ 877,008,227	$ 29,579,377	$ (5,266,603)	$ 901,321,001
Less accumulated depreciation	(194,989,639)	(19,916,367)	4,912,668	(209,993,338)
Net Plant Assets	$ 682,018,588	$ 9,663,010	$ (353,935)	$ 691,327,663
Work In Progress	37,960,902	51,213,823	(27,328,276)	61,846,449
Total Net Plant	$ 719,979,490	$ 60,876,833	$ (27,682,211)	$ 753,174,112

9. Risk Management

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

These liabilities are included in accrued expenses in the Statement of Net Position. The liability is KUB's best estimate based on available information. At June 30, 2020 and June 30, 2019, the amount of these liabilities was $378,536 and $420,533, respectively, resulting from the following changes:

	2020	2019
Balance, beginning of year	$ 420,533	$ 400,992
Current year claims and changes in estimates	3,282,496	3,779,393
Claims payments	(3,324,493)	(3,759,852)
Balance, end of year	$ 378,536	$ 420,533

10. Pension Plan

Description of Plan

The Knoxville Utilities Board Pension Plan (the Plan) is a governmental plan as defined by the Employee Retirement Income Security Act of 1974 (ERISA or the Act), is not subject to any of the provisions of the Act, and was revised January 1, 2020 to include all prior approved amendments. The Plan is a single-employer contributory, defined benefit pension plan established by Knoxville Utilities Board Resolution No. 980 dated February 18, 1999, effective July 1, 1999, as authorized by the Charter of the City of Knoxville §1107(J). The Plan is designed to provide retirement, disability, and death benefits to KUB employees. KUB administers the Plan through an Administrative Committee consisting of seven KUB employees that are appointed by KUB's President and CEO. Any amendments to the Plan involving costs not approved in the operating budget must be adopted by KUB's Board of Commissioners, upon recommendation by KUB's President and CEO. All other amendments to the Plan may be approved by KUB's President and CEO upon 60 days notification to the Board's Audit and Finance Committee. The Plan issues a financial report, which includes financial statements and required supplementary information. The report may be obtained by writing the Knoxville Utilities Board Retirement System, P.O. Box 59017, Knoxville, TN 37950-9017. For purposes of this disclosure, presentation is on a consolidated basis unless division's share is specified.

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

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

	2019	2018
Inactive plan members:		
Terminated vested participants	18	21
Retirees and beneficiaries	592	588
Active plan members	551	592
Total	1,161	1,201

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

Plan Funding

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

Investments

The Plan's investments are held by State Street Bank and Trust Company (the "Trustee"). The Plan's policy in regard to the allocation of invested assets is established by the Retirement System Investment Committee and approved by the KUB Board of Commissioners and may only be amended by the KUB Board of Commissioners. It is the policy of the Retirement System Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Plan's adopted asset allocation policy as of December 31, 2019:

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

Contributions of $2,585,824 and $3,156,661 for 2018 and 2017, respectively, were made during the Plan sponsor's fiscal years ended June 30, 2020 and 2019, respectively. Of these amounts, $568,881 and $694,466 are attributable to the Wastewater Division. The fiscal year 2020 contribution was determined as part of the January 1, 2018 valuation using the Individual Entry Age Normal funding method. The objective under this method is to fund each participant's benefits under the Plan as payments which are level as a percentage of salary, starting on the original participation date (employment date) and continuing until the assumed retirement, termination, disability, or death.

Net Pension Liability

The below summarizes the disclosures of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* ("GASB 68"), which requires measurement of the net pension liability as total pension liability less the amount of the Plan's fiduciary net position. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a December 31, 2019 and 2018 measurement date, respectively. The Division's share of the net pension asset at June 30, 2020 is $4,206,702, and the net pension liability at June 30, 2019 is $1,462,946.

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

	2019	2018
Total pension liability	$ 226,818,557	$ 212,157,951
Plan fiduciary net position	(245,939,932)	(205,508,195)
Plan's net pension liability (asset)	$ (19,121,375)	$ 6,649,756
Plan fiduciary net position as a percentage of the total pension liability	108.43%	96.87%

Changes in Net Pension Liability are as follows:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2018	$ 212,157,951	$ 205,508,195	$ 6,649,756
Changes for the year:			
Service cost	6,142,213	-	6,142,213
Interest	16,030,626	-	16,030,626
Changes of Benefits	163,199	-	163,199
Differences between Expected and Actual Experience	(1,054,117)	-	(1,054,117)
Changes of Assumptions	8,473,160	-	8,473,160
Contributions - employer	-	2,871,241	(2,871,241)
Contributions - rollovers	-	3,167,836	(3,167,836)
Contributions - member	-	2,989	(2,989)
Net investment income	-	49,951,894	(49,951,894)
Benefit payments	(15,094,475)	(15,094,475)	-
Administrative expense	-	(467,748)	467,748
Net changes	14,660,606	40,431,737	(25,771,131)
Balances at December 31, 2019	$ 226,818,557	$ 245,939,932	$ (19,121,375)

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, 2019, rolled forward to December 31, 2019; January 1, 2018, rolled forward to December 31, 2018
Discount rate	7.25% as of December 31, 2019; 7.50% as of December 31, 2018
Salary increase	From 2.50% to 5.65%, based on years of service as of December 31, 2019; from 2.80% to 5.15%, based on years of service as of December 31, 2018
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, 2019; Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA as of December 31, 2018
Inflation	2.5% as of December 31, 2019; 2.8% as of December 31, 2018

The actuarial assumptions used in the December 31, 2019 valuation were based on an actuarial experience study covering the period January 1, 2014 through December 31, 2018. The discount rate was subsequently reduced from 7.5 percent to 7.25 percent as of the December 31, 2019 measurement date. The Plan was amended to provide automatic increases to retirees for benefits limited under Code §415(d), effective January 1, 2020.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013. Subsequent revisions to lump sum and post-disability assumptions were based upon updated experience through December 31, 2015 and to retirement and termination rates and expense assumptions based upon updated experience through December 31, 2016.

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, 2019 and 2018 are summarized in the following table. The real rate of return reported for fixed income is for aggregate fixed income. The Plan has both aggregate and long duration fixed income.

	Long Term Expected Real Rate of Return	
Asset Class	**2019**	**2018**
Domestic equity	5.5%	5.8%
Non-U.S. equity	6.4%	6.9%
Real estate equity	5.9%	6.0%
Debt securities	1.5%	1.7%
Cash and deposits	0.6%	0.7%

Discount rate
The discount rate used to measure the total pension liability was 7.25 percent as of December 31, 2019, and 7.5 percent as of December 31, 2018. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate
The following presents the net pension liability of the Plan as of December 31, 2019, calculated using the discount rate of 7.25 percent, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one percent lower (6.25 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 (surplus)	$ 946,692	$ (19,121,375)	$ (36,452,396)

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

For the year ended June 30, 2020, KUB recognized pension expense of $2,673,376 (Division's share $588,143).

The impact of experience gains or losses and assumption changes on the Total Pension Liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2018, this average was 5.00 years. During the measurement year, there was an experience gain of $1,054,117, with $210,822 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $843,295 (Division's share $185,525). Unrecognized experience gains from prior periods were $2,408,388, of which $1,163,381 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,245,007 (Division's share $273,902).

During the measurement year, there was an assumption change loss of $8,473,160, with $1,694,632 of that recognized in the current year and each of the next four years, resulting in a deferred outflow of $6,778,528 (Division's share $1,491,276). Unrecognized assumption change decreases from prior periods were $1,387,733, of which $658,104 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $729,629 (Division's share $160,518).

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment gain of $34,889,331, of which $6,977,866 was recognized in the current year and will be recognized in each of the next four years. Net unrecognized investment losses from prior periods were $15,614,774, of which $5,418,519 was recognized as an increase in pension expense in the current year. The combination of unrecognized investment gains this year along with the net unrecognized investment losses from prior periods results in a net difference between projected and actual earnings on pension plan investments as of December 31, 2019 of $17,715,210 (Division's share $3,897,346). The following table summarizes the current balances of deferred outflows and deferred inflows of resources along with the net recognition over future years. In addition, KUB recorded a deferred outflow of resources of $1,292,915 (Division's share $284,441) at June 30, 2020 for employer contributions made between December 31, 2019 and June 30, 2020.

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,088,302
Changes in assumptions	6,778,528	729,629
Net difference between projected and actual earnings on pension plan investments	-	17,715,210
Contributions subsequent to measurement date	1,292,915	-
Total	$ 8,071,443	$ 20,533,141
Division's share	$ 1,775,717	$ 4,517,291

$1,292,915 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, 2021. Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:	
2021	$ (4,595,539)
2022	(3,722,647)
2023	57,633
2024	(5,494,060)
Thereafter	-

For the year ended June 30, 2019, KUB recognized pension expense of $4,128,608 (Division's share $908,294).

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, 2017, this average was 5.00 years. During the measurement year, there was an experience gain of $605,649, with $121,129 of that recognized in the current year and in each of the next four years, resulting in a deferred inflow of $484,520 (Division's share $106,594). Unrecognized experience gains from prior periods were $2,966,120, of which $1,042,251 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,923,868 (Division's share $423,251).

During the measurement year, there were no benefit changes or assumption changes. Unrecognized assumption change decreases from prior periods were $2,045,837, of which $658,103 was recognized as a reduction in pension expense in the current year and resulted in a deferred inflow of $1,387,733 (Division's share $305,301).

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 $28,364,098, of which $5,672,818 was recognized in the current year and an identical amount will be recognized in each of the next four years. Net unrecognized investment gains from prior periods were $8,925,385, of which $1,848,879 was recognized as a decrease in pension expense in the current year. The combination of unrecognized investment losses 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, 2018 of $15,614,774 (Division's share $3,435,249).

The following table summarizes the current balances of deferred outflows and deferred inflows of resources. In addition, KUB recorded a deferred outflow of resources of $1,578,332 (Division's share $347,234) at June 30, 2019 for employer contributions made between December 31, 2018 and June 30, 2019.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,408,388
Changes in assumptions	-	1,387,733
Net difference between projected and actual earnings on pension plan investments	15,614,774	-
Contributions subsequent to measurement date	1,578,332	-
Total	$ 17,193,106	$ 3,796,121
Division's share	$ 3,782,483	$ 835,146

11. Qualified Excess Benefit Arrangement

Description

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

As of June 30, 2020, there are 532 active employees eligible for the KUB Pension Plan who are potentially eligible to receive QEBA benefits. There is currently one member receiving benefits under the QEBA. The KUB Pension Plan was closed effective January 1, 2011, such that persons employed or re-employed by KUB on or after January 1, 2011, are not eligible to participate, but that eligible employees hired prior to January 1, 2011, who have not separated from service, shall continue as Participants and accrue benefits under the KUB Pension Plan. The KUB Pension Plan was amended to include the provision of QEBA benefits; therefore, amendments to the QEBA require the same authority as amendments to the KUB Pension Plan. As required by federal tax law, the QEBA is unfunded within the meaning of the federal tax laws. KUB may not pre-fund the QEBA to cover future liabilities beyond the current year. KUB has established procedures to pay for these benefits on a pay-as-you-go basis, funded by KUB. There are no assets accumulated in a trust that meets the GASB's criteria.

Total Pension Liability of the QEBA

The below summarizes the disclosures of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"). GASB 73 extends a similar approach of financial reporting to plans meeting specific criteria that are not administered through trusts that GASB 68 established for pension plans. GASB 73 requires measurement of the total pension liability of the QEBA. The amounts reported as of June 30 must be based upon a plan measurement date within the prior twelve months. Therefore, KUB's measurements as of June 30, 2020 and 2019 are based on a December 31, 2019 and 2018 measurement date, respectively. The Division's share of the total pension liability was $4,452 at June 30, 2020, and $51,015 at June 30, 2019.

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

	2019	**2018**
Total pension liability	$20,236	$231,883
Deferred outflows	(45,559)	(52,287)
Deferred inflows	35,445	47,260
Net impact on Statement of Net Position	$10,122	$226,856
Covered payroll	$40,276,197	$42,150,040
Total pension liability as a % of covered payroll	0.05%	0.55%

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

	Increase (Decrease) Total Pension Liability
Balances at December 31, 2018	$ 231,883
Changes for the year:	
Service cost	-
Interest	9,181
Changes of Benefits	(218,272)
Differences between Expected and Actual Experience	34
Changes of Assumptions	13,342
Benefit payments	(15,932)
Net changes	(211,647)
Balances at December 31, 2019	$ 20,236

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

Valuation dates	December 31, 2019 and December 31, 2018
Actuarial cost method	Individual entry age
Salary increase	From 2.80% to 5.15%, based on years of service
Mortality	115% and 110% of the Public Sector General Healthy Annuitant Mortality Table (PubG-2010), for males and females, respectively, using the Public Sector General Employee Table for ages prior to the start of the Healthy Annuitant Table, both projected from the 2010 base rates using scale MP2018, fully generational as of

	December 31, 2019; Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA as of December 31, 2018
Inflation	2.5% as of December 31, 2019, and 2.8% as of December 31, 2018

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2014 through December 31, 2018. The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2013. Subsequent revisions to lump sum and post-disability assumptions were based upon updated experience through December 31, 2015 and to retirement and termination rates and expense assumptions based upon updated experience through December 31, 2016.

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 2.74% at December 31, 2019.

Sensitivity of the total pension liability to changes in the discount rate
The following presents the total pension liability of the QEBA as of December 31, 2019, calculated using the discount rate of 2.74 percent, as well as what the QEBA's total pension liability would be if it were calculated using a discount rate that is one percent lower (1.74 percent) or one percent higher (3.74 percent) than the current rate:

	1% Decrease (1.74%)	Current Discount Rate (2.74%)	1% Increase (3.74%)
QEBA's total pension liability	$ 20,423	$ 20,236	$ 20,053

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

For the year ended June 30, 2020, KUB recognized pension expense of ($199,098) for the QEBA (Division's share $43,801). This amount is not expected to be the same as KUB's contribution to the QEBA ($17,636), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [$10,122 - $226,856 + $17,636].

The impact of experience gains or losses and assumption changes on the total pension liability are recognized in the pension expense over the average expected remaining service life of all active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2018, this average was 5 years. During the measurement year, there was an experience loss of $34, with $7 recognized in the current year and each of the next four years, resulting in a deferred outflow of $27 (Division's share $6). There was a deferred inflow at the end of the measurement year of $21,675 (Division's share $4,769) from experience gains in prior years and a deferred outflow of $5,473 (Division's share $1,205) from experience losses in prior years.

During the measurement year, the Plan was amended to provide automatic increases to retirees for benefits limited under Code §415(d), resulting in a change in benefits of $218,272 that was recognized in the current year (Division's share $48,020). There was an increase in the total pension liability due to assumption changes of $13,342, with $2,668 recognized in the current year and each of the next four years, resulting in a deferred outflow of $10,674 (Division's share $2,348). There was a deferred inflow at the end of the measurement year of $13,770 (Division's share $3,029) and a deferred outflow of $29,385 (Division's share $6,465) from assumption changes in prior years. In addition, KUB recorded a deferred outflow of resources of $6,083 at June 30, 2020 for contributions between December 31, 2019 and June 30, 2020 (Division's share $1,338).

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

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual experience	$	5,500	$	21,675
Changes in assumptions		40,059		13,770
Contributions subsequent to measurement date		6,083		-
Total	$	51,642	$	35,445
Division's share	$	11,362	$	7,798

$6,083 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total pension liability in the year ended June 30, 2021 (Division's share $1,338). Other amounts reported as deferred outflows and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:		
2021	$	8,289
2022		8,289
2023		(9,140)
2024		2,676
Thereafter		-

For the year ended June 30, 2019, KUB recognized pension expense of $29,543 for the QEBA (Division's share $6,499). This amount is not expected to be the same as KUB's contribution to the QEBA ($13,312), but instead represents the change in the net impact on KUB's Statement of Net Position plus employer contributions [$226,856 - $210,625 + $13,312].

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, 2017, this average was 5 years. During the measurement year, there was an experience gain of $36,125, with $7,225 recognized in the current year and each of the next four years, resulting in a deferred inflow of $28,900 (Division's share $6,358). There was a deferred outflow at the end of the measurement year of $8,210 from experience losses in prior years (Division's share $1,806).

During the measurement year, there were no benefit changes. There was a decrease in the total pension liability due to assumption changes of $22,950, with $4,590 recognized in the current year and each of the next four years, resulting in a deferred inflow of $18,360 (Division's share $4,040). There was a deferred outflow at the end of the measurement year of $44,077 from assumption changes in prior years (Division's share $9,697). In addition, KUB recorded a deferred outflow of resources of $7,242 at June 30, 2019 for contributions between December 31, 2018 and June 30, 2019 (Division's share $1,594).

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	$	8,210	$	28,900
Changes in assumptions		44,077		18,360
Contributions subsequent to measurement date		7,242		-
Total	$	59,529	$	47,260
Division's share	$	13,097	$	10,398

12. Defined Contribution Plan

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

KUB funded 401(k) matching contributions and nonelective contributions of $2,469,273 (Division's share $543,240) and $2,410,201 (Division's share $530,244), respectively, for the years ended June 30, 2020 and 2019.

13. Other Post-Employment Benefits (OPEB)

Description of Trust

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

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

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

	2020	2019
Retirees	555	554
Dependents of retirees	576	550
Eligible active employees	181	288
Total	1,312	1,392

Benefits

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

Contributions and Plan Funding

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

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

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

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

Investments

The Trust holds investments in a balanced fund, which invests in passively managed common trust index funds, managed and sponsored by State Street Global Advisors (SSgA), with an asset allocation mirroring the asset allocation of the Trust and rebalanced monthly. The Trust's Investment Policy was established and may only be amended by the KUB Board of Commissioners. The Trust’s Investment Policy is to invest in a manner that will provide sufficient investment return to meet current and future retiree health benefits, while conforming to all governing State and Federal statutes. It allows investment of Trust assets in any type of security instrument allowed for in T.C.A 8-50-1203. The following was the Trust’s adopted investment target allocations as set forth in the Trust’s Investment Policy as of June 30, 2020:

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

An actuarially determined contribution of $311,324 was made to the OPEB Trust in fiscal year ended June 30, 2020 (Division’s share $68,491). No contribution was made to the OPEB Trust for the fiscal year ended June 30, 2019. These were based on the OPEB Plan’s actuarial valuations as of January 1, 2018, and 2017.

Net OPEB Liability

The below summarizes the disclosures of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“GASB 75”), which requires measurement of the net OPEB liability as total OPEB liability less the amount of the Trust’s fiduciary net position. The amounts reported as of June 30 are based on the reporting date for the KUB Other Post-Employment Benefits Plan which is June 30. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2020 and 2019 and the Total OPEB Liability as of the valuation date, January 1, 2019 updated to June 30, 2020, and January 1, 2018 updated to June 30, 2019, respectively. The Division’s share of the total net OPEB liability was $1,669,678 at June 30, 2020 and $318,503 at June 30, 2019. There was one significant event between the valuation date and the measurement date for June 30, 2020 where the discount rate was reduced from 7.5% to 7.25%.

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

	2020	2019
Total OPEB liability	$ 54,544,240	$ 50,197,938
Plan fiduciary net position	46,954,793	48,750,196
Net OPEB liability	$ 7,589,447	$ 1,447,742
Plan fiduciary net position as a percentage of the total OPEB liability	86.09%	97.12%

Changes in Net OPEB Liability are as follows:

	Total OPEB Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2019	$ 50,197,938	$ 48,750,196	$ 1,447,742
Changes for the year:			
Service cost	256,270	-	256,270
Interest	3,672,291	-	3,672,291
Changes of Benefits	(202,408)	-	(202,408)
Differences between Expected and Actual Experience	43,902	-	43,902
Changes of Assumptions	3,604,843	-	3,604,843
Contributions - employer	-	311,324	(311,324)
Contributions - member	-	-	-
Net investment income	-	975,155	(975,155)
Benefit payments	(3,028,596)	(3,028,596)	-
Administrative expense	-	(53,286)	53,286
Net changes	4,346,302	(1,795,403)	6,141,705
Balances at June 30, 2020	$ 54,544,240	$ 46,954,793	$ 7,589,447

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, 2019, updated to June 30, 2020; January 1, 2018, updated to June 30, 2019
Discount rate:	7.25% as of January 1, 2019; 7.5% as of January 1, 2018
Healthcare cost trend rates:	Pre-Medicare: 7.83% grading down to 4.50% over 19 years as of January 1, 2019; 8.00% grading down to 4.50% over 20 years as of January 1, 2018 Medicare: 6.88% grading down to 4.50% over 19 years as of January 1, 2019; 7.00% grading down to 4.50% over 20 years as of January 1, 2018 Administrative expenses: 3.0% per year

Salary increases:	From 2.50% to 5.65%, based on years of service as of January 1, 2019; From 2.80% to 5.15%, based on years of service as of January 1, 2018
Mortality:	115% and 110% of the Public Sector Healthy Annuitant Mortality Table (PubG-2010), for males and females, respectively, using the Public Sector General Employee Table (PubG-2010) for ages prior to the start of the Health Annuitant Mortality Table, both projected using scale MP2018 fully generational as of January 1, 2019; Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA as of January 1, 2018
Inflation:	2.5% as of January 1, 2019; 2.8% as of January 1, 2018

The actuarial assumptions used in the January 1, 2019 and January 1, 2018 valuations were based on the results of actuarial experience studies for the periods January 1, 2014 through December 31, 2018 and January 1, 2009 through December 31, 2013, respectively. The discount rate was subsequently reduced to 7.25 percent from 7.50 percent as of January 1, 2020; therefore, the new rate was used to calculate the OPEB liability as of June 30, 2020.

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

	Long Term Expected Real Rate of Return	
Asset Class	**2020**	**2019**
Domestic equity	5.4%	5.5%
International equity	6.4%	6.4%
Real estate equity	5.8%	5.9%
Debt securities	0.2%	1.5%
Cash and deposits	(0.2%)	0.6%

Discount rate

The discount rate used to measure the total OPEB liability was 7.25 percent and 7.5 percent as of June 30, 2020 and 2019, respectively. The projection of cash flows used to determine the discount rate assumed that participant contributions will be made at the current contribution rate and that KUB contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Trust's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on Trust investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate.
The following presents the net OPEB liability of the Trust as of June 30, 2020, calculated using the discount rate of 7.25 percent, as well as what the Trust's net OPEB liability would be if it were calculated using a discount rate that is 1 percent lower (6.25 percent) or 1 percent higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	**Current Discount Rate (7.25%)**	**1% Increase (8.25%)**
Net OPEB liability	$ 12,643,555	$ 7,589,447	$ 3,282,461

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.
The following presents the net OPEB liability of the Trust as of June 30, 2020, as well as what the Trust's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percent lower or 1 percent higher than the current rate:

	1% Decrease	**Baseline Trends**	**1% Increase**
Net OPEB liability	$ 2,482,856	$ 7,589,447	$ 13,485,387

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

For the year ended June 30, 2020, KUB recognized OPEB expense of $4,767,499 (Division's share $1,048,850).

The impact of liability experience gains or losses and assumption changes on the Total OPEB Liability are recognized in the OPEB expense over the average expected remaining service life of all active and inactive members of the OPEB Plan. As of the beginning of the measurement period, this average was 2.0 years. During the measurement year, there was an experience loss of $43,902, with $21,951 of that recognized in the current year and the remaining amount will be recognized in the next year, resulting in a deferred outflow of resources of $21,951 (Division's share $4,829). Unrecognized experience losses from prior periods were $499,549, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there were benefit changes that decreased the expense by $202,408. There was an increase in the Total OPEB Liability due to assumption changes of $3,604,843, with $1,802,422 of that recognized in the current year and in the next year, resulting in a deferred outflow of $1,802,421 (Division's share $396,533). Unrecognized assumption changes from prior periods were $1,615,800, of which the entire amount is recognized as an increase in OPEB expense in the current year.

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment loss of $2,579,092, of which $515,818 was recognized in the current year and will be recognized in each of the next four years, resulting in a deferred outflow of resources as of June 30, 2020 of $2,063,274 (Division's share $453,920). Net unrecognized investment losses from prior periods were $377,831, of which $86,767 was recognized as an increase in OPEB expense in the current year and resulting in a net deferred outflow of $291,064 (Division's share $64,034). The following table summarizes the current balances of deferred outflows and deferred inflows of resources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 21,951	$ -
Changes in assumptions	1,802,421	-
Net difference between projected and actual earnings on OPEB plan investments	2,354,338	-
Total	$ 4,178,710	$ -
Division's share	$ 919,316	$ -

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

Year ended June 30:	
2021	$ 2,426,957
2022	602,586
2023	633,347
2024	515,820
2025	-
Thereafter	-

For the year ended June 30, 2019, KUB recognized OPEB expense of $3,046,377 (Division's share $670,203).

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 $999,098, with $499,549 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 $499,549 (Division's share $109,901). Unrecognized experience losses from prior periods were $662,384, of which the entire amount is recognized as an increase in OPEB expense in the current year.

During the measurement year, there were no benefit changes. There was an increase in the Total OPEB Liability due to assumption changes of $3,231,601, with $1,615,801 of that recognized in the current year and in the next year, resulting in a deferred outflow of $1,615,800 (Division's share $355,476). Unrecognized assumption changes from prior periods were ($198,590), 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 $587,645, of which $117,529 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 $123,047, of which $30,762 was recognized as a decrease in OPEB expense in the current year. The combination of unrecognized investment losses this year along with the net unrecognized investment gains from prior periods results in a net difference between projected and actual earnings on OPEB plan investments as of June 30, 2019 of $377,831 (Division's share $83,123). The table on the next page 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	$ 499,549	$ -
Changes in assumptions	1,615,800	-
Net difference between projected and actual earnings on OPEB plan investments	377,831	-
Total	$ 2,493,180	$ -
Division's share	$ 548,500	$ -

14. Related Party Transactions

The Division, in the normal course of operations, is involved in transactions with the City of Knoxville and with other divisions of KUB. Such transactions for the years ended June 30, 2020 and 2019 are summarized as follows:

	2020	**2019**
City of Knoxville		
Amounts billed by the Division for utilities and related services	$ 958,288	$ 1,017,609
Payments by the Division in lieu of property tax	4,650,629	4,429,170
Payments by the Division for services provided	1,331,081	1,815,100
Other divisions of KUB		
Amounts billed to other divisions for utilities and related services provided	375,057	332,749
Interdivisional rental expense	729,961	280,894
Interdivisional rental income	164,999	95,005
Amounts billed to the Division by other divisions for utilities services provided	3,874,660	3,527,629

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

	2020	**2019**
Accounts receivable	$ 41,586	$ 32,537

15. Other Commitments and Contingencies

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

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

The Consent Decree also required KUB to perform an evaluation of the wet weather performance and capacity of its wastewater treatment plants. In July 2007, KUB submitted a Composite Correction Plan (CCP) for its wastewater treatment plants to EPA for review. The development and filing of the CCP was a requirement of the federal order of February 2005. The CCP includes recommended improvements to KUB's Kuwahee and Fourth Creek treatment plants to address wet weather capacity issues noted in prior assessments. The EPA approved the CCP in January 2009 including a recommended schedule of plant improvements that extends beyond the expiration date of the original Consent Decree. An amendment to the Consent Decree incorporating and establishing this schedule was agreed to by all parties and was entered on June 23, 2009. The purpose of the Amendment is to allow KUB to complete a portion of work outlined in the CCP after the Consent Decree deadline of June 30, 2016. The CCP provides for a biologically enhanced high-rate clarification (the BEHRC) secondary treatment system to be installed at the Fourth Creek treatment plant by June 30, 2018 and at the Kuwahee treatment plant by June 30, 2021. KUB successfully completed the installation of the BEHRC system at the Fourth Creek treatment plant ahead of schedule in April 2018. Work is currently ongoing at the Kuwahee treatment plant and remains on schedule for completion before the deadline of June 30, 2021. The total cost of such improvements at the Kuwahee treatment plant is estimated to be approximately $50 million.

KUB's funding plan for the Consent Decree includes long-term bonds and a series of rate increases phased in over the term of the order. Bond proceeds fund all types of wastewater capital projects, the majority of which are related to the Consent Decree. As of June 30, 2020, the Wastewater Division had issued $556.2 million in bonds to fund wastewater system capital improvements since the inception of the Consent Decree. The Board approved two 50 percent rate increases, which went into effect in April 2005 and January 2007. The Board also approved an 8 percent rate increase, which was effective in September 2008, two 12 percent rate increases, which were effective in April 2011 and October 2012, three 6 percent rate increases, which were effective October 2014, October 2015, and October 2016, and three 5 percent rate increases, which were effective July 2017, July 2018, and July 2019. KUB anticipates additional bond issues and rate increases over the next decade to help fund wastewater capital improvements.

KUB successfully completed the first cycle of Maintenance Operation Management (MOM) requirements one year before the deadline by inspecting manholes and gravity mains, smoke testing gravity mains, performing required inspections of pump stations and the related force mains, and completing all Corrective Action Plan/Engineering Report (CAP/ER) projects. KUB initiated the second MOM cycle that continues to focus on the prevention of SSOs. As part of the Century II initiative, formally known as the PACE10 program, KUB has installed storage tanks providing 34 million gallons of wastewater storage to control wet weather overflows and rehabilitated or replaced 408 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, 2020, the Wastewater Division had completed its 16th full year under the Consent Decree, spending $559.8 million on capital investments to meet Consent Decree requirements.

16. Risks and Uncertainties

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

Knoxville Utilities Board Wastewater Division
Required Supplementary Information – Schedule of Changes in Net Pension Liability and Related Ratios
June 30, 2020

	*Year ended December 31					
	2019	2018	2017	2016	2015	2014
Total pension liability						
Service cost	$ 6,142,213	$ 5,095,488	$ 4,607,486	$ 4,226,985	$ 4,157,062	$ 4,092,808
Interest	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	(1,054,117)	(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	(15,094,475)	(15,274,814)	(14,969,979)	(14,138,511)	(15,350,926)	(15,533,167)
Net change in total pension liability	14,660,606	4,559,218	3,207,995	(111,612)	1,728,586	3,258,298
Total pension liability - beginning	212,157,951	207,598,733	204,390,738	204,502,350	202,773,764	199,515,466
Total pension liability - ending (a)	$ 226,818,557	$ 212,157,951	$ 207,598,733	$ 204,390,738	$ 204,502,350	$ 202,773,764
Plan fiduciary net position						
Contributions - employer	$ 2,871,241	$ 3,456,475	$ 4,286,597	$ 5,243,146	$ 5,991,887	$ 5,908,541
Contributions - participants	3,170,825	2,081,125	1,488,632	555,075	487,546	475,854
Net investment income	49,938,315	(11,748,396)	32,360,219	13,788,263	(95,430)	22,292,369
Other additions	13,579	62,616	82,239	45,848	30,879	29,733
Benefit payments, including refunds of member contributions	(15,030,475)	(15,174,814)	(14,895,979)	(14,044,511)	(15,274,926)	(15,405,167)
Administrative expense	(467,748)	(445,916)	(385,282)	(441,332)	(397,160)	(378,085)
Death benefits	(64,000)	(100,000)	(74,000)	(94,000)	(76,000)	(128,000)
Net change in plan fiduciary net position**	40,431,737	(21,868,910)	22,862,426	5,052,489	(9,333,204)	12,795,245
Plan fiduciary net position - beginning**	205,508,195	227,377,105	204,514,679	199,462,190	208,795,394	196,000,149
Plan fiduciary net position - ending (b)**	$ 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)	$ (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	108.43%	96.87%	109.53%	100.06%	97.54%	102.97%
Covered payroll	$ 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	(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.

Knoxville Utilities Board Wastewater Division
Required Supplementary Information – Schedule of Employer Pension Contributions
June 30, 2020

	*Year ended December 31 2019	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 2,871,241	$ 3,456,475	$ 4,286,597	$ 5,243,146	$ 5,991,887	$ 5,908,541
Contribution in relation to the actuarially determined contribution	2,871,241	3,456,475	4,286,597	5,243,146	5,991,887	5,908,541
Contribution deficiency	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 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	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, 2018 and January 1, 2017

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 23 years remaining (24 years as of January 1, 2017), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2018, the unfunded liability was negative.
Discount rate:	7.5%
Salary increases:	2.80% to 5.15%, based on years of service
Mortality:	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation:	2.8%

* 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.

Knoxville Utilities Board Wastewater Division
Required Supplementary Information – Schedule of Changes in Net OPEB Liability and Related Ratios
June 30, 2020

	*Year ended June 30		
	2020	**2019**	**2018**
Total OPEB liability			
Service cost	$ 256,270	$ 270,515	$ 202,603
Interest	3,672,291	3,624,737	3,295,240
Change of benefit terms	(202,408)	-	-
Differences between expected and actual experience	43,902	999,098	1,324,769
Changes of assumptions	3,604,843	3,231,601	(397,180)
Benefit payments	(3,028,596)	(3,532,444)	(3,298,739)
Net change in total OPEB liability	4,346,302	4,593,507	1,126,693
Total OPEB liability - beginning	50,197,938	45,604,431	44,477,738
Total OPEB liability - ending (a)	$ 54,544,240	$ 50,197,938	$ 45,604,431
Plan fiduciary net position			
Contributions - employer	$ 311,324	$ -	$ -
Net investment income	975,155	2,981,928	3,705,473
Benefit payments	(3,028,596)	(3,532,444)	(3,298,739)
Administrative expense	(53,286)	(54,787)	(51,668)
Net change in plan fiduciary net position	(1,795,403)	(605,303)	355,066
Plan fiduciary net position - beginning	48,750,196	49,355,499	49,000,433
Plan fiduciary net position - ending (b)	$ 46,954,793	$ 48,750,196	$ 49,355,499
Net OPEB liability (asset) - ending (a) - (b)	$ 7,589,447	$ 1,447,742	$ (3,751,068)
Plan fiduciary net position as a percentage of the total OPEB liability	86.09%	97.12%	108.23%
Covered employee payroll	$ 23,363,536	$ 24,346,735	$ 23,677,080
Net OPEB liability (asset) as a percentage of covered employee payroll	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.

Knoxville Utilities Board Wastewater Division

Required Supplementary Information – Schedule of Employer OPEB Contributions

June 30, 2020

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

Notes to Schedule:

Valuation Date:	January 1, 2018 and January 1, 2017
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 18 years remaining as of January 1, 2018 (19 years as of January 1, 2017), or a level dollar, 30-year open period for a negative unfunded liability; As of January 1, 2018, the unfunded liability was negative
Discount rate:	7.5%
Healthcare cost trend rate:	Pre-Medicare: 8% grading down to 4.5% over 20 years as of January 1, 2018; 7.83% to 4.5% over 19 years as of January 1, 2017 Medicare: 7% grading down to 4.5% over 20 years as of January 1, 2018; 6.88% to 4.5% over 19 years as of January 1, 2017 Administrative expenses: 3.0% per year
Salary increases:	From 2.8% to 5.15%, based on years of service
Mortality:	Sex distinct RP-2000 Combined Mortality projected to 2024 using Scale AA
Inflation:	2.8%
Investment rate of return:	7.5%
Retirement age:	2% at ages 50-57 at January 1, 2018 and January 1, 2017, respectively, 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.

Knoxville Utilities Board Wastewater Division
Required Supplementary Information – Qualified Governmental Excess Benefit Arrangement
Schedule of Changes in Total Pension Liability and Related Ratios
June 30, 2020

	*Year ended December 31			
	2019	**2018**	**2017**	**2016**
Total pension liability				
Service cost	$ -	$ 941	$ 584	$ -
Interest (includes interest on service cost)	9,181	9,676	7,535	-
Changes of benefit terms	(218,272)	-	-	185,077
Differences between expected and actual experience	34	(36,125)	13,684	-
Changes of assumptions	13,342	(22,950)	73,461	-
Benefit payments, including refunds of member contributions	(15,932)	-	-	-
Net change in total pension liability	(211,647)	(48,458)	95,264	185,077
Total pension liability - beginning	231,883	280,341	185,077	-
Total pension liability - ending	$ 20,236	$ 231,883	$ 280,341	$ 185,077
Covered payroll	$ 40,276,197	$ 42,150,040	$ 43,309,374	$ 44,437,747
Total pension liability as a percentage of covered payroll	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.

Knoxville Utilities Board Wastewater Division

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

June 30, 2020

Federal Grantor/ Pass-Through Grantor	Program Name	CFDA Number	Pass-Through Entity Identifying Number	Expenditures
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	PA-04-TN-4427-PW-00266	$ 18,000
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	PA-04-TN-4427-PW-00446	$ 36,418
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	PA-04-TN-4427-PW-00468	$ 21,653
U.S. Department of Homeland Security through Tennessee Department of Military	Disaster Grants - Public Assistance	97.036	PA-04-TN-4427-PW-00472	$ 60,398
		Total Program 97.036		$ 136,469
		Total Federal Awards		$ 136,469

NOTE 1 - BASIS OF PRESENTATION

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

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Debt Maturities by Fiscal Year
June 30, 2020

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	2010C			2012A		2012B		2013A		2014A	
FY	**Principal**	**Interest**	**Rebate***	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
20-21	1,650,000	3,394,270	1,187,994	1,085,000	434,000	1,150,000	1,862,250	710,000	3,459,500	525,000	1,019,119
21-22	1,700,000	3,325,465	1,163,912	1,175,000	390,600	1,200,000	1,804,750	740,000	3,431,100	550,000	998,119
22-23	1,750,000	3,246,925	1,136,424	1,165,000	343,600	1,250,000	1,744,750	770,000	3,401,500	575,000	981,619
23-24	1,850,000	3,162,575	1,106,902	1,250,000	297,000	1,300,000	1,694,750	4,600,000	3,370,700	600,000	964,369
24-25	1,950,000	3,065,450	1,072,908	1,140,000	247,000	1,375,000	1,642,750	4,900,000	3,232,700	625,000	946,369
25-26	2,375,000	2,961,125	1,036,394	1,190,000	201,400	1,425,000	1,587,750	5,040,000	3,085,700	650,000	927,619
26-27	2,500,000	2,830,738	990,758	1,235,000	153,800	1,500,000	1,530,750	5,200,000	2,934,500	700,000	908,119
27-28	2,600,000	2,688,488	940,970	1,280,000	104,400	1,575,000	1,470,750	6,305,000	2,778,500	725,000	880,119
28-29	2,725,000	2,536,388	887,736	1,330,000	53,200	1,625,000	1,423,500	6,535,000	2,573,588	750,000	851,119
29-30	2,850,000	2,376,975	831,942			1,700,000	1,374,750	8,315,000	2,377,538	775,000	821,119
30-31	2,975,000	2,210,250	773,588			1,775,000	1,323,750	8,550,000	2,128,088	825,000	790,119
31-32	3,100,000	2,031,750	711,112			1,875,000	1,270,500	8,840,000	1,871,588	850,000	757,119
32-33	3,250,000	1,845,750	646,012			1,950,000	1,214,250	9,120,000	1,606,388	900,000	723,119
33-34	3,375,000	1,650,750	577,762			2,025,000	1,155,750	9,390,000	1,332,788	925,000	687,119
34-35	3,550,000	1,448,250	506,882			2,125,000	1,095,000	9,705,000	1,015,875	975,000	650,119
35-36	3,700,000	1,235,250	432,338			2,225,000	1,031,250	10,025,000	688,331	1,025,000	611,119
36-37	3,875,000	1,009,550	353,342			2,325,000	964,500	10,370,000	349,988	1,075,000	570,119
37-38	4,050,000	773,175	270,612			2,425,000	894,750			500,000	527,119
38-39	4,225,000	526,125	184,144			2,550,000	822,000			500,000	507,119
39-40	4,400,000	268,400	93,940			2,650,000	745,500			500,000	488,994
40-41						2,775,000	666,000			1,175,000	470,869
41-42						2,900,000	582,750			1,225,000	428,275
42-43						3,025,000	495,750			1,300,000	382,950
43-44						3,150,000	405,000			1,350,000	334,850
44-45						3,300,000	310,500			1,400,000	284,900
45-46						3,450,000	211,500			1,475,000	233,100
46-47						3,600,000	108,000			1,550,000	178,525
47-48										1,600,000	121,175
48-49										1,675,000	61,975
49-50											
Total	$ 58,450,000	$ 42,587,649	$ 14,905,672	$ 10,850,000	$ 2,225,000	$ 58,225,000	$ 29,433,500	$ 109,115,000	$ 39,638,372	$ 27,300,000	$ 18,106,374

*Series 2010c bonds were issued as federally taxable Build America Bonds. KUB will receive a 35 percent interest rebate payment from the United States Government for each interest payment. Effective October 1, 2019 these bonds became subject to a 5.9% reduction in rebate payment amounts due to the United States Government sequestration. The sequestration is effective until intervening Congressional action, at which time the sequestration rate is subject to change.

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Debt Maturities by Fiscal Year
June 30, 2020

Continued from Previous Page

	2015A		2015B		2016		2017A		2017B	
FY	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
20-21	5,460,000	4,452,012	525,000	1,063,938	475,000	512,531	1,605,000	341,550	540,000	771,212
21-22	5,675,000	4,179,012	550,000	1,042,938	500,000	488,781	1,685,000	261,300	570,000	744,213
22-23	6,005,000	3,895,262	575,000	1,020,936	525,000	463,781	1,775,000	177,050	600,000	715,712
23-24	3,720,000	3,595,012	600,000	997,938	550,000	437,531	595,000	88,300	630,000	685,713
24-25	3,785,000	3,483,412	625,000	973,938	575,000	421,031	615,000	70,450	660,000	654,212
25-26	1,425,000	3,369,864	650,000	955,188	575,000	409,531	640,000	52,000	690,000	621,213
26-27	1,490,000	3,323,550	675,000	935,688	600,000	398,031	660,000	26,400	715,000	600,512
27-28	1,405,000	3,271,400	700,000	915,438	600,000	386,032			725,000	586,213
28-29	1,450,000	3,222,226	725,000	887,438	625,000	374,032			745,000	570,806
29-30	1,455,000	3,178,726	775,000	858,438	625,000	361,532			760,000	553,112
30-31	1,515,000	3,135,076	800,000	827,436	650,000	348,250			785,000	530,313
31-32	1,520,000	3,089,626	825,000	795,436	675,000	333,625			805,000	506,762
32-33	1,580,000	3,042,125	850,000	762,436	675,000	318,438			830,000	482,613
33-34	1,635,000	2,992,750	900,000	733,750	700,000	302,406			855,000	457,712
34-35	1,690,000	2,939,612	925,000	703,375	700,000	284,906			880,000	432,063
35-36	1,750,000	2,884,688	975,000	671,000	725,000	267,406			910,000	405,662
36-37	1,825,000	2,827,812	1,000,000	632,000	750,000	249,282			935,000	378,363
37-38	13,420,000	2,768,500	500,000	592,000	775,000	229,594			965,000	350,312
38-39	13,895,000	2,298,800	500,000	572,000	775,000	209,250			995,000	320,156
39-40	14,480,000	1,743,000	500,000	552,000	800,000	186,000			1,025,000	289,063
40-41	15,130,000	1,236,200	1,100,000	532,000	825,000	162,000			1,055,000	257,032
41-42	15,775,000	631,000	1,150,000	488,000	850,000	137,250			1,090,000	224,062
42-43			1,200,000	442,000	875,000	111,750			1,125,000	190,000
43-44			1,250,000	394,000	900,000	85,500			1,160,000	154,844
44-45			1,300,000	344,000	950,000	58,500			1,195,000	118,594
45-46			1,350,000	292,000	1,000,000	30,000			1,230,000	81,250
46-47			1,400,000	238,000					1,270,000	41,275
47-48			1,450,000	182,000						
48-49			1,525,000	124,000						
49-50			1,575,000	63,000						
Total	$ 116,085,000	$ 65,559,665	$ 27,475,000	$ 19,592,311	$ 18,275,000	$ 7,566,970	$ 7,575,000	$ 1,017,050	$ 23,745,000	$ 11,722,994

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Debt Maturities by Fiscal Year
June 30, 2020

Continued from Previous Page

	2018		2019		2020		TOTALS		Grand Total (P + I)	Grand Total (Less Rebates)
FY	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**		
20-21	245,000	401,756	300,000	552,450	785,000	887,431	15,055,000	19,152,019	34,207,019	33,019,025
21-22	255,000	389,506	315,000	537,450	680,000	994,650	15,595,000	18,587,884	34,182,884	33,018,972
22-23	270,000	376,756	330,000	521,700	715,000	960,650	16,305,000	17,850,241	34,155,241	33,018,817
23-24	280,000	365,956	345,000	505,200	750,000	924,900	17,070,000	17,089,944	34,159,944	33,053,042
24-25	290,000	354,756	360,000	487,950	785,000	887,400	17,685,000	16,467,418	34,152,418	33,079,510
25-26	305,000	343,156	380,000	469,950	825,000	848,150	16,170,000	15,832,646	32,002,646	30,966,252
26-27	315,000	330,956	400,000	450,950	865,000	806,900	16,855,000	15,230,894	32,085,894	31,095,136
27-28	325,000	321,506	420,000	430,950	910,000	763,650	17,570,000	14,597,446	32,167,446	31,226,476
28-29	335,000	311,756	435,000	409,950	955,000	718,150	18,235,000	13,932,153	32,167,153	31,279,417
29-30	345,000	301,706	455,000	388,200	1,005,000	670,400	19,060,000	13,262,496	32,322,496	31,490,554
30-31	355,000	291,356	475,000	370,000	1,055,000	620,150	19,760,000	12,574,788	32,334,788	31,561,200
31-32	365,000	280,706	495,000	351,000	1,095,000	577,950	20,445,000	11,866,062	32,311,062	31,599,950
32-33	375,000	269,756	515,000	331,200	1,140,000	534,150	21,185,000	11,130,225	32,315,225	31,669,213
33-34	390,000	258,038	530,000	315,750	1,175,000	499,950	21,900,000	10,386,763	32,286,763	31,709,001
34-35	400,000	245,362	545,000	299,850	1,210,000	464,700	22,705,000	9,579,112	32,284,112	31,777,230
35-36	415,000	232,364	560,000	283,500	1,245,000	428,400	23,555,000	8,738,970	32,293,970	31,861,632
36-37	425,000	218,874	580,000	266,700	1,285,000	391,050	24,445,000	7,858,238	32,303,238	31,949,896
37-38	440,000	204,532	595,000	249,300	1,320,000	352,500	24,990,000	6,941,782	31,931,782	31,661,170
38-39	455,000	189,682	615,000	231,450	1,360,000	312,900	25,870,000	5,989,482	31,859,482	31,675,338
39-40	475,000	173,756	615,000	213,000	1,400,000	272,100	26,845,000	4,931,813	31,776,813	31,682,873
40-41	490,000	157,132	635,000	194,550	1,445,000	230,100	24,630,000	3,905,883	28,535,883	28,535,883
41-42	505,000	139,982	655,000	175,500	1,490,000	186,750	25,640,000	2,993,569	28,633,569	28,633,569
42-43	525,000	122,306	675,000	155,850	1,530,000	142,050	10,255,000	2,042,656	12,297,656	12,297,656
43-44	540,000	103,932	700,000	135,600	1,580,000	96,150	10,630,000	1,709,876	12,339,876	12,339,876
44-45	560,000	85,032	720,000	114,600	1,625,000	48,750	11,050,000	1,364,876	12,414,876	12,414,876
45-46	580,000	65,432	740,000	93,000			9,825,000	1,006,282	10,831,282	10,831,282
46-47	600,000	44,406	765,000	70,800			9,185,000	681,006	9,866,006	9,866,006
47-48	625,000	22,656	785,000	47,850			4,460,000	373,681	4,833,681	4,833,681
48-49			810,000	24,300			4,010,000	210,275	4,220,275	4,220,275
49-50							1,575,000	63,000	1,638,000	1,638,000
Total	$ 11,485,000	$ 6,603,114	$ 15,750,000	$ 8,678,550	$ 28,230,000	$ 13,619,931	$ 512,560,000	$ 266,351,480	$ 778,911,480	$ 764,005,808

Knoxville Utilities Board Wastewater Division
Supplemental Information – Schedule of Changes in Long-term Debt by Individual Issue
June 30, 2020

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding Balance 7/1/2019	Issued During Period	Paid/Matured During Period	Refunded During Period	Outstanding Balance 6/30/2020
Business-Type Activities									
BONDS PAYABLE									
Payable through Wastewater Fund									
Revenue Bond, Series 2010	30,000,000	6.3-6.5	02/10/10	04/01/45	$ 30,000,000	$	$ -	$ 30,000,000	$ -
Revenue Bond, Series 2010C	70,000,000	1.18-6.1	12/08/10	04/01/40	60,050,000		1,600,000		58,450,000
Revenue Bond Refunding, Series 2012A	17,070,000	2.0-4.0	04/20/12	04/01/29	11,800,000		950,000		10,850,000
Revenue Bond, Series 2012B	65,000,000	1.25-5.0	12/18/12	04/01/47	59,325,000		1,100,000		58,225,000
Revenue Bond Refunding, Series 2013A	113,340,000	2.0-4.0	03/15/13	04/01/37	109,800,000		685,000		109,115,000
Revenue Bond, Series 2014A	30,000,000	2.0-4.0	09/18/14	04/01/49	27,800,000		500,000		27,300,000
Revenue Bond Refunding, Series 2015A	129,825,000	3.0-5.0	05/01/15	04/01/42	121,390,000		5,305,000		116,085,000
Revenue Bond, Series 2015B	30,000,000	3.0-5.0	05/20/15	04/01/50	28,000,000		525,000		27,475,000
Revenue Bond, Series 2016	20,000,000	2.0-5.0	08/05/16	04/01/46	18,750,000		475,000		18,275,000
Revenue Bond Refunding, Series 2017A	11,965,000	3.0-5.0	04/07/17	04/01/27	9,100,000		1,525,000		7,575,000
Revenue Bond, Series 2017B	25,000,000	2.0-5.0	09/15/17	04/01/47	24,260,000		515,000		23,745,000
Revenue Bond, Series 2018	12,000,000	3.0-5.0	09/14/18	04/01/48	11,720,000		235,000		11,485,000
Revenue Bond, Series 2019	16,000,000	3.0-5.0	08/20/19	04/01/49	-	16,000,000	250,000		15,750,000
Revenue Bond Refunding, Series 2020	28,230,000	3.0-5.0	05/22/20	04/01/45	-	28,230,000	-		28,230,000
					$ 511,995,000	$ 44,230,000	$ 13,665,000	$ 30,000,000	$ 512,560,000

Knoxville Utilities Board Wastewater Division
Statistical Information – Schedule of Insurance in Force
June 30, 2020
(Unaudited)

Insurance coverage is for KUB as a consolidated entity.

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

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

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

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

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

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

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

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

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

Employee Health Plan Stop Loss Coverage
KUB's employee health plan is self-funded. KUB has purchased stop loss insurance, which covers KUB's exposure to annual expenses in excess of $575,000 per individual participant.

Knoxville Utilities Board Wastewater Division
Statistical Information – Schedule of Current Rates in Force
June 30, 2020
(Unaudited)

Rate Class	Base Charge	Number of Customers
Residential Inside City rate	For wastewater service furnished to premises entirely within the corporate limits of the City of Knoxville:	55,895

Commodity Charge

First	2	100 Cubic Feet Per Month at $1.75 Per 100 Cubic Feet
Over	2	100 Cubic Feet Per Month at $8.70 Per 100 Cubic Feet

Additional Monthly Customer Charge

5/8" meter	$ 35.90
1" meter	50.90
1 1/2" meter	62.90
2" meter	82.90

Rate Class	Base Charge	Number of Customers
Non-Residential Inside City rate	For wastewater service furnished to premises entirely within the corporate limits of the City of Knoxville:	7,647

Commodity Charge

First	2	100 Cubic Feet Per Month at $1.00 Per 100 Cubic Feet
Next	8	100 Cubic Feet Per Month at $12.95 Per 100 Cubic Feet
Next	90	100 Cubic Feet Per Month at $11.55 Per 100 Cubic Feet
Next	300	100 Cubic Feet Per Month at $9.90 Per 100 Cubic Feet
Next	4,600	100 Cubic Feet Per Month at $8.05 Per 100 Cubic Feet
Next	5,000	100 Cubic Feet Per Month at $4.75 Per 100 Cubic Feet

Additional Monthly Customer Charge

5/8" meter	$ 35.90
1" meter	50.90
1 1/2" meter	62.90
2" meter	82.90
3" meter	161.00
4" meter	264.00
6" meter	562.00
8" meter	977.00
10" meter	1,481.00
12" meter	2,182.00

Knoxville Utilities Board Wastewater Division
Statistical Information – Schedule of Current Rates in Force
June 30, 2020
(Unaudited)

Rate Class	Base Charge	Number of Customers
Residential Outside City rate	For wastewater service furnished to premises entirely or partly outside the corporate limits of the City of Knoxville:	8,405

Commodity Charge

First	2	100 Cubic Feet Per Month at $1.90 Per 100 Cubic Feet
Over	2	100 Cubic Feet Per Month at $9.30 Per 100 Cubic Feet

Additional Monthly Customer Charge

5/8" meter	$ 39.90
1" meter	53.90
1 1/2" meter	70.90
2" meter	90.90

Rate Class	Base Charge	Number of Customers
Non-Residential Outside City rate	For wastewater service furnished to premises entirely or partly outside the corporate limits of the City of Knoxville:	299

Commodity Charge

First	2	100 Cubic Feet Per Month at $1.15 Per 100 Cubic Feet
Next	8	100 Cubic Feet Per Month at $14.25 Per 100 Cubic Feet
Next	90	100 Cubic Feet Per Month at $12.65 Per 100 Cubic Feet
Next	300	100 Cubic Feet Per Month at $10.80 Per 100 Cubic Feet
Next	4,600	100 Cubic Feet Per Month at $9.00 Per 100 Cubic Feet
Next	5,000	100 Cubic Feet Per Month at $5.35 Per 100 Cubic Feet

Additional Monthly Customer Charge

5/8" meter	$ 39.90
1" meter	53.90
1 1/2" meter	70.90
2" meter	90.90
3" meter	183.00
4" meter	291.00
6" meter	618.00
8" meter	1,075.00
10" meter	1,624.00
12" meter	2,396.00

9717 Cogdill Road
Suite 201
Knoxville, TN 37932

C&J COULTER & JUSTUS, P.C.

phone: (865) 637-4161
fax: (865) 524-2952
web: cj-pc.com

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Wastewater Division (the Division) of the Knoxville Utilities Board, a component unit of the City of Knoxville, Tennessee, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements, and have issued our report thereon dated October 29, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Division's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Division's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Commissioners
Wastewater Division of the Knoxville Utilities Board
Knoxville, Tennessee

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Division’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Division’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Coulter & Justus, P.C.

Knoxville, Tennessee
October 29, 2020

Knoxville Utilities Board Wastewater Division
Schedule of Findings and Questioned Costs
June 30, 2020

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

2019-01

In July 2018, an employee in the KUB Underground Construction Department in the Wastewater Division used a KUB-owned backhoe to take a front-loader full of asphalt off KUB property for use at his personal residence. The value of the asphalt was estimated at $200. The employee resigned in lieu of termination and the stolen materials were written-off.